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OFFICIAL REPORT

Eighth Delegated Legislation Committee

DRAFT EEA PASSPORT RIGHTS (AMENDMENT,
ETC., AND TRANSITIONAL PROVISIONS)
(EU EXIT) REGULATIONS 2018

Wednesday 24 October 2018

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The Committee consisted of the following Members:

Chair: IAN AUSTIN

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| † Garnier, Mark (<i>Wyre Forest</i>) (Con) | † O'Brien, Neil (<i>Harborough</i>) (Con) |
| † Glen, John (<i>Economic Secretary to the Treasury</i>) | † Reynolds, Jonathan (<i>Stalybridge and Hyde</i>) (Lab/ |
| † Hall, Luke (<i>Thornbury and Yate</i>) (Con) | Co-op) |
| Hoey, Kate (<i>Vauxhall</i>) (Lab) | Shuker, Mr Gavin (<i>Luton South</i>) (Lab/Co-op) |
| † Keegan, Gillian (<i>Chichester</i>) (Con) | † Smith, Jeff (<i>Manchester, Withington</i>) (Lab) |
| † Killen, Ged (<i>Rutherglen and Hamilton West</i>) (Lab/ | Thewliss, Alison (<i>Glasgow Central</i>) (SNP) |
| Co-op) | † Walker, Thelma (<i>Colne Valley</i>) (Lab) |
| † Lamont, John (<i>Berwickshire, Roxburgh and Selkirk</i>) | † Whittaker, Craig (<i>Lord Commissioner of Her</i> |
| (Con) | <i>Majesty's Treasury</i>) |
| † Metcalfe, Stephen (<i>South Basildon and East</i> | |
| <i>Thurrock</i>) (Con) | Ian Bradshaw, Claire Cozens, <i>Committee Clerks</i> |
| † Morris, James (<i>Halesowen and Rowley Regis</i>) (Con) | |
| † Murray, Ian (<i>Edinburgh South</i>) (Lab) | † attended the Committee |

Eighth Delegated Legislation Committee

Wednesday 24 October 2018

[IAN AUSTIN *in the Chair*]

Draft EEA Passport Rights (Amendment, etc., and Transitional Provisions) (EU Exit) Regulations 2018

2.30 pm

The Economic Secretary to the Treasury (John Glen): I beg to move,

That the Committee has considered the draft EEA Passport Rights (Amendment, etc., and Transitional Provisions) (EU Exit) Regulations 2018.

It is a pleasure to serve under your chairmanship, Mr Austin. The Treasury is in the process of laying around 70 statutory instruments under the European Union (Withdrawal) Act 2018. That is being done to ensure that a functioning legislative and regulatory regime for financial services is in place should the UK leave the EU without a deal or an implementation period. This is the second debate in the House as part of that programme, and I look forward to several more in the weeks ahead.

The overriding objective of that work is, as far as possible, to maintain continuity at the point of exit by maintaining legislation as it currently exists. Where existing EU legislation would not operate properly in the UK context, we need to amend it to ensure it works effectively after we leave. We are therefore using powers delegated to Ministers under the withdrawal Act to fix deficiencies in applicable EU law that will be transferred directly to the UK statute book at the point of exit, and to fix existing UK law to ensure that it is not deficient on and after exit day.

Ian Murray (Edinburgh South) (Lab): I am grateful to the Minister for giving way so early in his contribution. I hope he will tell us before he finishes what projections the Treasury has made of the number of potential job losses in the financial services sector if the UK leaves the EU without a deal.

John Glen: I will be very happy to address that point in due course, either in my introduction or when summing up.

That work will provide the UK's financial services sector with much-needed certainty about regulatory requirements in the event of no deal, and ensure that firms can continue to do business in the UK. That is consistent with the Government's position that, although the best outcome is for the UK to leave with a deal, in the meantime we must—and we will—continue preparing for no deal. I want to underscore the point that the tabling of this statutory instrument was a planned activity that was widely anticipated by the regulator and industry.

Thelma Walker (Colne Valley) (Lab): Has the Minister ever seen a Treasury matter of comparable scope and importance debated in a Delegated Legislation Committee?

John Glen: No—I acknowledge that this is a significant event. What we are doing today is wholly necessary, and I cannot at the moment envisage anything of comparable significance.

Many of my esteemed colleagues will be familiar with the passporting system, which allows a firm in a European economic area state, such as a bank or an insurer, to offer services in any other EEA state on the basis of the authorisation granted by its home state regulator. That system relies on a set of reciprocal agreements between EEA member states, which are implemented in domestic legislation, in this case under schedules 3 and 4 to the Financial Services and Markets Act 2000. My Department had to make a key decision about how to deal with those existing EEA passport rights in UK law in the event of no deal.

In such a scenario, the UK would be a third country, outside the EU financial services framework and therefore outside the passporting system. The provisions agreed between EEA states would cease to apply in the UK, meaning any references to EEA passport rights in UK legislation would become deficient at the point of exit. As a result, the Government will need to repeal provisions in the 2000 Act implementing the EEA financial services passport, meaning that any EEA firms currently operating in the UK via a passport would lose their permissions to do so on exit day, just as UK firms would lose their permissions to passport into other EEA states. Instead, firms would need to obtain authorisation from the UK's regulatory authorities—the Prudential Regulation Authority and the Financial Conduct Authority—by exit day if they wished to continue doing business in the UK.

Mark Garnier (Wyre Forest) (Con): Has the Minister done an analysis of what that would mean in terms of income for regulators and the extra requirement for them to be the direct regulators as opposed to just having oversight?

John Glen: I cannot give my hon. Friend a precise figure, but it would be a considerable change in the way that the regulators operate and would need a considerable reconfiguration of resources in an ideal scenario. Having had conversations with Sam Woods and Andrew Bailey at the PRA this morning, it is a scenario for which they have made contingency provisions.

The volume of applications received by the UK regulators is expected to increase significantly, as many hundreds—perhaps thousands—of EEA firms submit applications for UK authorisation. That will include applications from large and complex businesses with a substantial UK presence. To minimise the disruption faced by EEA firms and UK businesses and consumers due to the loss of EEA passporting rights in a no-deal scenario, the draft regulations fulfil the Government's commitment, made on 20 December last year, to introduce legislation to establish a temporary permissions regime.

Ian Murray: The Minister said a few moments ago that the regulations would allow UK financial firms to continue doing business as regulated businesses in the UK. Can he say whether they would be allowed to continue doing business in the EU?

John Glen: I am sorry if I made a mistake in what I said; the regulations actually allow EEA firms to continue operating in the UK. The reciprocal right of UK firms

to operate in the EEA does not exist at the moment. That is a reciprocal decision that we hope will be in the interest of EEA states to make with respect to the comfort of their citizens, who receive financial services from UK firms, but that is not something that has happened yet.

This regime would enable EEA firms operating in the UK, via a passport, to continue their activities in the UK for up to three years after exit day, allowing them to obtain UK authorisation or transfer business to a UK entity as necessary. The regulations would also give the Treasury the power to extend the regime, which is crucial to alleviate the potential scenario in which some EEA firms cannot be authorised within the three-year period. The Treasury would not be able to extend the regime as a matter of course, but only if it considered it necessary to do so. The use of the power would also need to be based on a robust assessment from the FCA and PRA regarding the effects of extending or not extending the period. The length of the regime could only be extended by 12 months at a time. The instrument that would extend the regime would be subject to the negative procedure, and that has been drawn to the special attention of the House of Lords by the Secondary Legislation Scrutiny Committee Sub-Committee B, in a report published last week, on 18 October.

My officials and I judged that choice of procedure to be appropriate, given that the power to extend the regime is conferred by the draft regulations under discussion today, which are subject to the affirmative procedure. I reassure hon. Members that we take parliamentary scrutiny seriously, and although this affirmative instrument introduces the power to pass regulations via the negative procedure, the Treasury believes that if similar provision were to be made by an Act of Parliament, it would also be via the negative procedure, not least because the power is so tightly drawn.

The temporary permissions regime would ensure both that firms can continue servicing UK businesses and consumers for a temporary period after exit day, and that they have appropriate time to prepare for and submit applications for UK authorisation and can complete any necessary restructuring. The PRA and the FCA can manage the expected applications for UK authorisations from EEA firms that were previously operating in the UK via the passport in a smooth and orderly manner.

The draft regulations are a pragmatic response to a complex problem, and are needed to minimise disruption to users and providers in the UK financial services sector in a no-deal scenario. I note that the Secondary Legislation Scrutiny Committee report has acknowledged the importance of the regulations in achieving that objective, and I emphasise to the Committee how widely desirable they are both to the industry and to the regulators.

It is also important that industry understands what we are doing, how it will work and why it is necessary. To aid that, the regulations were published in July in draft form along with an explanatory policy note to maximise transparency and understanding before their introduction. The regulators responsible for the authorisation and supervision of financial services firms are now in the process of consulting industry to ensure that the rules that would apply to firms in this regime function properly when the UK leaves the EU.

To conclude, the regulations are essential to ensuring that we have a functioning financial services regime in a no-deal scenario. They provide reassurance for EEA financial services firms, UK businesses and the customers they serve that they will continue to be able to operate here, no matter what the outcome of the negotiations. The City's success is based on being the most open and dynamic financial centre in the world. Ensuring that EEA financial services firms can continue to operate here after exit day will help to maintain that status, protect jobs and preserve tax revenues to fund our vital public services. I hope that colleagues will join me in supporting the regulations, which I commend to the Committee.

2.41 pm

Jonathan Reynolds (Stalybridge and Hyde) (Lab/Co-op): It is a pleasure to see you in the Chair, Mr Austin. This Committee marks the 13th time I have done a Delegated Legislation Committee for the Opposition in my role as a shadow Treasury Minister. In that time, I have seen Committees on issues of varying significance and impact. The Minister and I have done everything from the post-financial crisis regulatory regime to formally dissolving the British Potato Council, but I do not think anyone would deny that the piece of legislation before us today is on a completely different scale because of its importance and the issues of substance that it covers.

As is well known, the Government took a decision to undertake the bulk of the legislative preparation for our EU withdrawal through secondary legislation. As an Opposition, we have voiced our concerns about that on many occasions because of the transfer of power to the Executive that it entails. I very much appreciate the work that has been done by the Minister and his staff in the civil service to brief us on the process, but it is unquestionable that, in a normal environment, changes such as this should be dealt with through primary legislation, given the scrutiny that that would bring. The sheer number of Treasury regulations and the speed with which they have to come forward is deeply concerning in respect of holding the Government fully accountable. As the Opposition, we commit to making every effort to do that, but it is undoubtedly a constitutionally unprecedented and tremendously resource-intensive task, and it leaves room for error.

It is disappointing that we have reached the stage where such contingency measures for a no deal scenario must be laid before the Committee. The UK is very close to our EU exit date, and financial services firms need certainty about the shape of things to come, which has been sorely lacking. As a result, financial institutions have already begun to enact their own contingency provisions such as moving subsidiaries and assets to the EU. They began that process many months ago.

I repeat my thanks to the Minister and his staff for taking the time to ensure that we have as much clarity as possible on what the measures mean, but the extent of the regulations paints a bleak picture, most notably with the consequential amendments, which show what we will be giving up if the negotiations do not progress, including co-operation with the EU on the implementation of sanctions and asset-freezing.

I begin by asking for the Minister's reassurance about the presence of such clauses and their intended use. We have taken it on trust that the regulations simply provide

[Jonathan Reynolds]

for a functional statute book in the event of no deal, but in the interests of ensuring full transparency, will the Minister confirm that for the record? We would be failing in our duties if we were not to get that on the record.

Moving from the principle to the substance of the regulations, I want to ask the Minister specific questions about the potential temporary permissions regime and how it would operate. Given that the TPR would underpin the full regime for passporting financial services into the UK, it is a possible fundamental building block of our future regulatory regime. Will he make clear to the Committee what the Government's current negotiating objective is in relation to the passporting rights for EU financial services firms given that it is the backstop contingency measure? What is the ideal scenario? How will legislative provision be made for it?

Adding to the democratic deficit in the process, elements of the draft legislation seem to bestow significant discretionary powers on the regulators—both the FCA and the PRA. Regulation 6(6)(a) appears to give the FCA and the PRA powers to set landing slots of any length and any notice period for which an EEA firm passporting into the UK must apply for full UK authorisation. Should those landing slots have a minimum duration so that financial institutions are given a minimum notice period before being required to submit an application? In practice, such applications can take weeks or months to prepare and firms will need as much time as possible.

It appears that regulation 6(7) extends the period for which the regulators are able to delay a decision on whether to grant UK authorisation from the current six to 12 months to three years from exit day. That seems disproportionate and unfair to companies, which will endure a long period of uncertainty about whether they will be granted UK authorisation. Will the Minister clarify the reasons for that? We recognise that increased regulatory workload is likely to increase approval times, but surely they should be closer to the current timescale—perhaps they should increase from six months to nine, or from 12 months to 15. Clearly, there must be no outstanding applications awaiting approval at the end of the three-year transition period.

The Opposition argue that regulation 6(8) should include a minimum notice period to tell firms that their UK authorisation has been declined. A refusal will necessitate the winding down of operations and may present a risk of disruption to customers. It is essential that a firm's withdrawal from the market is as orderly as possible. Firms need time to prepare. Obviously, that has to include a three-year cut-off at the end of the transition period.

Finally, the Opposition suggest regulation 19 should be looked at again. That regulation would give the FCA and the PRA powers to enforce the requirements of a passporting EEA firm's home state regulator on that firm. However, that creates new practical issues related to the ability of UK regulators to act on an extraterritorial basis. We suggest that alternatives could be looked at. It was suggested to me that co-operation agreements could be set up with local EEA regulators for relevant member states so they retain enforcement powers for breaches, but I am mindful that Ministers and the regulators will

have discussed other options. I am interested to hear the Minister's view about whether it is possible to reconsider regulation 19 with other types of remedial measure.

Those issues show the scope and complexity of what we are dealing with. I am aware that we are under significant time pressure, both with exit day looming and given the volume of secondary legislation that must be passed in the coming months. However, for the sake of one of the UK's most important economic sectors, we must not let that stand in the way of proper scrutiny and consideration.

2.48 pm

Ian Murray: It is a great pleasure to serve under your chairmanship, Mr Austin, to consider what is, in the Minister's words, one of the most significant pieces of secondary legislation he has known.

Ged Killen (Rutherglen and Hamilton West) (Lab/Co-op): Does my hon. Friend agree that given that, in the Minister's own words, there is nothing of comparable significance to this statutory instrument, it is extraordinary that no Scottish National party Member is here to stand up for Scotland's financial sector?

Ian Murray: I am delighted that we managed to contrive that intervention to put on the record that there is no one here from the third party of this House. Under the normal procedures of a Committee of such significance, it gets the right to respond, but has decided to pass up that opportunity. Given what the Minister said about the significance of the statutory instrument, there perhaps should be someone from that party here.

That does not take away from the fact that the statutory instrument says everything we need to know about the Government's stance on Brexit. They are having to put through a statutory instrument to ensure any EEA firm that does business in the UK will be able to continue to do so after we leave the European Union in the event of no deal. There is utterly nothing from the Government about what will happen in the event of no deal. With the Prime Minister being stabbed in the back and hanging from the noose—in the words of Conservative Back Benchers—it looks increasingly unlikely by the day that we will end up with anything other than no deal or something close to it. What will happen to UK financial services firms that operate in the European Union?

I intervened on the Minister to ask whether he would expand on the fact that the Treasury is doing a significant amount of work. It should be commended for that work, but the Minister was questioned at least a dozen times in the House this week about the impact on jobs and this country's GDP of a no deal scenario, or indeed a Chequers scenario or a Canada plus plus scenario. He fundamentally refused to answer that question.

In my earlier intervention, I asked whether the Minister could tell us the impact on jobs in the financial services sector in the event of no deal, which is what the statutory instrument is about, and he said he would answer in his summing up. I suspect that, by the time he gets to his summing up, he will not have a figure from the Treasury analysis, either because he does not have one, or because it is one that the Government do not want people to hear.

I hope the Chancellor comes to the Dispatch Box on Monday with a copy of the report from the Office for Budget Responsibility and lays out the impact of staying in the European Union, a no deal scenario, which is what the statutory instrument is about, a Chequers scenario, a Canada plus plus plus scenario, an hon. Member for North East Somerset (Mr Rees-Mogg) scenario, and the former Foreign Secretary's scenario. For our financial services sector, it is merely a couple of reporting quarters away. I hope the Chancellor lays out the impact on jobs of leaving the European Union under all those plans, and everything in between, even if the Government give us just a range.

The Conservative party can fight internally all it wishes about who should have the keys to No. 10 and No. 11 and who should be doing the Brexit negotiations, but my constituency of Edinburgh South relies on financial services. We are talking about tens of thousands of jobs across Edinburgh and Scotland and the United Kingdom, billions of pounds in tax revenue to the Treasury every single year, and the underpinning of this country's entire exporting system. Even if it were to come to pass, the Chequers plan, which looks as if it is just about as dead as the dodo, does not even mention the services sector. It is 80% of our economy, and it is not even mentioned in the Chequers plan.

The Chair: Order. Could we get back to the statutory instrument?

Ian Murray: The order is about the ability of EEA companies to continue to trade in the UK in a no deal scenario, but makes absolutely no mention of how UK financial services companies will be able to operate in the EU if we end up in such a scenario, and the statutory instrument has to kick in. It is important to highlight that the Government are doing an awful lot of work preparing for a no deal scenario in one way, but they are not doing it in the opposite way in terms of what the financial services sector has said.

The Chancellor said in a speech last March that he wanted full regulatory alignment between Britain and the EU for financial services post Brexit, which would mean that the statutory instrument would be redundant. However, he has been overruled because that is not what is on the table, either from the EU or from the Prime Minister in terms of her negotiating position in Brussels. If the Chancellor has now been overruled, perhaps the Minister can tell us what the Government's position is with regard to UK financial services post Brexit in any scenario and the impact that leaving will have on financial services.

Is it possible even to deliver what is being asked for in the statutory instrument? The regulators are hardly well known for their efficiency and speed at the moment in dealing with minor issues regarding some of the scandals and overhangs of the financial services sector disaster in 2008. Paragraph 12 of the explanatory memorandum states:

“The impact on business, charities or voluntary bodies is that firms that currently operate in the UK on the basis of an EEA financial services passport will require a legal expert to examine the new legislation and understand its implications.”

They do not just need a legal expert; they need somebody of a much higher authority, probably a bit closer to God, to understand what the Government's position will be with regard to the European Union.

Today's statutory instrument is yet another that I have scrutinised in this place that is packed full of Henry VIII powers—no recourse to Parliament, no recourse to the people, and no recourse to the financial services sector. Has there been any consultation with the financial services sector on this statutory instrument? I expect there has been very little. Has anything been done on whether the regulators can actually deliver some of the stuff in a no-deal scenario? Today, in reports coming out of the Cabinet meeting, the Government are saying that Government-run ships might be needed to bring medicines and goods into the UK in a no-deal scenario—we may need to nationalise the shipping industry. That is coming from a Conservative Government, not the Leader of the Opposition. That is the kind of impact we are going to have if the Government continue on this trajectory of preparing for no deal and turning a blind eye to the interests of this country.

I say to the Minister what I have said to previous Treasury Ministers. I would like him to stand up and promise to my constituents that not one of them will lose their jobs in financial services as a result of the Government's deal, no deal or otherwise, when we leave the European Union. I would like him to stand up and promise that to my constituents and the country, but I suspect he cannot. The reason is that the Government are jeopardising the whole sector and every single other sector. That is not just my words, but the words of the sector itself. One headline reads: “Finance industry tears into British Government's Brexit trading plans” with regard to services and financial services. The Government have to go back and reflect on whether they are doing this in the interests of the country or in the interests of their party, and give me a cast-iron guarantee that none of my constituents will lose their jobs.

I am sure we will not be voting against this statutory instrument today because it is incredibly important—hopefully it will be unnecessary. Perhaps in the next few months, the Minister and some of his colleagues will realise that the Government and the country are heading towards the single biggest act of self-harm that the country has ever implemented, and they will put any deal back to the people and get the people to decide whether this is what they want for the future of this country. Anything else would be a total and utter dereliction of duty.

2.56 pm

John Glen: First, I congratulate the hon. Member for Stalybridge and Hyde on his 13th statutory instrument. I assure him that we will have to celebrate at least his 30th together, in this room or one down the corridor.

As he always does, the hon. Gentleman has raised some very important matters and I will do my very best to respond. The first substantive point is whether these matters should be dealt with through primary or secondary legislation. This instrument and many others are affirmative instruments and we rightly have the opportunity to discuss this one today. That process was a matter of considerable debate during the passage of the Bill and was agreed by Parliament as the only practical way of proceeding. That sets the context for why we are doing that here.

The hon. Gentleman made a number of points about the regime and how it will work, including landing slots. The regulators will have the ability to set landing slots if

[John Glen]

they so choose. We have been working closely with the regulators on that and expect them to organise and schedule the landing slots in an orderly manner. They are limited because they have to be in a two-year period from exit day. I will come on to the specific points made by the hon. Member for Edinburgh South, but I would stress that these are arrangements for a no-deal scenario. The Government are fully committed to securing a deal—and a deal on financial services that is in the best interests, as I fully acknowledge, of the financial services sector, which has a considerable footprint across the United Kingdom.

The amendments to domestic legislation, both primary and secondary, are consequential amendments to provisions of domestic legislation that reference the EEA passporting system, which will no longer be in effect after exit day. This is essentially a clean-up exercise to remove redundant references to passporting arrangements on the UK statute book. It does not result in any policy change. Provisions in any onshored EU legislation that reference the EEA passporting system will be similarly amended in the relevant individual exit statutory instruments that will be laid as part of the ongoing onshoring programme.

The hon. Member for Stalybridge and Hyde raised the issue of the extension period of around six to 12 months to three years. The extension is necessary to ensure a smooth transition for firms moving from the current system of passporting rights to full UK authorisation. It will bring the statutory deadline set out under the Financial Services and Markets Act 2000 in line with the overall three-year duration of the regime and will help to ensure the overall application process can be managed in an orderly manner. It will not disadvantage firms, as every firm in the regime will be able to undertake the same activities they were entitled to undertake before exit day.

Ultimately, the Government are committed to ensuring a smooth transition for EEA passporting firms to UK authorisation. The determination of the three-year window was made in close consultation with the PRA and FCA, based on estimates that they made of the number of applications they would be likely to receive for authorisation. We believe this is good news for firms. It will not give them uncertainty; it will give them assurance. UK businesses and customers will welcome that.

The hon. Gentleman asked about applications for authorisation that are rejected. I can tell him that we will have further statutory instruments laid later on to enable such firms to wind down their UK-regulated activities in an orderly manner. On the Government's negotiating objectives for passporting, the Prime Minister has made it clear that Brexit will mean an end to passporting. The temporary permissions regime is about managing that transition. We have set out a proposal for an ambitious future relationship in our negotiations. I will set that out in a moment.

The hon. Member for Edinburgh South raised the issue of an impact assessment of a no-deal scenario. As he readily acknowledges, the Treasury is undertaking a wide range of analyses in support of the negotiations and preparation. He cited various scenarios, all of which have different assumptions according to the people citing them as being desirable. In a no-deal scenario, there are a range of outcomes. We could make assumptions

about a degree of hostility or a degree of co-operation from our friends and neighbours in the EU. EEA members would not serve their consumers very well if they did not offer a reciprocal regime. It is impossible to make a meaningful financial or jobs calculation because it is conditional on a range of assumptions and is not possible to set out.

Ian Murray: I just do not accept that excuse. The Treasury does projections on every single aspect of its work every single day. Indeed, the financial services sector itself has said that up to 10,000 jobs could go on day one if there is no access to the single market, so let me make it easy for the Minister, as I tried to in the Chamber earlier this week. Will unemployment, as a result of any of the scenarios, go up or down?

John Glen: I have stated my and the Government's position. We are working towards a deal that is in the best interests of the United Kingdom as a whole. There was an awareness of this measure on 20 December last year. It was laid on 11 July. The head of the PRA came to the Select Committee on 11 July and set out how desirable it was. With respect to the wider question of the economic consequences of different outcomes, it would be beyond the scope of this Committee if I set that out here and now. However, I can say that we must have a deal that is right for financial services and allows us flexibility going forward, but this measure is about making sure that we have adequate certainty for consumers who benefit from the financial services of EEA firms, and that is what this is about.

As to what will happen to UK firms that passport into the EEA, the Government, as I said, can take legislative action only in relation to EEA firms that passport into the UK. We cannot, through unilateral action, influence the status of UK firms operating in the EEA. However, as I said, it is hugely desirable for their consumers for them to do it. That is why we really want to avoid that situation and agree a deep and special partnership with the EU, as well as an implementation period, which is important for both.

Jonathan Reynolds: I think the Minister is saying that the Government's objective is still for mutual regulatory recognition for—essentially without the existence of the passporting regime—similar arrangements to those we have now after we leave. I think most people would acknowledge that that is quite a difficult thing to propose without negotiating a new relationship with Europe that would include such things as being part of a new customs union, as the Labour party has proposed.

Is it not possible that, if the Government agree what we might call the Chequers package—a common rule book on goods—even though a deal might be agreed we should still be using the measures we shall agree today? Even though a deal of some sort was agreed, because it did not cover the financial services sector, we would still be using the regulations that are before the Committee.

John Glen: Of course, the outcome of the negotiations will determine what we do. If we get a deal, clearly the implementation period will take effect. We would then have to look at what new legislation was optimal, from a

financial services point of view, to keep us competitive; but such decisions have to be deferred until we get to that point.

I do not want to detain the Committee unduly, but there were other points I wanted to address. On the point about the FCA and the PRA powers to enforce home regulator powers or breaches, it is not an extra-territorial measure, but it has effect in the UK only. It merely preserves requirements imposed by an EU regulator so that the EU regulator does not have to impose such requirements itself. Once in the regime, the UK regulators will be able to disapply the requirements if they choose.

I think I have probably addressed all the points that were made. I am grateful for the number of points that have been fed to me from my left. I do not think that I have addressed all the scenarios to the satisfaction of the hon. Member for Edinburgh South, and I acknowledge

his dissatisfaction. All I can say is that the Government are fully committed to delivering the best possible deal on financial services. I visited Edinburgh over the summer recess and I acknowledge the importance of financial services to the hon. Gentleman's constituency, and to jobs throughout the country. We hope that we shall not need provision for a no-deal scenario, but it is appropriate that we make provision for it today.

Question put and agreed to.

Resolved,

That the Committee has considered the draft EEA Passport Rights (Amendment, etc., and Transitional Provisions) (EU Exit) Regulations 2018.

3.8 pm

Committee rose.

