House of Lords European Affairs Committee inquiry into the "Reset" of UK-EU relations

Joint evidence of TheCityUK Europe Market Advisory Group and the International Regulatory Strategy Group (IRSG) EU Regulation Committee

Introduction and summary

TheCityUK Europe Market Advisory Group and the IRSG EU Regulation Committee are pleased to contribute to The House of Lords European Affairs Committee inquiry into the "Reset" of UK-EU relations that the Government is pursuing.

This paper provides an in-depth analysis of the current state of UK-EU relations for the financial and related professional services (FRPS) industry, highlighting the importance of this relationship for both economies. It discusses the impact of post-UK withdrawal trading arrangements on the industry, including that of the Trade and Cooperation Agreement (TCA), the challenges and opportunities presented by the proposed "reset," and the key priorities for the FRPS industry in strengthening UK-EU ties. The paper also explores the importance of regulatory cooperation, data adequacy, mobility, and the mutual recognition of professional qualifications in fostering a more dynamic and mutually beneficial partnership between the UK and the EU.

Overview of TheCityUK and the IRSG

TheCityUK is the industry-led body representing the UK-based FRPS industry. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and ensure long-term economic growth. The industry contributes over 12% of the UK's total economic output and employs nearly 2.5 million people, with two thirds of these jobs outside London, across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice, and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business, and manage risk.

The International Regulatory Strategy Group (IRSG) is a joint venture between TheCityUK and the City of London Corporation. Its remit is to provide a cross-sectoral voice to shape the development of a globally coherent regulatory framework that will facilitate open and competitive cross-border financial services. It comprises TheCityUK members from the UK-based financial and related professional services industry who provide policy expertise and thought leadership across a broad range of regulatory issues.

The membership of TheCityUK's Europe Market Advisory Group and the IRSG's EU Regulation Committee comprises firms and sector representative bodies from across the banking, asset management, insurance, market infrastructure, legal services, accountancy, and consultancy sectors. All these entities have significant operations in the UK, but many are headquartered overseas, including a number that are headquartered in the EU.

We welcome the opportunity to share our reflections on the proposed "Reset" of relations with the EU (the Reset) announced by the UK government following the general election in July 2024. Our members strongly believe that the Reset provides an important opportunity to rethink the relations between the EU and the UK and explore where stronger cooperation would benefit both sides.

The EU-UK relationship in FRPS

The EU is the second largest export market for the FRPS industry, accounting for 34% of UK financial services exports, which were valued at £33.6 billion in 2023. Additionally, in 2023, the United Kingdom was one of the largest destinations for EU services exports, with trade valued at €280 billion, representing 19.6% of all EU services exports to non-member countries.

The relationship remains key for our members, and for their operations on both sides of the channel, and they welcome our work to ensure as much interoperability and, where appropriate, alignment in regulations and policies as possible.

The below statistics further illustrate the importance of the relationship:

- In 2023, the EU was the UK's second-largest financial services trading partner (exports + imports), after the US, accounting for 31.6% of total UK financial services trade, according to TheCityUK calculations based on ONS data.
- In 2023, the UK represented 34% of total EU financial services exports, according to TheCityUK calculations based on Eurostat data.
- According to the ONS, UK financial exports to the EU totalled £33.6bn in 2023, while UK financial imports from the EU totalled £9.3bn, generating a surplus of £24.3bn. When the estimated trade surplus for related professional services (£5.4bn) – legal, accounting and management consulting services – is also taken into account, the total financial and related professional services figure climbs to around £29.7bn.
- Over the last five years, FRPS exports to the EU increased at an annual average growth rate of 6%, from £35.2bn in 2019 to £44.1bn in 2023, according to TheCityUK estimates based on ONS data.
- According to the latest available data, in 2023, the outward stock of FDI in the financial services industry from the UK in the EU was £173bn, accounting for 22% of the total UK outward FDI stock in the financial services industry. The inward stock of FDI in the financial services industry from the EU was £149.5bn, accounting for 23% of the total UK inward FDI stock in the financial services industry.

We welcomed the fact that the UK and EU agreed the Trade and Cooperation Agreement (TCA) in 2020. However, the TCA prioritised trade in goods, not trade in services. UK-based FRPS businesses are now trading with the EU on significantly different terms, and this is having a considerable impact on UK-EU trade in services.

Office for Budget Responsibility analysis concludes that UK services trade has continued to grow strongly since 2019, including with the EU, despite the increase in trade barriers post-Brexit. However, this has been driven by growth in the 'other business services' sector, which includes management consulting, research & development, and advertising. Exports of financial services have declined 5.9 per cent during the same period, likely at least in part due to the impact of Brexit frictions[1].

[1] Office for Budget Responsibility, How are our Brexit trade forecast assumptions performing?, found at: https://obr.uk/box/how-are-our-brexit-trade-forecast-assumptions-performing/

We are continuing to explore how the implementation of the TCA impacts business throughout the UK, including the impact on services trade.

The UK Government's proposed "Reset" and FRPS

Strengthening the EU-UK business relationship remains a top priority for the UK-based FRPS industry. We therefore warmly welcome the improved political climate and the efforts of the UK government to "reset" and enhance relations with the EU.

Following the Joint Statement of 2 October 2024 by the President of the Commission and the UK Prime Minister on enhancing strategic cooperation[2], including a commitment to hold annual EU-UK Summits at leader-level, we were pleased to see the date of the first Leaders' Summit meeting confirmed for 19th May 2025. We see this as a positive development which should provide a platform to advance the relationship further.

TheCityUK and the IRSG support the government's initiative to foster closer UK-EU ties through shared challenges and a security-focused approach. As trust in the relationship is rebuilt, the challenge will be to move from the transactional post-Brexit environment towards a more dynamic partnership, reflecting the commercial and strategic value of the relationship, the challenging global environment, and the UK's new role within Europe but outside the EU.

Events over recent weeks have served to further reinforce that the UK and the EU will need to work together to address the big challenges of the coming decades – ongoing conflicts (and the resulting increased defence procurement and funding needs in the UK and across Europe generally), demographic shifts, energy transition, the challenge to Europe's innovative businesses to scale up, and the increasing geopolitical competition and regionalisation of global trade. The enabling role of the FRPS industry on both sides will be crucial to tackling these transformative challenges and driving economic growth throughout.

The FRPS industry should therefore be a key item in the discussions of the Reset at and after the first Leaders' Summit on 19th May, with a view to achieving a mutual European understanding that boosting competitiveness and growth in Europe will bring positive results for all and is not a zero-sum game between the EU and the UK. Closer collaboration on financial and related professional services will bring many benefits including lowering the cost of capital and serving to enhance growth, competitiveness, economic security, and resilience across Europe.

Industry and government, when engaging with European capitals and the EU institutions, therefore need to continue to underline that further fragmentation of European financial services markets and capabilities is lose-lose. As documented in relation to the EU in the Draghi Report on the Future of European Competitiveness, and the Letta Report on the Future of the Single Market, the UK and the EU have already lost ground to the US in many areas and face similar challenges with their capital markets, with European businesses often opting to list in New York rather than capital markets in EU member states or in the UK.

TheCityUK and the IRSG will continue to deliver this message in their engagement with stakeholders across EU member states and to the EU institutions, including with industry, policymakers, regulators, and other relevant stakeholders.

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[2]HM Government, Statement by the President of the European Commission and the Prime Minister of the United Kingdom on Enhancing Strategic Cooperation: 2 October 2024, found at: https://www.gov.uk/government/news/joint-statement-by-the-president-of-the-european-commission-and-the-prime-minister-of-the-united-kingdom-on-enhancing-strategic-cooperation-2-october--2

The UK government correctly highlights the UK's financial and related professional services industry's "unique, core role ... in delivering growth across the whole economy" in its recently published Industrial Strategy Green Paper[3]. Equally significant is the UK-based FRPS industry's ability to contribute to growth within the EU and to addressing common European challenges as the "Reset" agenda develops.

UK-EU "Reset" – Looking beyond HMG's manifesto commitments - FRPS industry priorities

Mobility - Overview
Our industry is already renowned for its work in training and developing local talent. But restrictive short-term business mobility rules are limiting organisations' ability to leverage their global talent networks to support export and innovation. Recent changes to UK business visitor rules (effective January 2024 and applying to EU nationals) provide greater flexibility for UK-based businesses to bring in overseas talent for short-term projects and were welcomed by TheCityUK. However, there is more that could be done bilaterally in the mobility space to increase the ability of organisations to deploy their international workforce effectively, positively impacting growth, export opportunities, and the UK's attractiveness as a hub for international investment.

An ambitious Reset could provide an opportunity to identify a mutually beneficial package of commitments that would facilitate the mobility of professionals. This might include an agreed cap on visa processing times in situations where business professionals from EU Member States or the UK require a visa/work permit. The UK could also seek to negotiate with the EU a broader range of permitted activities for short-term business visitors and allow work (including work paid by the client in the host state) on a short-term basis without the need for a work permit or economic needs test or indeed the need for a visa. This could be done in addition to the expanding the visa-free activity list, for the most ambitious possible outcome, or as a standalone measure to make sure that time - and cost- constraints do not prevent services providers from taking up opportunities for short-term contract work between the EU and UK.

Mobility - Article 126 of the TCA - Short-term business visitors (under the TCA Review)
Article 126 of the TCA requires the parties to the TCA Review to seek improvements in the trade in services and investment provisions; a review of the related non-conforming measures and reservations; and a review of the permitted activities for short-term business visitors "with a view to agreeing to possible improvements in their mutual interest". Whilst acknowledging that Article 126 does not apply to financial services, we would expect the Review to cover all mobility issues within the scope of the Article. It may well be that some of the Review's findings on mobility issues in services other than financial services (i.e. services covered by the Article) could prove to be equally relevant to financial services, despite the Article not applying to thema.

[3] HM Government Industrial Strategy Green Paper, found at: https://www.gov.uk/government/consultations/invest-2035-the-uks-modern-industrial-strategy/invest-2035-the-uks-modern-industrial-strategy#:~:text=The%20new%20modern%20industrial%20strategy,will%20drive%20our%20growth%20mission.

The review of the list of permitted activities for STBVs should be a particular focus. STBVs from the UK and EU may visit each other's territories visa-free (for 90/180 days in the EU and for up to 6 months in the UK). Adding to this list to broaden the permitted activities would be positive, particularly to allow for work (including some work paid by the client in the host state) on a short-term basis without the need for a work permit or economic needs test. It would also be helpful to review and where possible remove EU member state reservations under Annex 21 for STBVs. This would strengthen UK and EU competitiveness, without compromising any goals and objectives of immigration policy on either side.

Mobility - Youth Mobility

TheCityUK has been a long-time supporter in principle of the value of reciprocal youth mobility schemes. The UK's Youth Mobility Scheme works well and provides a convenient self-sponsored route that gives employers some relief from reliance on the sponsored worker system. But to date the UK has not agreed reciprocal youth mobility arrangements with the EU, and without such arrangements in place, reliance on the UK's sponsored worker system with its associated administrative burden and costs has created difficulties for businesses. Reciprocal youth mobility arrangements would enable EU youth mobility visa holders to proactively move to the UK, and widening the scope of the route would help support a significant pool of UK-based international talent, reducing the current reliance on sponsored worker systems. Such arrangements would also aid the international mobility for vocational education and training learners, including apprentices.

Mobility - Access to EU border e-gates

Reinstating UK citizens' uniform access to EU border e-gates is an example of a mobility measure that could have a significant impact on the ease of doing business in the EU. While it is claimed that the EU's soon to be launched Entry/Exit System (EES) will allow a wider use of automated border control checks and self-service systems, this falls short of guarantee that automated systems will be made available in a uniform manner. The UK has never withdrawn access to border e-gates for EU passport-holders, and it ought to be relatively easy for all EU member-states to restore it for UK passport-holders. The reinstatement of uniform reciprocity in this space would both make a positive impact on the efficiency of FRPS service delivery and help to set a positive tone for the future relationship.

Data Adequacy – Renewal of EU adequacy decision with a long-term solution

The free flow of data is crucial to the competitiveness of the financial and related professional services industry. Financial services, in particular, is one of the most digitalised, globalised, and regulated sectors. TheCityUK estimates that in 2023, 96% of UK financial exports were digitally delivered[4].

The IRSG responded to the enquiry by the House of Lords European Affairs Committee on data adequacy in May 2024, highlighting the importance of the free flow of data between the EU and the UK for our industry.[5]

The EU's current adequacy decision for the UK's data protection framework and the UK's reciprocal adequacy for the EU's framework are designed to ensure that consumers' personal data is treated safely and responsibly in both jurisdictions. The European Commission's June 2021 decision to grant UK data adequacy allowed the continued free flow of personal data

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[4] TheCityUK calculations based on ONS 'Imports and Exports of services by country, by modes of supply' (2023).

[5] International Regulatory Strategy Group submission – House of Lords European Affairs Committee: Call for evidence on data adequacy, found at: https://committees.parliament.uk/writtenevidence/130144/pdf/

across the Channel and provided much-needed legal certainty for businesses. This decision was and remains hugely beneficial to EU-based firms in our industry and the UK-based ones we represent. A disrupted or non-adequacy scenario would have a considerable negative impact on the financial and professional services sector, whether based in the UK, or the EU, or as is often the case among TheCityUK's membership, both.

While we welcome the recent announcement of a six-month extension to the current adequacy decisions, both the UK and EU-based financial services industries still require urgent clarity in relation to the UK's continued data adequacy status, with both of the UK's current adequacy decisions now due to expire on 27 December 2025. Industry needs a decision to be taken as soon as is possible and well ahead of the deadline, avoiding a costly cliff-edge situation.

The UK's current situation represents the only instance that any EU data adequacy decision has been granted subject to a sunset clause. We understand that the EU undertakes a process of periodic review of its data adequacy determinations. Even so, the UK is unique in being the only partner to which the EU has applied a sunset clause. The Reset should provide the impetus for the EU to take a more consistent approach to the UK's data adequacy determination in future, namely without the inclusion of such arbitrary sunset clauses.

Other specific trade and regulatory issues
The UK and the EU are bound together not only by the Withdrawal Agreement and the TCA but also by commitments made to each other under the WTO Agreements including the General Agreement on Trade in Services (GATS). TheCityUK is examining whether certain trade and regulatory measures for FRPS introduced since the UK's departure from the EU sit well with both sides' GATS commitments. The Reset could prove an opportunity for reconsidering any measures that appear at odds with those commitments.

Financial Services – Seeking greater ambition and broader collaboration to drive mutual growth missions

UK-EU trade in financial services, in particular, was barely covered in the TCA. The TCA's extremely limited provisions on financial services have required UK-based operators to change their delivery models to ensure they are able to continue servicing clients within the EU, notably through the sunk costs of subsidiarising within the EU jurisdiction.

Common policy agendas
Now that elections in both the EU and the UK are long past, and with both sides facing significant growth challenges against an increasingly complex geopolitical backdrop, the Reset is an opportunity to explore the future of these agendas (including, on the EU side, how they sit with the proposals in the Letta and Draghi Reports and the recently published Commission Competitiveness Compass and Savings and Investments Union Strategy) and their impact on cross-border financial services, with a particular focus on the UK and EU relationship in financial services.

The UK has embarked on a significant programme of capital markets reform. The upcoming publication of the Invest 2035 Industrial Strategy and Financial Services Growth and Competitiveness Strategy will provide clarity on next steps. In parallel, the European Commission has announced a strong focus on simplification implemented through a series of Omnibus packages. These twin initiatives should provide opportunities for deeper collaboration which both sides should explore in support of twin growth ambitions.

For UK and EU securities trading, the aligned approach on shortening the settlement cycle, referred to as T+1[6], is a recent positive example of how a coordinated approach on a technical issue can achieve positive results for both sides. A coordinated move to synchronise the go-live dates introducing a new settlement cycle will avoid additional costs and market risks through misalignment. We recommend following this best practice example in other areas and increasing coordination on future regulatory initiatives. The EU-UK Regulatory Forum can provide a platform for exchanges on upcoming initiatives and coordinated approaches where these are beneficial for both sides.

Furthermore, we recommend that both sides align as closely as possible with international standards and cooperate closely in international standard-setting bodies. Both sides should coordinate wherever possible within the context of broader global governance and cooperation in financial services and promote coherent global standards, particularly against the backdrop of the challenging geopolitical environment. This should help to pave the way for closer collaboration in the future.

Opposing restrictiveness

It will be important for both the UK and the EU to reduce and remove restrictions that inhibit the growth and competitiveness of both. At present, the EU's Open Strategic Autonomy and Economic Security agendas continue to be used by the European institutions as a context for adding cumulative and burdensome regulatory constraints to the provision of financial services from the UK into the EU. This has created an imbalance of regulatory approaches between the two sides. The EU has harnessed these agendas to try to force business relocation from the UK to the EU, for example through measures such as Article 21c of the amended Capital Requirements Directive (CRD6), rather than prioritising market efficiency and client preferences in financial services policymaking, the UK has not followed suit, typically preferring a more open market regime. We continue to encourage the UK government to maintain this approach.

The UK should use the tools at its disposal to track further EU attempts to restrict openness, highlight their negative consequences, and advocate for more proportionate approaches. There would be value in the UK making the case in coordination with other EU "Third Countries".

In order to make significant progress on trade in FRPS between the UK and EU, it would be useful to reach an understanding (tacit or explicit) that both parties would have as a firm purpose a more compatible and balanced approach towards the provision of financial services into each other's markets.

In curbing restrictions, the short-term objective should be to reach a shared understanding of the 'do no harm' principle, so as not to undermine FRPS' enabling role in serving the European economy as a whole. At the same time, a longer-term objective should be kept in view, namely, to deepen the understanding of how greater UK-EU cooperation could unlock growth potential on both sides.

Tackling cliff-edge issues and exploring new ways of cooperation

In addition to the importance of the UK achieving a longer-term solution to maintaining data adequacy, another issue which currently involves an inherent 'cliff edge' time-limit is the EU's equivalence determination for UK Central Counterparties (CCPs). The equivalence decision

[6] HM Government, Policy paper: Accelerated Settlement (T+1), found at: https://www.gov.uk/government/publications/accelerated-settlement-t1#:~:text=The%20government%20has%20accepted%20all,would%20minimise%20costs%20for%20firms

allows EU firms to continue to use the services of London based clearing houses and gives those clearing houses full access to the EU market. In January 2025, the EU extended this decision, but only until June 2028.

In the medium term, we would encourage both sides to work towards achieving non-time limited solutions with respect to both future equivalence decisions on clearing and as explained above, data adequacy without a sunset clause included. Non-time-limited equivalence decisions would provide EU and UK market participants with much-needed certainty and contribute to the financial stability, growth, and competitiveness objectives in both jurisdictions.

In the longer term, we encourage both sides to explore and develop new and more ambitious forms of cooperation, strengthening the interconnectedness of European capital markets, unlocking the necessary funding to enable growth and innovation in both economies. Stronger capital markets are not a zero-sum game, but beneficial to both sides. The UK financial services sector can be instrumental in helping to fund the projects that will deliver growth that economies across the continent need. Financial services are a strategic sector in tackling the many shared challenges that lie ahead for both sides.

TheCityUK and IRSG will continue to engage and work with Brussels-based organisations who are highly supportive of a closer UK-EU relationship. Examples of recent though leadership papers that seek greater ambition and broader collaboration in line with our stated priorities in this paper include:

- **The European Banking Federation** have recently published a paper calling for a more nuanced approach to the Commission's Open Strategic Autonomy agenda as it relates to financial services, an approach taking account of third countries which share many of the same values as the EU, including in their approach to financial services and its regulation, and for the EU to grant market access accordingly.[7]

- **ECIPE** published a paper on UK-EU relations in September 2024 suggesting that the EU needs to be less rigid given the UK will not neatly fit into existing models, urging creativity in how to structure the relationship to deliver mutual interests as well as specific asks of both sides[8]. This flexibility, ECIPE argues, should ultimately result in the broader use of principles-based assessments and mutual recognition.

- **Business Europe** published a paper in October 2024 noting the fact that The UK and EU are like-minded partners facing shared challenges ranging from the climate crisis to increased geopolitical tensions and calling for common approaches to safeguard the trade and investment relationship. Among their proposals is the establishment of a platform for bilateral discussion between the EU and UK on the development of their respective economic security strategies[9].

Maximising the value of Regulatory Dialogue - The Joint EU-UK Financial Regulatory Forum

[7] EBF Open Strategic Autonomy & Market Access, found at: https://www.ebf.eu/wp-content/uploads/2024/09/Public-Version-EBF-Paper-OSA-September-2024.pdf
[8] ECIPE, Negotiating Uncertainty in UK-EU Relations: Past, Present, and Future, found at: https://ecipe.org/publications/negotiating-uncertainty-uk-eu-relations/
[9] BusinessEurope, Outlook on EU-UK relations, found at: https://www.businesseurope.eu/publications/businesseurope-outlook-eu-uk-relations

The Joint EU-UK Financial Regulatory Forum formed under a Memorandum of Understanding[10] (the MoU) established a framework for financial services regulatory cooperation between the EU and UK. It is the only formal mechanism currently available to discuss bilateral regulatory cooperation in the area of financial services.

TheCityUK Europe Market Advisory Group and the IRSG EU Regulation Committee submit a joint FRPS industry-wide paper ahead of each meeting to ensure that HM Treasury understands the priorities of the UK-based industry before Forum agendas are set.

In our submissions, we have acknowledged that the early meetings of the Forum were particularly important for fostering relationships between key officials and building trust. However, we have also noted that as trust between Forum stakeholders builds and the political backdrop continues to improve, we would like to see increasingly forward-looking Forum agendas, with the current focus on informing each other evolving to concentrate more on collaborating with each other.

One potential way to increase collaboration through the Forum would be for part of the agenda of future Forum meetings to be dedicated to discussing future updates in policy and regulation that could impact UK-EU trade in financial services. This forward-looking mechanism would allow each party to examine, understand and discuss potential implications of future proposals ahead of their initiation in either party's legislative process. This would help to reduce conflicts of law and practice that may currently constrain business access to finance. If negative commercial implications cannot be completely eliminated, they at least can be understood at an early stage and better prepared for. We understand that the agenda for the February 2025 Forum meeting included an item dedicated to a forward-look of each-others' policy agenda, so the concept of discussing future updates in policy and regulation is not unprecedented.

The existing terms of the foundational Memorandum of Understanding (MoU) would not require amendment to refocus the objectives of the Forum, although mutual consent from both parties would clearly be necessary.

- **Bruegel** recently published a paper[11] recommending that one of the main elements of the UK-EU trade "Reset" should be reinforced regulatory cooperation. The paper proposes a general agreement to enter into dialogue on new legislative initiatives with a potential significant impact on bilateral trade, starting at the impact assessment phase and continuing after a legislative proposal has been presented. The paper argues that such a mechanism could help identify the extent to which the UK may wish to adopt similar regulations to the EU or how to reduce trade frictions related to a proposal.

The MoU text already states that a purpose of the Forum is to "undertake forward planning of regulatory cooperation" and to "share information on regulatory developments to allow for a timely identification of potential cross-border implementation issues", so the approach suggested by Bruegel could be undertaken by the Forum if both sides agreed. We strongly support the future development of the Forum in all the areas outlined above.

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[10] UK-EU Memorandum of Understanding on Financial Services Cooperation, found at: https://www.gov.uk/government/publications/uk-eu-memorandum-of-understanding-on-financial-services-cooperation

[11] Bruegel, A trade policy framework for the European Union-United Kingdom reset, found at: https://www.bruegel.org/policy-brief/trade-policy-framework-european-union-united-kingdom-reset#:~:text=A%20reset%20in%20the%20relationship%20between%20the%20United%20Kingdom%20and,the%20first%20half%20of%202025.

HM Government's publicly stated UK-EU "Reset" priorities – A focus on MRPQ

The Labour Party Manifesto (June 2024) committed to improving the UK-EU trade and investment relationship by removing trade barriers, negotiating a veterinary agreement to reduce border checks and food costs, supporting touring artists, and securing mutual recognition of professional qualifications (MRPQ). While all these priorities are welcomed, only the MRPQ proposal has significant and direct relevance to our members, and their counterparts in the EU, and the specific ability both to do business in and with the EU and UK markets.

While enhanced MRPQ arrangements would be advantageous for certain UK professionals and businesses providing services within the EU, it is important to understand the precise kind of MRPQ arrangement that would need to be negotiated to make a significant difference in opening up markets for UK services exporters.

The system of mutual recognition that operated during the UK's EU membership was practical and convenient for UK professionals operating across the EU, and for their EU counterparts doing business in the UK. It was replaced, post-Brexit, by a complex regime, as follows:

- **The EU-UK Withdrawal Agreement:** Article 27 of the Agreement stated that recognition decisions granted before the end of the transition period under EU law shall "maintain [their] effects in the respective State". But, while this meant that the great majority of professional qualifications would continue to be recognised, it did not cover all existing forms of mutual recognition, and did not, for instance, cover the "semi-automatic" category under the EU's MRPQ Directives, thereby disabling UK and EU lawyers and accountants from continuing to provide legal and accountancy services (under their home state title, in the case of lawyers) in each other's jurisdiction on a temporary basis.

- **The EU-UK TCA:** The TCA allows for Mutual Recognition Agreements (MRAs) between the UK and the EU to be negotiated on a sector-by-sector basis. Professional bodies on both sides can propose MRAs for the UK and EU authorities to consider. This approach is based on that in the EU-Canada CETA, under which the EU has concluded one such MRA, granting "semi-automatic" recognition to between EU and Canadian architects, subject EU architects completing a single course of ten hours. Proposed by EU and Canadian professional bodies in 2017, the MRA was not concluded until 2022, after two years of negotiations. The only recommendation for an MRA yet made under the TCA was also for architects. But the European Commission recently rejected it as 'prejudicial to EU architects' because it allegedly grants 'asymmetrical' rights: EU-qualified architects would have to sit a professional examination in the UK (relating to UK building requirements after the Grenfell fire), but UK-qualified architects in the EU would not.

- **Actual practice:** here, as in other areas, there is an imbalance between current UK and EU practice: while the UK has, in practice, continued to accord recognition to many EU professional qualifications, the EU has taken a more rigid line, adhering to the strict provisions of the Withdrawal Agreement and the TCA.

The situation under the TCA, based on the EU-Canada FTA "the CETA model", is far from satisfactory for key UK professional services such as the law and accountancy. Nor, given the slow speed and cumbersome nature of the MRA system in the TCA, is there any practical hope of making rapid progress using the current TCA provisions. Some alternative is urgently needed.

In our view, the next best would be the provisions for the recognition of professional qualifications contained in the most comprehensive agreements that the UK has successfully negotiated so far since withdrawing from the EU, such as the Agreement with Switzerland in 2023 and the Agreement with the EEA/EFTA States in 2021. These are consistently identified by our members as the minimum level that would need to be negotiated to make any meaningful difference to MRPQ in an EU context.

We are reassured by the UK's existing MRPQ agreements with Switzerland and similar arrangements with EEA EFTA States, which align with familiar UK negotiating objectives. However, some UK regulators have expressed concerns that the UK-Switzerland MRPQ provisions may compromise their regulatory independence and have advised against using them as a model for other countries. We do not fully understand these concerns, as they were not expressed in comparable circumstances while the UK was an EU member and would seem to be adequately catered for in the conditions to be met under the EU-Switzerland MRA. This issue is however a matter for the government rather than for our industry.

Our members also note that any such improved MRPQ arrangement would need to be accompanied by parallel improvements to the ability of UK and EU professionals to travel on business to each other's jurisdictions. It would otherwise have very limited impact.

Further Steps

TheCityUK Europe Market Advisory Group and the International Regulatory Strategy Group (IRSG) EU Regulation Committee acknowledge that the Reset has now to be considered against a fast-moving political and strategic backdrop, marked the Prime Minister's Statement of 25 February 2025 on the UK's defence[12], and the European Commission's announcements of 19 March 2025 on corresponding European Union initiatives[13], many of which were discussed at the EU Council and Euro Summit meetings on 20 March 2025.[14] Our industry will remain alert to further such developments and ways in which it can play its part in supporting them.

TheCityUK Europe Market Advisory Group and the International Regulatory Strategy Group (IRSG) EU Regulation Committee stand ready to offer any further detail that will help the House of Lords European Affairs Committee with its inquiry.

TheCityUK Europe Market Advisory Group and the IRSG EU Regulation Committee
April 2025

[12] HM Government, Prime Minister sets out biggest sustained increase in defence spending since the Cold War, protecting British people in new era for national security, found at: https://www.gov.uk/government/news/prime-minister-sets-out-biggest-sustained-increase-in-defence-spending-since-the-cold-war-protecting-british-people-in-new-era-for-national-security
[13] European Commission, Acting on defence to protect Europeans, found at: https://commission.europa.eu/topics/defence/future-european-defence_en
[14] European Council, 20 March 2025, found at: https://www.consilium.europa.eu/en/meetings/european-council/2025/03/20/