

Joint EU-UK Financial Regulatory Forum

Brussels, 22 May 2024

Joint Statement

The second meeting of the Joint EU-UK Financial Regulatory Forum (the Forum) between the European Union (EU) and the United Kingdom of Great Britain and Northern Ireland (UK) took place in Brussels on 22 May 2024.

The meeting was co-chaired by the European Commission Director General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) and the HM Treasury (HMT) Director General for Financial Services. Participants attended from the European Central Bank (ECB), the European Supervisory Authorities (EBA, ESMA, EIOPA), the EU Single Resolution Board (SRB), the Bank of England (the Bank), and the Financial Conduct Authority (FCA).

In light of the shared objectives of preserving financial stability, market integrity, and the protection of investors and consumers, both sides emphasised the benefit and importance of structured regulatory cooperation between the EU and the UK. The discussion focused around 6 main areas, namely: (i) regulatory and market developments and financial stability outlook, (ii) banking and anti-money laundering (AML), (iii) sustainable finance (iv) capital markets (v) asset management, and (vi) digital finance and artificial intelligence (AI).

The Forum took stock of the current economic outlook, including risks related to ongoing geopolitical challenges. Both sides condemned Russia's war of aggression against Ukraine and expressed deep concern about the crisis in the Middle East.

Participants discussed the outlook for financial stability, noting that while the EU and UK financial sectors remain resilient, some risks, including around commercial real estate and geopolitical tensions, warrant continued close monitoring. The European Commission provided a general overview of the state of play of financial services legislative files ahead of the end of the current legislature. UK participants updated on the implementation of the Smarter Regulatory Framework for financial services which aims to replace assimilated law.

On banking, participants discussed the importance of timely Basel III implementation globally. UK authorities provided an update on the UK's Strong & Simple framework. Both sides noted the importance of international standards in maintaining confidence in the banking system. There was also a discussion on resolution where the EU participants updated on the review of the EU's crisis management and deposit insurance framework. Similarly, UK participants updated on the UK's special resolution regime consultation on enhancing resolution for small banks and elaborated on the lessons for resolution and deposit insurance from the March 2023 turmoil.

On AML, both sides emphasised the importance of close cooperation, including within the Financial Action Task Force, to raise the bar globally. The EU updated on the swift progress made on AML reforms. The EU's AML package introduces, inter alia, detailed and directly applicable rules at Union level, as well as a new EU Anti-Money Laundering Authority (AMLA)

which will act as the centre of the Union's integrated supervisory system involving AMLA and all national authorities and will support and coordinate the work of the Financial Intelligence Units. The UK updated on work to further improve the effectiveness of the UK regime, including on potential options for supervisory reform in the UK and the consultation on improvements to the AML rules set out in the UK Money Laundering Regulations.

On sustainable finance, participants agreed on the importance of progressing multilateral efforts to support an orderly transition to net zero, including participation in the G20 Sustainable Finance Working Group and the International Platform on Sustainable Finance. Both sides exchanged views on recent developments in sustainable finance, including on sustainability disclosures and transition finance. Both sides noted that, inter alia, the work of international standard setters, the work of the Network for Greening the Financial System, and sustainability-related financial risks should be reflected in the management of financial sector activities. Both sides noted the importance of ensuring the interoperability of standards, including on disclosure requirements. They reaffirmed their support for the work of the International Sustainability Standards Board (ISSB) and for the swift implementation or use of ISSB standards. They also discussed the need for international coordination to ensure interoperability and promote consistency in sustainable finance standards and recommendations.

Participants had a useful exchange on the shortening of the settlement cycle (T+1). The respective authorities discussed the work currently being done by ESMA and by the UK Accelerated Settlement Technical Group, noting that outputs are expected by the end of this year. Both sides noted the need to continue to follow international developments closely. While each jurisdiction is making its own assessment on the way forward, both sides agreed to continue to discuss how the EU and the UK might coordinate on the timing of any move within the European continent, including discussing this at the next Forum. Participants also exchanged views on securitisation.

Participants discussed the vulnerabilities in the non-bank financial intermediation (NBFII) sector and exchanged views on the ongoing work in multilateral fora. Both sides noted the ongoing cooperation in the Financial Stability Board's (FSB) working group on leverage, co-chaired by the ECB and FCA, and welcomed the recent FSB consultation report on liquidity preparedness for margin and collateral calls. Participants also recognised the role that enhanced transparency can play in improving authorities' and market participants' ability to identify and manage risks in the NBFII sector. Both sides discussed global standards to enhance resilience in the funds sector.

The European Commission provided an update on its recent report on the macroprudential review for credit institutions and noted the targeted consultation on macroprudential policies for non-banks which was launched on 22 May. The UK participants provided an update on enacting the UK's equivalence decision for UCITS funds domiciled in the European Economic Area (EEA), including in EU member states, under its Overseas Funds Regime (OFR).

The EU and the UK provided views and updates on recent developments in digital innovation in the financial sector. Participants discussed operational resilience and agreed to explore

ways to strengthen cooperation between their respective evolving oversight regimes for critical third party (CTP) service providers to the financial sector. Both sides also shared insights from their work on tokenisation and exchanged some reflections from their respective work on the UK's Digital Securities Sandbox and the EU's Distributed Ledger Technology (DLT) Pilot Regime. Both sides welcomed continued engagement on Central Bank Digital Currencies (CBDC) and exchanged updates following on from discussion at the first Forum. Both sides took note of data-driven initiatives being pursued in the financial sector, including the Commission's proposal for a regulation on financial data access (FIDA) and the UK's introduction of Smart Data legislation through the Data Protection and Digital Information Bill.

In an exploratory exchange of views on the regulatory, supervisory, and financial stability implications of AI, both sides noted the rapid uptake and evolution of AI use in the financial sector and agreed to work together in international fora to further understanding of stability risks. Participants on the EU side noted the recent EU AI Innovation Package and the EU AI Act which aim to foster the development, use and uptake of AI. Similarly, the UK outlined its principles-based approach to regulating AI, as reaffirmed by UK Government's recent response to the AI White Paper. Both sides acknowledged a shared interest in continuing close engagement on digital innovation, both bilaterally and in multilateral fora.

The EU and the UK agreed to follow up, as appropriate, between now and the next Forum on topics discussed.