

To members of the Next CMU high-level Group  
(by email)

10 September 2019

Dear Sir/Madam,

I write in my capacity as Chair of the International Regulatory Strategy Group (IRSG). As you may be aware, the IRSG is a practitioner-led group comprising senior leaders from across the UK-based global financial and related professional services industry.

The overall objective of the IRSG is to promote sustainable economic growth. We seek to engage with policymakers and both European and international institutions on strategic level issues, where we believe a cross-sectoral position can add value to existing views. We strongly advocate an international framework that will facilitate open and competitive capital markets globally.

As part of this we are long-standing supporters of the CMU project and have a strong interest in achieving its success. This is demonstrated through our submission of several [responses](#) to European Commission consultations and the development of [seven principles](#) that we believe should underpin the development of a more open and balanced European financial system to better support business investment and economic growth<sup>1</sup>. While we are cognisant of the changing nature of the UK-EU relationship, we remain committed to working collaboratively with stakeholders to help identify and develop practical recommendations that will contribute to efficient, competitive, and open European capital markets.

As such, we welcome the establishment and are supportive of the ongoing work of the Next CMU High-Level Group. We would be delighted to meet with representatives of the Group while you are in London, or at a convenient location for your members. In the meantime, and ahead of the informal ECOFIN where we understand your preliminary findings will be discussed, we set out below a number of key points you may wish to consider as your work, and the CMU project, progresses:

- We agree that CMU is not an end in itself but a key element to support more innovation growth, job creation and sustainable financing solutions. The focus must be on achieving best outcomes for end users at all times and the need of businesses of all sizes to have access to safe, streamlined and sustainable financing solutions. Balanced with this is the core need to ensure financial stability, investor protection and market integrity.
- We recognise and commend your desire to define clear strategic objectives and prioritise next steps. It is important that these appropriately consider wider linkages including the contribution that non-legislative and market-based solutions can make to the CMU.
- More broadly, all solutions, whether legislative, non-legislative or market-based should also consider investor culture, at the institutional, corporate, SME and retail levels. Interactions and interdependencies between the buy- and sell-side of capital markets require careful consideration in terms of incentivising participation of investors.
- As the wider business and policy environment evolves, so too must the CMU to ensure markets can contribute fully to key societal issues. Your questionnaire rightly identifies key challenges and opportunities such as digital transformation, finance that promotes environmental sustainability and ageing populations. It is clear these are shared with other leading jurisdictions and to those we would further add operational resilience/cyber security, crypto assets, data and economic crime (AML/CFT).
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<sup>1</sup> <https://www.irsg.co.uk/assets/Resources-and-commentary/Capital-Markets-Union/Briefing-on-the-principles-that-should-underpin-the-development-of-a-Capital-Markets-Union-in-Europe.pdf>

- Capital markets are intrinsically global and the benefits of using them include scale, liquidity and risk diversification. The need for scale and liquidity in markets underscores the importance of ensuring the EU CMU is well connected to global capital markets. The ultimate cost of fragmentation is borne by consumers of financial services. In Japan where the clearing of yen denominated swaps by certain Japanese firms must take place onshore, the difference in price between the onshore and offshore markets has generally been in the range of 1-3 basis points<sup>2</sup>.
- We should seek to minimise rule divergence especially as in its recent report on fragmentation<sup>3</sup>, the Financial Stability Board (FSB) highlighted differences in rulemaking as a source of cross-border regulatory arbitrage, which amongst other things, impacts upon financial stability.
- The benefits derived from open and interconnected EU capital markets, and deep cross-border trade in financial services, will be enjoyed by consumers and businesses alike. Open and internationally attractive markets help promote financial stability, avoid regulatory arbitrage and duplication, help to efficiently mitigate and manage risk and support economic growth and competition.
- Going forward, it is crucial that the UK, EU and other key jurisdictions work together on initiatives to ensure maximum connectivity to all sources of capital. For example, collaboration and alignment on global standards as well as ensuring reciprocal third country access rules. The importance of such connectivity was evidenced in the recent letter<sup>4</sup> from AMAFI to the AMF and ACPR, underscoring the benefits of access to a wide pool of counterparties and liquidity sources, in relation to efficient risk management, possible impacts on end users and ultimately the ability of the sector to support the needs of the European economy.
- The IRSG has consistently called for the post-Brexit EU-UK financial services framework to be based on strong regulatory and supervisory co-operation. We hope that the framework will allow a forum for regulatory dialogue to be created where issues of mutual interest, such as CMU, can be discussed and common approaches can emerge.

Your Group's work will play a crucial role in building political momentum and identifying key practical measures that can help realise the potential benefits of CMU for the European economy. I hope you find these initial inputs helpful and would be delighted to meet with you, along with other senior practitioners, to explore further how we can collaborate to develop CMU in the future. I also note that the Group intends to hold a half-day seminar on the impact of innovation and technology on the financial sector and we would be delighted to assist in any way we can.



Yours sincerely  
Mark Hoban,  
Chair, IRSG

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<sup>2</sup> [A Fine Balance Speech](#), speech by Mark Carney, Governor of the Bank of England, 20 June 2017

<sup>3</sup> FSB report on Market Fragmentation, 4 June 2019

<sup>4</sup> Letter from Bertrand de Saint Mars to Benoit de Juvigny, Secretary General, AMF and Eduard Fernandez-Bollo, Secretary General, ACPR- 1 February 2019