



The Rt Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
London
SW1A 2HQ

8 November 2017

Dear Chancellor,

Financial regulation and supervision following Brexit

1. The EU Financial Affairs Sub-Committee is currently conducting an inquiry into the future of financial regulation and supervision following Brexit, with a view to producing a full report in early 2018. Nonetheless, we wanted to write to you ahead of this schedule to highlight the evidence we have received on the urgent need for an agreement on a standstill transition period as a priority for the UK Government in the negotiations.
2. Our evidence has been emphatic that, for the financial services industry to be able to continue the orderly servicing of cross-border clients, a transition period needs to be agreed by the end of the year. A transition period is a 'wasting asset', and banks and insurers will begin to put into effect contingency arrangements, in anticipation of market access being suspended in March 2019, in Q1 2018. The Secretary of State for Exiting the European Union, the Rt Hon David Davis MP, told the EU Select Committee on 31 October that "We would like an implementation agreement in the first quarter of next year—that being the earliest we could possibly get it—in principle". Our evidence, however, suggests that leaving an agreement this late would result in a significant number of relocation plans being put in motion.
3. One critical aspect identified by our interlocutors is the issue of contractual continuity. Our evidence, from both industry and from the Bank of England, has indicated concern over the scale of novations that would be necessary in the absence of a reciprocal agreement to grandfather existing contracts. These concerns extend, *inter alia*, to insurance and derivatives contracts, if an agreement on contractual certainty is not reached.
4. Our witnesses are concerned that they cannot rely on a mere statement of intent; some witnesses said that such an agreement would need to be legally binding in order to be seen as trustworthy. How do you foresee a transition agreement being promulgated in order that UK and EU businesses can rely on it for the purposes of their business planning, regardless of the subsequent outcome of negotiations?

In light of the urgency of the topic, we have concluded that we should bring this part of our evidence to your attention and will welcome your speedy response.

I am copying this letter to Lord Boswell of Aynho, Chairman of the House of Lords EU Select Committee.

Yours ever,

Baroness Falkner of Margravine
On behalf of the EU Financial Affairs Sub-Committee