ENHANCING GLOBAL COOPERATION

ANDREW GRIFFITH

Economic Secretary to the Treasury & City Minister - HM Treasury

A new horizon for UK-EU financial service cooperation

In the UK, Europe and other free countries across the world today, there are growing challenges and geopolitical storm clouds. From climate change and inflation to hostile nation states, these challenges are international, and none of us can solve them alone.

In the face of Putin's barbaric war in Ukraine, international cooperation has been one our greatest weapons. The coordinated sanctions packages between the UK, EU, US and other partners have been a model of a collaborative and mature partnership. Together we have pledged significant sums to provide Ukraine military, humanitarian and financial aid. Together, we are sending weapons, training and tanks to match Ukrainian bravery and will continue to support our ally in delivering victory.

What this shows us is we have much more that unites us than divides us.

In the financial services space, the UK is committed to working closely with our international partners through the Financial Stability Board and other fora to achieve strong global standards. Recent events illustrate the importance of robust regulatory frameworks and it is important we take the time to understand what lessons we can learn. Financial stability will always be the UK's top priority and, as the Chancellor to the Exchequer Jeremy Hunt and I have been clear, there will be no divergence in the UK for divergence's sake.

It is for this reason I welcome the recent signing of the Memorandum of Understanding on Regulatory Cooperation in Financial Services with the EU. The UK and EU's financial markets are deeply interconnected, and building a constructive relationship appropriate to the scale and nature of that interconnectivity is of mutual benefit. It is the priority of all our respective Governments to grow our economies, and can be done if we work together as reliable partners, coordinating where we have shared objectives and engaging in mutually beneficial trade.

As the City Minister, I am focused on ensuring UK markets are open, effective and underpinned by high standards. One area where the Government has identified opportunity to make progress is in relation to capital markets.

The Chancellor recently announced the Mansion House Reforms, which are designed to make our markets much more innovative. Alongside reforms to the pensions market to boost returns and improve outcomes for pension fund holders, these reforms will help companies grow and list in the UK, and enable us to grasp the opportunities of the future by reforming and simplifying our regulatory rulebook. The benefits of these reforms will not just be felt in the UK, however, as it is in the nature of a global capital market that we aim to boost investment in dynamic businesses around the world.

Our pensions reforms will secure better outcomes for savers and could unlock an additional £75bn of financing for growth by 2030 to benefit promising companies.

These plans are guided by three golden rules: that we will seek to drive better outcomes for pension savers; that we will always prioritise the long-term integrity of the gilt market; and that our decisions promote the UK's competitive position as a leading financial centre.

I am pleased to see many of our largest DC providers have committed to the objective of allocating at least 5% of their default funds to unlisted equities by 2030, through an industry-led 'Mansion House Compact'. This, together with the Reforms, marks a historic turning point that will accomplish the dual aim of securing a brighter future for retirees and channelling billions into both UK and global economies.

Through this, we can further embrace technologies like AI by bringing together the skills of our financiers, entrepreneurs and innovators. That means making sure our financial services sector has the right architecture to provide the best possible security for investors as well as capital for businesses.

We embark on this journey alongside European and global partners who will be seeking the same benefits and tackling the same issues as we are in the UK. We do so with a cooperative spirit and an acknowledgement that we will do better if we share and reflect on best practice. The Chancellor's announcements at Mansion House, and the Edinburgh Reforms announced in December, continue to build on the UK's vision for an open, sustainable, innovative and globally competitive sector.

Open and interconnected: growing our economies and engaging in mutually beneficial trade.

I firmly believe implementing these reforms will be good for the European and global economy. We know the benefits of an open, market-led approach, which will lower the cost of capital, and we know fragmentation would come at a cost to our continent, as firms look elsewhere.

There is a clear value to the UK's and EU's markets being open and interconnected, and I am committed to playing our part in ensuring we all continue to reap the benefits.

ALEJANDRO PEREZ
Chief Administrative Officer - BNY Mellon

EU/Latin America cooperation in delivering the benefits of the digital agenda

In the final declaration of their summit in July in Brussels, the leaders of the European Union (EU) and the Community of Latin American and Caribbean States (CELAC) highlighted the importance of cooperation on digital topics.

At BNY Mellon we welcomed this announcement as we firmly believe that such cooperation is necessary.

We believe that digital technologies can bring about a wave of innovation in banking and in capital markets. Digitalization can deliver easier, and lower cost, access to payments and savings products that will be especially important for people currently without access to banking services.

Digitalization and the digital agenda are not simply the digitalization of existing processes and capabilities. They represent an end-to-end client journey providing frictionless access to liquidity and capital involving open architecture, application programming interfaces, and the simplification of processes. They assist in providing faster access to funding and information in the context of commercial and trade transactions across multiple geographies and currencies. They can create powerful new capabilities, using insights supported by data and artificial intelligence, as well as faster payments and tokenized assets.

To achieve these benefits, and to truly unlock the opportunities for end customers to access systems and capabilities to improve livelihoods, there is a need for financial institutions and markets to collaborate to deliver open platforms and interoperability.

This collaboration will be facilitated by the close ties that exist between Europe and Latin America, the long-standing knowledge of respective markets and infrastructures, and the existence of major financial institutions that straddle the two regions.

But success, and concrete results deriving from collaboration in the digital journey, will also depend on coordination between policy makers and regulators, at a national and regional level, and at a global level. This will be critical to avoid the creation of separated, and inefficient, digital "islands".

In addition, that collaboration and coordination must be grounded in the regulatory principles that serve as the foundation of financial markets, and the trust that underpins the services that support it.

These principles include the notion that regulation should enable the financial industry to prudently embrace innovations and new technologies while preserving the basic tenets of existing regulation, including client protection, orderly markets and clear regulatory guidelines, regardless of the new technology, asset class or type of entity providing services.

Regulation should enable the financial industry to prudently embrace innovations.

Digitalization and the use of new technologies raise many new legal and regulatory questions. In a globally digitalized world, we shall need certainty and consistency. Otherwise, there is a risk, for example, that new and inconsistent national rules on the use of artificial intelligence will hamper cross-border activities. This will undoubtedly impact the opportunities to provide fair and equal access to funding and capital across the region.

The global standard setting bodies have recognized these challenges, and in the past few months such bodies as the Financial Stability Board, the International Institute for the Unification of Private Law (UNIDROIT), and the International Organization of Securities Commissions have made valuable proposals for common principles and standards.

Yet it is also fair to say that much of this work is still at an early stage. For some major topics, and some major risks, there is yet little international consensus as to the best regulatory approach. And we have already seen examples of jurisdictions taking significantly different regulatory approaches, with varying impacts on digital innovation.

There is an opportunity for the European Union and the countries of Latin America and the Caribbean to build on their ties and to help tackle these problems. The EU and the CELAC countries of Latin America and the Caribbean represent close to a quarter of world GDP, and the EU is the largest single external investor in the CELAC region.

European investment, and the major European institutions that are present in the CELAC region, can help deliver the benefits of digitalization more rapidly, and can help demonstrate these benefits more widely. Given their major global presence, EU and CELAC public authorities can help develop the necessary global consensus on an appropriate regulatory framework for the digital agenda.

At the recent EU-CELAC summit in Brussels there was not only a declaration of the importance of cooperation on digital topics, but also the announcement of the creation of a digital alliance in order to facilitate such cooperation. BNY Mellon sees this as a very positive step for the future.