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Where Next for UK Financial Services Post Brexit?

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Abstract

Despite being a central component of the UK's political economy financial services were largely omitted from the Trade and Cooperation Agreement (2021) struck after the UK left the EU. Whilst worst scenarios in terms of the implications of this for the sector have not materialised, there are growing concerns that the sector is flatlining. In response, and as part of a wider 'reset' in UK-EU relations, the Labour government elected in 2024 has sought to improve trade in UK-EU market access. This piece discusses the genealogy of this reset and explores three areas for possible 'reset': market access, mobility and regulatory dialogue. It argues that the softening of UK-EU relations following the Windsor Framework is a necessary but not sufficient condition for an effective reset in UK-EU financial services relations and identifies regulatory dialogues that emphasise the economics, rather than politics of finance as the most likely pathway for a UK-EU reset in financial services, at least in the short term.

Keywords: *Brexit, UK-EU relations, financial services, London, Trade and Cooperation agreement*

Introduction

Despite financial services dominating the United Kingdom's (UK) political economy, contributing almost 9% of economic output (House of Commons 2024), the sector was largely excluded from the Trade and Cooperation Agreement (TCA) between the UK and the European Union (EU), that sets out the trading terms post Brexit between the two parties (Lavery et al., 2018; Panitz and Glückler, 2022). This led to concerns that the dominance of London as a leading financial centre could be threatened and hundreds of thousands of jobs could leave the City.

However, worst case scenarios for financial services post Brexit have not materialised with job losses estimated to be in the tens rather than hundreds of thousands (Hall and Heneghan 2023). However, concerns continue to mount regarding the flatlining of growth in the sector since Brexit. This is seen most clearly in a marked decline in the number of companies choosing to list in London as tech companies in particular increasingly choose to list in New York (EY 2025).

As a result, it is not surprising that interest has turned to how the government's EU reset might be used to enhance the growth and competitiveness of the UK's financial services sector. Much has been made of the UK's labour government's self-styled 'reset' with UK-EU relations. Such a reset was set out in the Labour party's manifesto in which it stated that it intended to 'reset the relationship [with the EU] and seek to deepen ties with our European friends, neighbours and allies'. However, beyond delivering a comprehensive security pact

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with the EU, it has been less clear on what might be contained within the reset. This is particularly true when it comes to trade because the government remains clear that the UK will not join the EU's single market. As a result, the EU is clear that the integrity of the single market will not be compromised, and hence it will not be possible to 'cherry pick' elements of market access, such as those for financial services, that the UK may wish to pursue.

That being said, and in the context of low economic growth, government ministers have begun to suggest that improving trade in financial services is something that they wish to pursue as part of the wider reset. For example, Rachel Reeves spoke at a meeting of Eurozone finance ministers in Brussels in December 2024, setting out her argument that the government's EU reset would bring economic benefits to both sides through "a closer economic relationship between the UK and the EU" (HM Treasury 2024). The former City minister, Tulip Siddiq made a similar statement in relation to financial services, arguing that the UK needs to have a "good relationship" with the EU if financial services are to grow (Politico live 2024)

However, improving UK-EU relations are a necessary, but not sufficient condition for the maximum value of the reset to be extracted for financial services. And currently, there is a lack of clarity on how financial services may be supported, if at all, through the 'reset'. This comes despite the Government setting out a 'plan for financial services' as part of a wider strategy of prioritise economic growth when in opposition (Labour 2024)

In this piece, I begin by setting out the genealogy of the UK-EU reset and particularly how it impacted UK financial services. I then consider each of the three main areas that could be considered in relation to resetting UK-EU relations in financial services: market access and equivalence; the mobility of individuals; and regulatory relations. I conclude by reflecting on what these debates suggest for future research seeking understanding the impacts of what I term a 'long Brexit' on UK financial services and the City of London in particular.

A short genealogy of the UK-EU reset

The impetus for Labour's reset with the EU is partly triggered by domestic political and economic concerns and partly by the terms of the Trade and Cooperation Agreement that came into force into 2021 and governs the terms of economic relations between the UK and the EU after Brexit.

Beginning with domestic political and economic concerns, the Labour party stood on a platform of making 'Brexit work better' during the 2024 election campaign. This reflected a difficult set of trade-offs for the party. Much of the party membership, including MPs had been critical of Brexit and were calling for a stronger statement on what the party would do in terms of generating closer links between the UK and the EU should the party win the election. However, the party leadership was concerned not to appear to be reversing Brexit in any way given the ways in which the Conservative party positioned this as one of their clear electoral attack lines. However, economically, the party placed delivering growth as its overriding mission. Given that the EU remains a major trading partner for the UK, examining measures that might increase UK-EU trade is a rational response to this (Bercero 2024). Furthermore, during 2024 it was clear that world trade was entering a far more geo-politically strained and protectionist era, led particularly by growing China-US tensions and concerns about the imposition of possible tariffs on US exports in a new Trump presidency. Given the preference for developing deep and dense trading networks with close geographical partners, it therefore makes sense to consider the terms of UK trade with the EU. Whilst these trends added to calls to improve UK-EU relations, it was not clear how Labour intended to make Brexit work better. This was particularly the case given that the party had ruled out rejoining the single market meaning that trade concessions with the UK would be unlikely.

The terms of the TCA also provided a clear rationale for the incoming government following the 2024 election to reconsider the UK's relationship with the EU. This is because the TCA contains Article 776 which states that "the Parties shall jointly review the implementation of this Agreement and supplementing agreements and any matters related thereto five years after the entry into force of this Agreement and every five years thereafter". This means that such a review is schedules to take place during the parliament following the 2024 election. However, there is little clarity about what is included within the scope of such a review. Prior to the election Labour's shadow foreign secretary David Lammy stated that the review was an opportunity to "improve our trade deal with the European Union" through what he envisaged as a "page-by-page" in order to. "remove barriers and improve opportunities for business" (UKICE 2024). In contrast, the EU does not view the TCA review as an opportunity to address parts of the TCA that the UK does not feel is working in the interests of its economy. Rather, it's focus is on reviewing to what extent the agreement as it stands is being operationalised 'correctly'. For example, the Vice president of the EU Commission, Maros Sefcovic stated that the review "does not constitute a commitment to reopen the TCA" (UKICE 2024).

Given the uncertainty surrounding the precise timing and nature of the TCA review, as well as the need to deliver much needed growth to the UK economy at a time of growing international geopolitical uncertainty, once elected, Labour turned its attention to delivering a comprehensive 'security part'. The rationale here is that mutual UK and EU interests on security are easier to foster than those on trade where competitive interests may come to the fore. And there is also a sense that such a pact would address areas that are not covered by the TCA in terms of defence in particular (Scazzieri 2024).

Financial services are not tied into the security pact and the TCA does not make provisions for the sector, although it has established a regulatory dialogue discuss below. So it is in more general discussions of a reset in UK-EU relations following the 2024 Uk election, of which the TCA review and plans for a security pact are a part, that UK financial services trade between the UK and the EU is being discussed.

The UK-EU reset in financial services

There are three main areas in which a UK-EU reset is being discussed in financial services: market access, mobility and regulatory dialogue. These are discussed in turn below.

Market access

Market access is perhaps the area that has changed most because of Brexit for UK financial services. Whilst the UK was an EU member state, UK financial services could sell their services into the EU through passporting arrangements. This meant that a financial services office in London could serve clients in all other member states without the need for further authorisations and clearances. It was on this basis that the City of London attracted the

European headquarter location of many international and particularly US banks during the period of UK EU membership. By locating in the City, these institutions could take advantage of the greater market liquidity, highly educated labour market and favourable regulatory environment that is well documented to underpin the competitiveness of the City throughout its history whilst being able to sell services in the EU from this base (Cassis 2012).

When the UK left the EU, it made it clear relatively early on in the negotiations that it would not maintain single market access. As a result, the EU was clear that the UK would not be able to cherry pick parts of the single market, such as passporting in the case of financial services. As a result, passporting ended when the UK left the single market and market access at the time of writing is governed by equivalence decisions.

Equivalence decisions are not a like for like replacement for passporting because they are not permanent and they do not cover all aspects of financial services. In particular retail financial services are largely excluded which has implications for UK towns and cities outside of London that have important concentrations of these activities. The move from passporting to equivalence has also reduced market access for UK based financial services firms because the EU has taken a much more restrictive approach to granting equivalence decisions for the UK compared to other third countries. There is one such equivalence decision, due to expire in June 2025 for the UK relating to clearing activities compared with 18 with the US (EU Commission no date)

Until recently, the EU has been clear that having already extended the deadline of this clearing decision once, it would not do so again, instead focusing on building greater clearing capacity within the EU. However, in January 2024, the EU signalled a marked change in approach by announcing proposals to extend this equivalence decision until June 2028 (Bounds 2025). This builds on plans set out in early 2024 for more clearing activity to remain in London post 2025 than had been initially expected. These developments mark an acknowledgement that it will be very hard for the EU to rapidly replicate the size and liquidity of London's capital markets. It also indicates that focusing on areas of financial services activity where there are clear economic rationales for closer UK-EU relations is likely to be the most productive approach in delivering a reset in UK-EU financial relations.

Financial services and mobility

Moving on to mobility, Labour's manifesto identified securing a 'mutual recognition agreement for professional qualifications' (MRPQ) as one of the specific measures through which it sought to enhance the UK's trading relationship with the EU. Such an agreement allows professionals qualified in one country to practice in another without needing to requalify. During the Brexit negotiations, the UK proposed an MRPQ between the UK and the EU but this was turned down by the European Commission because the UK remained outside the single market (Reland 2024).

The Government has not set out precisely what form of MRPQ it would seek but its economic impact, particularly on financial services beyond audit is likely to be limited. This is partly because professional qualifications are not central to financial services. It would also not address the question of mobility and the ease with which individuals could travel to the EU from the UK for work purposes. This is currently a complex area with individuals needing to specify what sorts of work they are doing and how long they are staying in the EU in order to meet current regulations. Given the wider politics of migration in the UK, this doesn't appear to be a likely avenue for greater liberalisation through the reset.

Financial services and regulatory dialogue

Beyond specific policy changes, the reset could look to make better use of the Memorandum of Understanding (MoU) on financial services signed in 2023 as a vehicle to begin to develop closer regulatory dialogue. The MoU commits the UK and the EU to establishing a framework for financial services regulatory cooperation which takes place through the Join EU-UK Financial Regulatory Forum. This group has met three times to date. It focuses on exchanging information and views on areas of common regulatory interest, but it does not commit to aligning regulation or improving market access. However, there could be scope to use this avenue to explore areas of emerging common regulatory interest, notably in relation to green and digital finance.

A far more radical approach to resetting UK-EU financial relations would involve aiming to replicate the Berne Financial Services Agreement signed by the UK and Switzerland in 2023. This is an innovate agreement using mutual recognition of each jurisdiction's regulatory frameworks to facilitate market access. This means that both parties agree to defer to the other's regulatory standards, rather than establishing a common set of rules. As such, it goes significantly beyond the terms of other financial services trade agreement and is extensive in coverage, including the vast majority of wholesale financial services.

It is unlikely that this could be replicated between the UK and the EU, certainly in the short term, given that even this bilateral agreement took over two years to agree. However, it might be a model to aim towards longer-term, if cooperation gradually deepens.

Other, more innovative approaches for improved market access focus on specific parts of financial services. For example, there have been calls from trade associations for the UK to partially opt into EU regulations applied to hedge funds, private equity and real estate funds, similarly to the Channel Islands, in order to improve market access for UK managed funds (Hall 2025).

Conclusion

It is clear that the UK is intent on seeking to use its putative reset with the EU relations to deliver growth in financial services. However, the Brexit trade negotiations following the UK's decision to leave the EU demonstrated that the EU is a tough negotiator. It secured most of its strategic ambitions in the goods sector where it has comparative advantage over the UK whilst the UK failed to secure significant concessions in services trade in which it runs a surplus with the EU. This suggests that stating that the UK seeks to reset relations with the EU will not be sufficient to achieve its strategic objectives. This is particularly the case because the EU has put forward proposals on areas of interest to itself including on youth mobility in terms of a reset that the UK has turned down.

As such, greater clarity will be needed from the UK in terms of both the precise measures it seeks to negotiate through the reset and also how these will benefit the EU as well as the UK as it is clear that this needs to be approached as a negotiation, rather than a set of requirements that focus primarily on UK interests. The analysis above suggests that more radical alternatives to resetting UK-EU relations are not achievable until a degree of regulatory trust and possibly even cooperation has been gained. There are early signs that this is happening, given the EU's more liberal approach recently to the UK in terms of equivalence. As such, exploring closer regulatory dialogue appears to be the most likely avenue in delivering a reset in UK-EU financial relations, at least int eh short term. However, there are no quick fixes here and it seems likely that the 'long Brexit' for UK financial services is likely to continue.

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