



HOUSE OF LORDS

International Agreements Committee

9th Report of Session 2023–24

**Scrutiny of international
agreements: UK-Switzerland
Agreement on the Mutual
Recognition of Financial
Services**

Ordered to be printed 23 April 2024 and published 29 April 2023

Published by the Authority of the House of Lords

International Agreements Committee

The International Agreements Committee is appointed by the House of Lords in each session to consider, and where appropriate report on, 1) matters relating to the negotiation, conclusion and implementation of international agreements, and 2) treaties laid before Parliament in accordance with Part 2 of the Constitutional Reform and Governance Act 2010.

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SUMMARY

This report considers the following Agreement, laid before Parliament in accordance with section 20 of the Constitutional Reform and Governance Act 2010:

- Agreement between the United Kingdom of Great Britain and Northern Ireland and the Swiss Confederation on Mutual Recognition in Financial Services (CP 1047, 2024).

The Agreement aims to facilitate cross-border trade in wholesale financial services. This is achieved by each country recognising the regulatory and supervisory regimes of the other as achieving equivalent outcomes to their own. The Agreement establishes structures for regulatory cooperation, consolidates existing access allowed under current domestic legislation, and in some sectors creates additional market access by ‘deferring’ to the rules of the other Party, thus easing cross-border trade. It creates particular benefits for the UK insurance sector.

In the aftermath of the global financial crisis, regulation of wholesale financial services increased. New regulation introduced additional complexities for cross-border operations as firms must now ensure compliance with regimes in the relevant jurisdictions. Despite efforts to coordinate regulation at a G20 level, virtually no other mutual recognition agreements in wholesale financial services exist globally.

This Agreement contains novel and ambitious commitments, representing a new approach to trade in wholesale financial services. The negotiation was clearly informed by serious and engaged two-way consultation with industry. We encourage scoping exercises to contribute to the consideration of the expansion of its scope, as provided for in the Agreement, for example in the realm of sustainable finance and new financial market infrastructures, and we call on the Government to continue to engage with industry on appropriate expansions.

We regard this Agreement as exemplar for relations with other countries with similarly sophisticated financial markets. While we recognise the challenges associated with concluding such an agreement, we consider it should remain the UK’s objective to pursue this approach with markets such as the EU, US and Japan. We call on the Government to make full use of the recently established Memorandum of Understanding on financial services cooperation with the EU.

As such, we call on the Government to continue to examine other pathways to lowering regulatory barriers to trade in financial services with suitable partners at a bilateral and multilateral level.

We report the UK-Switzerland Mutual Recognition Agreement in Financial Services for information.

Scrutiny of international agreements: UK-Switzerland Agreement on the Mutual Recognition of Financial Services

AGREEMENT REPORTED FOR INFORMATION

Agreement between the United Kingdom of Great Britain and Northern Ireland and the Swiss Confederation on Mutual Recognition in Financial Services¹

1. The Agreement between the United Kingdom of Great Britain and Northern Ireland and the Swiss Confederation on Mutual Recognition in Financial Services (the Agreement) was signed on 21 December 2023, and laid before Parliament on 13 March 2024.

Background to the Agreement

2. The UK and Switzerland have a strong and growing trade in financial services: Switzerland is the UK's third largest trading partner in financial services, behind the EU and US;² and trade in financial services and investment between Switzerland and the UK grew by 53% in the years between 2016 and 2022.³ Over the past decade, efforts have been made to deepen this relationship. In 2016, the UK and Switzerland established an annual Financial Dialogue to discuss areas of shared interest.⁴ This is in addition to a broader strategic dialogue, managed on the UK side by the Foreign, Commonwealth and Development Office.⁵ In June 2020, the then Chancellor and the Swiss Federal Councillor made a joint statement outlining the overall priorities for a mutual recognition agreement in wholesale financial services.⁶

1 Foreign Commonwealth and Development Office, *Agreement between the United Kingdom and the Swiss Confederation on Mutual Recognition in Financial Services*, CP 1047 (March 2024): https://assets.publishing.service.gov.uk/media/65f0502e981227001af612ee/CS_Switzerland_1.2024_UK_Switzerland_Agreement_Mutual_Recognition_Financial_Services.pdf [accessed 17 April 2024]

2 Q2 (Richard Knox)

3 HM Treasury, *Explanatory Memorandum: The Agreement between the United Kingdom of Great Britain and Northern Ireland and the Swiss Confederation on Mutual Recognition in Financial Services* (March 2024), p 3 https://assets.publishing.service.gov.uk/media/65eb338b5b6524cb5ff21b19/EM_Switzerland_1.2024_UK_Switzerland_Agreement_Mutual_Recognition_Financial_Services.odt [accessed 25 April 2024]

4 HM Treasury, *Explanatory Memorandum: The Agreement between the United Kingdom of Great Britain and Northern Ireland and the Swiss Confederation on Mutual Recognition in Financial Services* (March 2024), p 3: https://assets.publishing.service.gov.uk/media/65eb338b5b6524cb5ff21b19/EM_Switzerland_1.2024_UK_Switzerland_Agreement_Mutual_Recognition_Financial_Services.odt [accessed 25 April 2024]

5 Swiss Confederation, 'Switzerland and UK Strategic Dialogue' (14 November 2023): <https://www.eda.admin.ch/countries/united-kingdom/en/home/news/news.html/content/countries/united-kingdom/en/meta/news/2023/11/swiss-uk-strategic-dialogue-2023> [accessed 25 April 2024]

6 HM Treasury, *Joint Statement between Her Majesty's Treasury and the Federal Department of Finance on deepening cooperation in financial services* (30 June 2020): https://assets.publishing.service.gov.uk/media/5efb60a0d3bf7f769a4e776c/Joint_Statement_between_Her_Majesty_s_Treasury_and_the_Federal_Department_of_Finance_on_negotiating_a_Mutual_Recognition_Agreement_on_financial_services.pdf [accessed 25 April 2024]

3. In oral evidence, witnesses from the industry highlighted the importance of the Swiss financial services market to UK firms. Nicola Watkinson, International Managing Director of CityUK, a financial services industry membership body, told us that “there has been strong growth, with the UK being able to sell more services into Switzerland which is why this agreement was seen as a real priority for our members: it enables us to increase market access in areas such as insurance, but also to secure access in other parts of the wholesale market.”⁷ Richard Knox, Chief Negotiator on behalf of the Treasury, described the Swiss financial services industry as “a very advanced and sophisticated market” and, importantly, one with an appetite to conclude such an agreement.⁸
4. Witnesses to our inquiry set out some of the contextual policy issues surrounding the negotiation and conclusion of this Agreement.
5. Firstly, in the aftermath of the global financial crisis, regulation of wholesale financial services increased. Regulation of new sectors introduced new complexities for cross-border operations as firms must now ensure compliance with regimes in different jurisdictions.⁹
6. Other witnesses highlighted that globally, broadly similar rules have been introduced in every major jurisdiction, including on banking, insurance and credit rating agencies. Despite this, and despite efforts to coordinate regulation at a G20 level, virtually no other mutual recognition agreements in wholesale financial services exist in the world.¹⁰
7. Secondly, both Switzerland and the UK are relatively open markets already. Much of the benefit of the Agreement lies in the “smoothing out of inefficiencies and duplications” rather than providing substantial additional market access, according to Nick Collier, Managing Director (Brussels) of the City of London Corporation.¹¹ Nicola Watkinson agreed that the Agreement reinforces existing access and provides a “backstop” to both jurisdictions by enshrining this access (currently provided unilaterally) in the Agreement.¹²
8. However, we heard that one key benefit of the Agreement lies in its precedent setting value.¹³ It is, according to the evidence we received, the first of its kind. Richard Knox described the Agreement as a “statement of intent” and “demonstrating what can be done to support wholesale financial services between two like-minded, sophisticated, well-regulated jurisdictions; something that both the UK and Swiss sides want to demonstrate.”¹⁴ This view was echoed by industry witnesses to us in written and oral evidence. Society of Lloyd’s (Lloyd’s) insurance and re-insurance¹⁵ marketplace said: “[the Agreement] demonstrates that countries can conclude ambitious financial regulatory agreements that enable widespread cross-border financial services trade and ensure strong regulatory standards.”¹⁶

7 [Q9](#) (Nicola Watkinson)

8 [Q7](#) (Richard Knox)

9 [Q1](#) (Richard Knox)

10 [Q8](#) (Nick Collier) [Note: there are some sector-specific MRAs, but it is not clear how successfully these have been implemented. This is the first of its kind in terms of sectoral scope, however.]

11 [Q9](#) (Nick Collier)

12 [Q10](#) (Nicola Watkinson)

13 Written Evidence from Society of Lloyd’s ([UKS0001](#))

14 [Q1](#) (Richard Knox)

15 Re-insurance is the practice of multiple insurers spreading risk by purchasing insurance policies from each other to limit their own losses.

16 Written Evidence from Society of Lloyd’s ([UKS0001](#))

9. One reason for this enthusiasm is the use of ‘deference arrangements’ for the first time in this context, according to the evidence we received. This means each party agrees to ‘defer’ to the regulatory regime of the other as achieving equivalent outcomes to their own. This means that in certain covered sectors, financial services providers regulated and supervised in the UK will be able to supply cross-border services into Switzerland without having to undergo the same assessments by the Swiss regulatory and supervisory authorities. Nick Collier stated that “One of the reasons why we have all been so positive about this mutual recognition is that it shows it can be done. It has never been done.”¹⁷

Mutual vs unilateral recognition in financial services

10. In the UK, the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and the Bank of England are responsible for regulating and supervising financial services activity. Performing many financial services requires the authorisation of the FCA or the PRA. Most countries have a similar system for regulating and authorising financial services, though the process for obtaining permission and the activities subject to regulation may vary.¹⁸
11. Financial services firms wishing to operate in new markets must seek authorisation from the relevant supervisory body in the country in which they wish to operate. In order to improve the terms of trade of financial services, countries may grant decisions to recognise the regulatory and supervisory system of another country in specific areas. Generally speaking, these are granted on the basis of extensive assessments by the granting authority, and are not mutually agreed. These decisions are known as ‘equivalence’ decisions when granted by the EU or UK, or ‘compliance’ decisions when granted by the US.
12. The UK has previously participated in a form of mutual recognition in financial services when a member of the EU. This came in the form of ‘passporting rights’: financial services firms authorised in any EU or EEA member state may offer their services in other member states with minimal additional authorisation required.¹⁹ However, this is one of the only successful examples of mutual recognition in financial services available, and operates in the context of a high degree of pre-existing regulatory and political harmonisation. Following the UK’s withdrawal from the EU, the UK no longer has its passporting rights across the EU and EEA countries, and the EU granted equivalence decisions to UK financial services regulation in only two areas.

The Agreement

13. The Agreement aims to facilitate cross-border trade in wholesale financial services.²⁰ This is achieved by each country recognising the regulatory and

17 [Q11](#) (Nick Collier)

18 House of Commons Library Briefing, ‘Equivalence’ with the EU on financial services: <https://commonslibrary.parliament.uk/equivalence-with-the-eu-on-financial-services/> [accessed 6 February 2024]

19 UK Finance, *What is passporting and why does it matter?*: <https://www.ukfinance.org.uk/sites/default/files/uploads/pdf/BQB3-What-is-passporting-and-why-does-it-matter-UKF.pdf> [accessed 25 April 2024]

20 Wholesale financial services are financial services supplied to institutional clients, e.g. corporations, financial institutions and public sector organisations. This is different to retail services, which are to smaller institutions and individuals.

supervisory regimes of the other as achieving equivalent outcomes to their own with regard to financial stability, market integrity and protection of investors and consumers. In order to do so, regulators from each country undertook a line-by-line assessment of their counterpart's system. Both industry representatives and the Government emphasised the "granular"²¹ and "thorough, rigorous assessment"²² undertaken on both sides, in order to ensure that each Party was comfortable with the financial stability risks that could be incurred. Appropriate safeguards were included in the Agreement to manage these risks.

14. The Agreement covers seven sectors, all on a wholesale basis. These are: asset management; banking; financial market infrastructures (central counterparties); financial market infrastructures (over-the-counter derivatives); financial market infrastructures (trading venues); insurance for wholesale and sophisticated high-net worth clients; and investment services.²³ Each annex defines the covered services; the covered service suppliers; and the covered clients in each sector, and the recognition rules that apply. The rules governing the provision of services in each sector are laid out in annexes to the Agreement, with different levels of mutual recognition commitments applying to each.
15. In the Agreement, mutual recognition is granted on the basis of three different categories of commitments:
 - (1) so-called 'deference' commitments (see Box 1);
 - (2) regulatory cooperation where cross-border supply is already liberalised subject to domestic law (see Box 2);
 - (3) and other (bespoke) arrangements.
16. The Agreement provides new market access via deference or other commitments in some covered sectors,²⁴ while in other sectors operating in an already liberalised context, it provides greater legal certainty via regulatory cooperation to preserve existing access. The types of market access provided by different types of commitments are displayed in Table 1 below.

Table 1: The effects of recognition by sector

Covered sector	Into Switzerland	Into the UK
Asset management	For all: regulatory cooperation only	
Banking	For all: regulatory cooperation only	
Financial Market Infrastructures, central counterparties	For all: deference on regulatory and supervisory regimes	

21 Q2 (Richard Knox)

22 Q9 (Carol Hall)

23 Financial instruments in the form of private contracts traded directly between two parties.

24 The Agreement closely defines which sectors, suppliers, clients and services are within its scope. 'Covered sectors' is used to describe the sectors and activities that are within the scope of the Agreement.

Financial Market Infrastructures, over-the-counter derivatives	For all: other arrangements for over-the-counter derivative contracts entered by a UK counterparty and a Swiss counterparty whereby they can decide whether to comply with either UK or Swiss rules on 'risk mitigation techniques'.	
Financial Market Infrastructures, trading venues	For all: regulatory cooperation only.	
Insurance	Deference: UK firms can provide services in scope, using UK rules and supervision. UK insurance brokers exempted from new Swiss law localisation requirements for non-Swiss firms.	Regulatory cooperation only.
Investment services	Regulatory cooperation. Deference on regulatory and supervisory regime that applies to authorisation of UK client advisers (UK client advisers (not firms) are relieved from compliance with Swiss registration requirements).	Deference: Swiss firms can provide services in scope, using Swiss rules and supervision and their employees and, without prejudice to visa and immigration rules, their employees can provide those services on the same basis (i.e., operating under the principle of deference) whilst operating in the UK

Source: HM Treasury, *Explanatory Memorandum: The Agreement between the United Kingdom of Great Britain and Northern Ireland and the Swiss Confederation on Mutual Recognition in Financial Services (March 2024)*, p 11: <https://assets.publishing.service.gov.uk/media/6489c02f103ca60013039f22/uk-switzerland-rpq-explanatory-memorandum.pdf>

17. As outlined in Table 1, different sectors are covered by different types of commitments. These commitments vary depending on the level of existing access. Each is outlined in brief below, beginning with the sectors covered by deference commitments (see: Box 1): insurance, central counterparties and investment; followed by those covered by domestic law and regulatory cooperation (see: Box 2): asset management, banking and over-the-counter derivatives; and finally looking at the bespoke 'other arrangements' used in the Agreement for over-the-counter derivatives.

Box 1: Deference Commitments

Deference commitments involve each country in a particular area ‘deferring’ to the regulatory and supervisory rules of the other on the assumption that each system of rules achieves the same end result. For example, this would allow an insurance broker authorised to provide services in the UK to provide the same services in Switzerland without seeking additional permission from the Swiss authorities. Firms therefore need only comply with the regulation of their home state, rather than ensuring they meet the requirements of the host state, thus easing the associated administrative burdens.

Witnesses were enthusiastic about this new style of commitment. Some pointed to previous efforts to advocate for the use of this approach in financial services. Nick Collier said deference is something that “... industry pushed very hard for and is indeed in the G20 commitments. There is a Financial Stability Board document going back a few years that says we should all try to defer to each other’s regimes.”²⁵

Deference commitments in this Agreement cover a financial market infrastructure called central counterparties (CCPs), and aspects of insurance and investment.

Insurance

18. The Agreement covers the provision of some types of wholesale insurance to large enterprises, allowing UK insurance firms and intermediaries to supply a number of wholesale business lines into Switzerland. Deference commitments in the Agreement mean that UK covered firms and intermediaries need not comply with Swiss authorisation and prudential measures subject to fulfilling a number of requirements (e.g. yearly reporting to the Swiss Financial Market Supervisory Authority, FINMA; and providing certain disclosures to relevant clients).
19. Swiss firms already have relatively liberal access to the UK market. The UK currently permits the supply of the relevant wholesale lines of business and intermediaries. The Agreement stabilises this access by introducing regulatory cooperation (see below).
20. We heard from the Government that the effect of the deference commitments will be particularly significant for the UK in the insurance sector, where the barriers to market entry are currently high in the Swiss market. Richard Knox noted that the Agreement provided the UK with access to “Swiss insurance market where previously it has never been possible to provide wholesale or any cross-border services from the UK into Switzerland.” He commented that “insurance is also a major strength of the UK financial services sector.”²⁶
21. This view on the insurance provisions was echoed by industry witnesses. Carol Hall, Assistant Director of European and International Affairs at the Association of British Insurers, said of the provisions for UK wholesale insurers supplying services into the Swiss market: “... this is the first time we have had almost genuine cross-border access.”²⁷ Similarly, Lloyd’s insurance brokers said that the Agreement “should facilitate cross-border insurance trade between the UK and Switzerland, two of the world’s leading

25 [Q8](#) (Nick Collier)

26 [Q2](#) (Richard Knox)

27 [Q10](#) (Carol Hall)

global insurance hubs.”²⁸ Nicola Watkinson called the insurance provisions, specifically the deference commitments “a new area of opportunity”.²⁹

Exemption from Swiss localisation requirements for insurance brokers

22. In addition to the deference commitments allowing UK firms to supply services into the Swiss market, UK firms will be exempt from new Swiss rules requiring overseas insurance brokers to establish a local presence in the country. Witnesses were enthusiastic about this prospect. Carol Hall noted that “... this is very much a unique situation.”³⁰ Nicola Watkinson further praised the exemption UK companies will have from the new Swiss localisation requirements for overseas insurance firms.³¹ Lloyd’s insurance said that this provision would make it easier for Swiss clients to seek insurance from UK insurance brokers and welcomed it as a “key benefit” of the Agreement.³²

Financial Markets Instruments: Central Counterparties

23. Central counterparties (CCPs) sit between buyers and sellers of financial instruments, providing assurances that contractual obligations will be fulfilled. The Agreement covers all clearing services undertaken by central counterparties in relation to financial instruments.
24. Currently, UK CCPs looking to provide services into Switzerland must seek authorisation from the Swiss Financial Market Supervisory Authority (FINMA). This involved an assessment of an individual CCP applying and a consideration of the UK’s regulatory and supervisory regime. Swiss CCPs providing services into the UK were doing so under a temporary recognition regime adopted by the UK in 2018 to allow CCPs operating in the UK to continue to do so after the end of the Brexit transition period.³³
25. Under the new arrangements, both Parties have recognised domestic authorisation and prudential arrangements that apply to the relevant suppliers. This means that UK suppliers seeking to provide services into Switzerland will not have to undergo this part of the process in FINMA’s assessment. They will still be subject to an individual assessment by FINMA. The same process applies to Swiss CCPs: individual CCPs seeking to supply into the UK market will still need to seek recognition from the Bank of England, but this process need not now include an assessment of the relevant regulatory and supervisory regime.

Investment

26. The Agreement covers investment services supplied to wholesale clients and high-net-worth individuals. The Agreement includes deference commitments allowing Switzerland to supply services into the UK. This means that Swiss investment firms can supply wholesale and high-net-worth clients in the UK without needing to comply with UK authorisation and prudential measures. The Explanatory Memorandum specifies, however, that this route cannot be used simultaneously to existing mechanisms to provide the same service.

28 Written Evidence from Society of Lloyd’s (UKS0001)

29 Q10 (Nicola Watkinson)

30 Q10 (Carol Hall)

31 Q10 (Nicola Watkinson)

32 Written Evidence from Society of Lloyd’s (UKS0001)

33 Switzerland while not a member of the EU or EEA is a member of the EU single market and so had been covered by the previous arrangements.

Swiss firms will still have to meet certain UK requirements, such as being placed on an FCA register; apply appropriate tests to determine if a client is high-net-worth; and report certain types of information to the relevant UK supervisory authority.

27. The current arrangements already allowed UK investment suppliers to access wholesale and high-net-worth clients in Switzerland. It stabilises this access by allowing for regulatory cooperation between the two jurisdictions.
28. **We welcome the new market access that the deference commitments create, particularly for UK insurance brokers, and we note the additional market access provided for Swiss investment services into the UK. We further welcome the exemption for UK insurance firms from new Swiss localisation rules.**
29. The below box describes the arrangements in the Agreement covering asset management, banking and trading venues.

Box 2: Domestic law arrangements

Where sectors are operating in already relatively open regimes, the Agreement simply embeds existing access and implements regulatory cooperation to preserve it. This is the case for asset management, corporate banking, and trading venues. This also applies to the provision of wholesale insurance from Switzerland into the UK and investment services from the UK into Switzerland. In both of these instances, the respective countries had previously liberal inward regimes in these sectors, whereas their counterparts had higher regulatory barriers - the latter having been addressed via deference commitments in this Agreement.

The aim of these arrangements, according to Richard Knox, the Chief Negotiator for the Agreement, is to “provide more stability and certainty for firms that are looking to provide cross-border business between the UK and Switzerland ... this helps lock in, at the very least, that additional activity that is happening.”³⁴

Asset management

30. The Agreement enshrines the existing access under domestic law provided by both Parties relating to the marketing of certain investment funds and delegation of portfolio management (how decisions are made about financial investments, including the management of risk). The Agreement facilitates regulatory cooperation so that if either country changes its current legal approach, it undergoes a system of notification and consultation to mitigate the burden to suppliers.

Banking

31. The Agreement covers deposit taking and lending services for corporate clients. Cross-border supply is already permitted by both Parties, and so regulatory cooperation is introduced to stabilise existing access.
32. The Agreement further envisages that the Bank of England and FINMA enter a non-legally binding Memorandum of Understanding (MoU) dealing with banking resolution arrangements. This would establish frameworks for information sharing and cooperation.

34 [Q1](#) (Richard Knox)

33. *We welcome the progress made in the treaty in establishing regulatory cooperation and call upon the Government to subject any MoU to appropriate parliamentary oversight.*

Trading venues

34. Trading venues operate organised markets where financial instruments are bought and sold. Both Parties to this Agreement currently allow cross-border supply of trading venues, subject to specific domestic conditions, and so this is stabilised with regulatory cooperation to shore up these arrangements.

Other arrangements (Over-The-Counter derivatives)

35. Other mutual recognition arrangements have been made for over-the-counter (OTC) derivatives. OTC derivatives are a type of contract traded directly between two parties without necessarily going through formal intermediaries. The UK is one of the largest markets for OTC derivative activity globally. Both parties have chosen to mutually recognise the other's rules on 'risk management techniques' (rules designed to reduce risk associated with these kinds of contracts), meaning firms may choose to comply with UK or Swiss rules on risk management techniques.

Regulatory and supervisory cooperation

36. The Agreement provides structures for regulatory and supervisory cooperation, and safeguards to manage risk, including powers for intervention, dispute resolution provisions and winding down arrangements.
37. In line with the assumption of regulatory autonomy outlined in the Agreement, there is an expectation that each regime will update its rules, and possibly diverge (adopt regulations which differ from the other), over time. To manage this process, the Agreement sets up structures for regulatory cooperation and mechanisms to exchange information. Each Party commits under the Agreement to notify the other of any relevant proposed measure as early as possible, and certainly no later than the beginning of any domestic stakeholder consultation. The notified Party may then request additional information and make observations to facilitate their counterpart in taking their interests into consideration and to foster mutual understanding. Should either Party feel that a more in-depth consultation is required, this can be requested via consultation in the Joint Committee established to oversee the administration and monitoring of the Agreement.
38. However, recognition will continue to apply regardless of new measures imposed, unless countries decide to withdraw recognition via the processes set out in the Agreement. There is a safeguard contained in the Agreement which allows either Party to take unilateral steps in the event of severe or urgent circumstances to protect investors, depositors, policy holders or to maintain the safety, soundness, integrity or financial responsibility of the financial services suppliers and to ensure the integrity and stability of the financial system of the Party. Richard Knox described this as a "very broad prudential safeguard" which would allow the Bank of England or the FCA to "immediately take steps to switch it [the Agreement] off" in the event that either had "imminent, very serious concerns about financial stability risks."³⁵

35 Q4 (Richard Knox)

39. In all other circumstances, if either Party wishes to withdraw recognition, they may go through a withdrawal and winddown process. This process only applies to sectors where deference commitments have been made. The withdrawal process is sector-specific and this process will not affect the operation of the rest of the Agreement. Once a Party submits a ‘Notice of Intent’ to withdraw with appropriate reasons, Parties immediately enter into a consultation process with a view to resolving the issue in a mutually agreeable manner. There is recourse to mediation under the dispute settlement mechanism. However, if no mutually agreeable solution is found the original Party may issue a ‘Notice of Cessation’ which initiates the wind down process. This involves a consultation period of 30 days in which Services Suppliers (firms using the Agreement) may be consulted.
40. Witnesses seemed satisfied with the security provided by the safeguards and regulatory cooperation established in this Agreement. Nicola Watkinson observed that CityUK believe that:
- “the mechanisms that exist within the agreement should provide the means to resolve any short-term or urgent issues as well as regular review moments to see what needs to be refined within the agreement or added or taken from it over time.”³⁶
41. Similarly, Carol Hall of the Association of British Insurers said:
- “If there were significant changes, we would see those happening over time, and there would be plenty of opportunities for people to talk things [through] and bust any myths that were going around. I certainly feel quite confident that it is quite a rigorous process.”³⁷

Consultation

42. As part of our inquiry, we asked witnesses about their experiences of government consultation, including whether they felt they had been adequately consulted and their views reflected in the negotiations and final Agreement. We received overwhelmingly positive responses. Nicola Watkinson said the process had been “really ... excellent” and said the industry had a “good opportunity of inputting their views and ideas during the negotiation.”³⁸ She singled out both Treasury officials and officials in the British Embassy in Berne as particularly useful in the consultative process.
43. Lloyd’s similarly said that it had the opportunity to “engage regularly” with the negotiating team,³⁹ and Nick Collier of the City of London said that there was a “tremendous opportunity for industry to feed in views.”⁴⁰
44. We heard detailed examples of how industry views and research informed the negotiations. Nicola Watkinson outlined how CityUK set up the market advisory group to look at the Swiss market and provide thought leadership on what engagement in this market would look like for CityUK members. Throughout the MRA negotiations, regular consultations were held with Treasury officials through this advisory group. Officials would brief members on progress in the negotiations and seek “input and guidance” on issues

36 [Q9](#) (Nicola Watkinson)

37 [Q9](#) (Carol Hall)

38 [Q8](#) (Nicola Watkinson)

39 Written Evidence from Society of Lloyd’s ([UKS0001](#))

40 [Q10](#) (Nick Collier)

of interest to CityUK’s members. Furthermore, she described the existing engagement with CityUK’s counterpart in Switzerland, Economiesuisse to discuss mutually beneficial outcomes to both markets. Together, the two organisations published a position paper, representing shared interests across both markets, in 2020, that Nicola Watkinson described as “being the forerunner, or the foundation work ... on which the MRA could then be built.”⁴¹

45. This consultation continues. Nicola Watkinson outlined that CityUK has been “talking to Treasury about how we can continue to ensure that we have a chance to input into the ongoing meetings and discussions that it is having with its counterparts.”⁴²
46. **We congratulate the Government and its officials from HM Treasury and Embassy officials in Berne on their excellent two-way engagement with industry in the negotiation and conclusion of this Agreement. We hope this quality of engagement will continue in relation to this and similar agreements.**

Sectoral scope and prospects for expansion

47. We heard that this Agreement is designed to be a “living Agreement”⁴³ that would allow for its scope to be expanded to cover new sectors as appropriate. For this to happen, UK and Swiss regulators would need to assess each other’s regulatory and supervisory frameworks in the appropriate areas, to ensure that each achieves equivalent outcomes, as happened for the existing covered sectors. Once regulators are satisfied, and assuming they support covering the new sector, the Agreement may be amended.
48. One such possible area explicitly provided for in the Agreement, is sustainable finance. We heard that this is one of the “major industry asks”, on account of “waves of new regulation coming, typically globally.”⁴⁴ Nick Collier told us that “both sets of jurisdictions have interesting rules on, for example, disclosure requirements by listed companies.”⁴⁵ Richard Knox noted that the regulatory regimes for sustainable finance in both jurisdictions are in need of more development before embarking upon the extensive process required to include it in the Agreement. He agreed with Nick Collier’s assessment that on issues related to Net Zero, such as disclosure requirements, it would make sense to cooperate on a cross-border basis.⁴⁶
49. Nick Collier described how other areas might benefit from similar coverage: “It will similarly be the case in other areas of ESG [environmental, social and governance] regulation going forward. Digital might be the next wave—digital assets perhaps; both sides can talk to each other about that and share best practice.”⁴⁷ Nicola Watkinson further said that CityUK “are always scoping with industry areas that they would like to see covered in future agreements.”⁴⁸

41 [Q10](#) (Nicola Watkinson)

42 [Q10](#) (Nicola Watkinson)

43 [Q9](#) (Nicola Watkinson); [Q6](#) (Richard Knox)

44 [Q10](#) (Nick Collier)

45 [Q10](#) (Nick Collier)

46 [Q6](#) (Richard Knox)

47 [Q10](#) (Nick Collier)

48 [Q10](#) (Nicola Watkinson)

50. We heard a degree of prudence from our witnesses in their ambition for the Agreement’s expansion. Nick Collier said: “On the new areas—and this is also partly an answer to the previous question—a lot of the proof of the pudding will be in how both sides handle new rules.”⁴⁹ Richard Knox further noted that “Financial regulation in wholesale markets is a very complex area and it is very different in different parts of the sector and with different jurisdictions.”⁵⁰ Nicola Watkinson stressed in her analysis that CityUK remains “relatively agnostic on the pathway [to reducing regulatory friction and opening up new market access].”⁵¹ She says that they support a variety of instruments, including mutual recognition, but also existing “financial dialogues and market dialogues”, using free trade agreements, or other forms of bilateral, multilateral or plurilateral co-operation.⁵²
51. Apart from the chapter in the Agreement providing for its expansion to cover sustainable finance, both Parties agreed a side-letter to engage in further discussions with a view to exploring options for “closer cooperation and possible expansion of the Agreement” to cover financial market infrastructures not yet covered by the agreement.⁵³
52. **We welcome any potential expansion of the scope of the Agreement on the basis of evidence and in close consultation with industry and other stakeholders. We welcome the extensive evidence that the Government has proceeded on this basis thus far.**
53. **We encourage scoping exercises for the sectoral expansion of this Agreement to continue, and would welcome suitable expansions of the Agreement. We call on the Government to continue to examine other pathways to lowering regulatory barriers to trade in financial services, such as dialogues and cooperation at a bilateral and multilateral level.**

Use of the Agreement as a model for others

54. We heard that part of the value of concluding the Agreement is its novelty, demonstrating that such an agreement can be done. Richard Knox told us that “part of the rationale” for doing the Agreement is that “we think it is a better way of managing cross-border wholesale financial services” and “a useful blueprint for others to think about.”⁵⁴ Witnesses suggested this Agreement could be used as a model for others. Nicola Watkinson said: “We see it as a benchmark that can be used for future agreements”.⁵⁵ In their written evidence, Lloyd’s insurance encouraged the Government to “view the BFSa as a foundation stone upon which to build further. It would be especially helpful if the UK could conclude further MRAs with other leading global insurance hubs.”⁵⁶

49 Q10 (Nick Collier)

50 Q7 (Richard Knox)

51 Q11 (Nicola Watkinson)

52 Q11 (Nicola Watkinson)

53 Letter to Federal Councillor Karin Keller-Sutter, Head of the Federal Department of Finance FDF from HM Treasury dated 21 December 2023: https://assets.publishing.service.gov.uk/media/65817421ed3c3400133bfb32/UK_Switzerland_FS_MRA_-_side_letter_regarding_FMI_UK_response.pdf [accessed 2 April 2024]

54 Q7 (Richard Knox)

55 Q8 (Nicola Watkinson)

56 Written Evidence from Society of Lloyd’s (UKS0001)

55. In considering jurisdictions that might be suitable candidates for another financial services MRAs, we heard evidence of a few main factors behind the UK's decision to recognise the Swiss regime in this way:
- (1) Mutual trust: There is a pre-existing “very good, close relationship”⁵⁷ between the regulators with established mutual confidence on either side.⁵⁸
 - (2) Regulatory environment: Switzerland is “a very advanced and sophisticated market”.⁵⁹ In order to be able to pursue a mutual recognition agreement, “we need to know that the other jurisdiction has the right regulatory environment”.⁶⁰
 - (3) Value for money: we heard that this is a resource intensive type of Agreement to commit to negotiating. Nicola Watkinson told us: “We also need to know that, if we are going to ask our Treasury officials to spend time doing this rather than something else, the return on investment for our officials’ time is going to be worth it.”⁶¹
 - (4) Ease of doing business between jurisdictions: the UK and Switzerland operate both in similar regulatory spheres and also in similar time zones, creating the right environment for cross-border transactions.⁶²
 - (5) Appetite: Switzerland had an appetite to do an agreement such as this.
56. The final prerequisite above was the one that most witnesses dwelled upon. Richard Knox noted that there are:
- “a range of advanced markets around the world where we have good relationships, and our regulators have good relationships. Another prerequisite is whether those other jurisdictions—that is a matter for them, rather than me, to opine on, frankly—would have the interest, appetite, and the willingness to invest the resources to enter into an agreement like this.”⁶³
57. Much will therefore depend on whether other jurisdictions are willing to enter into a similar style of agreement. Currently, it is difficult to determine whether there will be the appetite for this model internationally. The EU and US are the UK's two largest trading partners in financial services and very important export markets for the UK. All witnesses agreed emphatically that such a model with the US or EU is highly unlikely to happen in the near future. Nick Collier said: “of course we would want mutual recognition with Europe and the US ... it is just not very practical at the moment”⁶⁴ and this view was echoed by other witnesses.
58. We heard that CityUK is currently looking to complete a scoping study within the next year to identify new markets that might be suitable candidates for an MRA from the perspective of maximising benefits for UK industry.⁶⁵ Nicola

57 [Q7](#) (Richard Knox)

58 [Q7](#) (Richard Knox); [Q11](#) (Nicola Watkinson)

59 [Q7](#) (Richard Knox)

60 [Q11](#) (Nicola Watkinson)

61 [Q11](#) (Nicola Watkinson)

62 [Q11](#) (Nick Collier)

63 [Q7](#) (Richard Knox)

64 [Q11](#) (Nick Collier)

65 [Q11](#) (Nicola Watkinson)

Watkinson told us that she had heard anecdotally from companies that Japan, Singapore or Australia could be candidates for an MRA. However, Nick Collier told us that there are additional constraints involved in trading with companies in vastly different time zones, as these are.⁶⁶

59. The UK currently has a mutual aim with Japan to support deference arrangements, though not specifically on a mutual basis.⁶⁷ Indeed, the UK has similar dialogues with a range of countries around the world, but we did not hear evidence of any concrete interest from any of them. Nicola Watkinson told us that it was clear from her discussions with counterparts in other jurisdictions, that they are finding it “hard to compute” what this mutual recognition agreement would look like.⁶⁸
60. Richard Knox said that there “will be a political element” to whether or not countries may wish to pursue this approach, but also commented that there is an additional resource constraint involved: “frankly, it is hard work. It is a huge amount of effort to do the work, so they would really need to invest resources into doing it.”⁶⁹
61. Entering into mutual recognition agreements with other countries in the near future seems unlikely from the evidence we heard. However, we also heard that there may be value in exploring other mechanisms to greater alignment of financial regulation to ease burdens for firms seeking to supply services in other jurisdictions. Nicola Watkinson told us: “There are probably going to be other mechanisms in the short term that will allow us to find ways of achieving greater regulatory cooperation [with the EU and US] than an MRA might.”⁷⁰
62. Similarly, Carol Hall noted that these considerations should also be sector-specific to take account of the variations within markets. For example, insurance in the US is “very much state driven”, adding a new dynamic in trying to negotiate a collective agreement.⁷¹ Lloyd’s Insurance noted that other countries have previously concluded sector specific MRAs in, for example, just asset management. They suggest that this demonstrates some appetite on the part of UK trade partners in concluding these types of agreements.⁷²
63. **We regard the mutual recognition afforded in this Agreement as genuinely novel in its scope and ambition. We believe it should be regarded by the UK as exemplar for relations with other countries with similarly sophisticated financial markets. While we recognise that such agreements with other countries or jurisdictions may be difficult to achieve in the near future, we consider that that should remain the UK’s objective, including with the EU, US and Japan.**
64. ***In this context, we urge the Government to make the fullest possible use of the recently established MoU with the EU on financial services. The Government should continue to engage with key trading partners in financial services using a variety of policy tools, for example***

66 [Q11](#) (Nick Collier)

67 [Q7](#) (Richard Knox)

68 [Q11](#) (Nicola Watkinson)

69 [Q7](#) (Richard Knox)

70 [Q11](#) (Nicola Watkinson)

71 [Q11](#) (Carol Hall)

72 Written Evidence from Society of Lloyd’s ([UKS0001](#))

via financial and economic dialogues to encourage regulatory cooperation and harmonisation at a bilateral, multilateral and plurilateral level as appropriate.

Implementation

65. We asked witnesses about the implementation process for this Agreement. We wanted to understand the domestic processes needed and approximate timeline for entry into force, the Government’s intended engagement with industry to support and monitor uptake of the Agreement, and the role for regulators in implementing the Agreement.
66. In the UK, section 24 of the Financial Services and Markets Act 2023 made specific provision for the UK to agree and implement mutual recognition agreements. Richard Knox therefore told us that affirmative instruments will be tabled “later this year” to give effect to the provisions of the Agreement.⁷³ These regulations will grant regulators the powers they need to implement the Agreement, and create new mechanisms to allow HM Treasury to determine market access relevant to the Treaty.⁷⁴ On this basis, HM Treasury estimates that the Treaty will enter into force by early 2026 at the latest.

Regulators

67. The Agreement encourages supervisory authorities from both countries to enter into an MoU on banking and resolution cooperation. The Treasury has said that regulators are prioritising the negotiation of the MoU with a view to this being agreed before the Agreement is in force.
68. In addition, each country will also need to grant regulators the powers to implement the safeguards set out in the Agreement. This will happen via the secondary legislation set out above.

Industry engagement

69. Some witnesses commented that work was already underway to engage the financial services sectors affected. Nicola Watkinson noted: “we are already working collectively across this table, as well as with government officials, to make industry aware of what the benefits of this agreement are going to be.”⁷⁵
70. This engagement also includes ongoing dialogue between the Treasury and industry representatives as the Agreement develops. Nicola Watkinson noted that this work has already begun: “we have also been talking to Treasury about how we can continue to ensure that we have a chance to input into the ongoing meetings and discussions that it is having with its counterparts.”⁷⁶ Richard Knox confirmed that “we will engage closely with industry; we want this agreement to be used and so we will continue our close engagement with it.”⁷⁷

73 [Q4](#) (Richard Knox)

74 HM Treasury, *Explanatory Memorandum: The Agreement between the United Kingdom of Great Britain and Northern Ireland and the Swiss Confederation on Mutual Recognition in Financial Services* (March 2024), p 19: https://assets.publishing.service.gov.uk/media/65eb338b5b6524cb5ff21b19/EM_Switzerland_1.2024_UK_Switzerland_Agreement_Mutual_Recognition_Financial_Services.odt [accessed 25 April 2024]

75 [Q10](#) (Nicola Watkinson)

76 [Q10](#) (Nicola Watkinson)

77 [Q4](#) (Richard Knox)

71. Finally, the Treasury told us that “we will monitor the aggregate data and the trade between the UK and Switzerland on financial services”. This is facilitated by the need for firms to register to use newer aspects of the Agreement, meaning it will be easier to collect information about who is using the Agreement and to what extent.⁷⁸
72. **We further welcome the ongoing engagement and consultation with industry, and call on the Government to do all it can to support uptake and utilisation of the Agreement. This should be supported by data monitoring utilisation of the Agreement.**
73. **We report the Agreement on Mutual Recognition in Financial Services to the House for information, together with our comments in paragraphs 29, 33, 46, 52, 53, 63, 64 and 72.**

78 [Q4](#) (Richard Knox)

APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTERESTS

Members

Lord Anderson of Swansea
 Lord Boateng
 Lord Fox
 Lord Geidt (until 2 April 2024)
 Lord German
 Lord Goldsmith KC (Chair)
 Lord Grimstone of Boscobel
 Lord Hannay of Chiswick
 Lord Howell of Guildford
 Baroness Kingsmill
 Lord Marland
 Lord Udny-Lister

Declarations of interest

Lord Anderson of Swansea
No relevant interests

Lord Boateng
Director, Akyem Law and Advisory Services Limited
Non-executive Director, Ghana International Bank plc London

Lord Fox
No relevant interests

Lord Geidt
No relevant interests

Lord German
Director, Westminster International Services Ltd (provision of export services)

Lord Goldsmith KC (Chair)
Co-Managing Partner, Debevoise & Plimpton LLP (international law firm)

Lord Grimstone of Boscobel
Chairman, Gemcorp Capital Management Ltd (asset management company regulated by Financial Conduct Authority, specialising in emerging markets)
Member, Association of British Insurers (ABI) Investment Delivery Forum's Expert Advisory Panel

Lord Hannay of Chiswick
Member, Advisory Board, GPW & Co Ltd
Member, Advisory Board, Centre for European Reform
Chair, European and International Analysts Group

Lord Howell of Guildford
Former Advisory Director of UBS

Baroness Kingsmill
No relevant interests

Lord Marland
Director, ICP Holdings Ltd and subsidiaries ICP General Partner Ltd and ICP Capital Ltd (insurance)
Director, Herriot Ltd (property, consultancy and investments)

Director, JP Marland and Sons Ltd (property, consultancy and investments)

Chairman, EcoWorld Management and Advisory Services (UK) Ltd

Director, Bespoke Insurance Group Ltd (formerly Pangaea Group Holdings Limited) (insurance)

Chairman, UK General Insurance Ltd

Participation in Lloyds underwriting through Insurance Capital Partners LLP

Chairman, Commonwealth Enterprise and Investment Council Ltd

Lord Udny-Lister

Advisor, HSBC Holdings