

## TheCityUK's response to the House of Lord's International Relations and Defence Committee inquiry into the UK's future relationship with the US

### Introduction

1. TheCityUK is the industry-led body representing UK-based financial and related professional services. Our purpose is to champion and support the success of the UK-based financial and related professional services ecosystem, and thereby our members. The industry we represent is a national asset, contributing 12% of the UK's total economic output and employing over 2.4 million people, with two thirds of these jobs outside London across the country's regions and nations. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.
2. As the representative body for UK-based financial and related professional services TheCityUK has a major commercial interest in the US, with many of its members being US-headquartered or with significant US operations. Across our membership, there is a strong and growing interest in the US market. Through our diverse programme of activities and engagements we work towards creating a more closely integrated transatlantic market in financial and related professional services.
3. We welcome the opportunity to respond to the Committee's inquiry into the UK's future relationship with the US. Our response will broadly focus on the economic relationship section of the inquiry by providing insight on areas of opportunity to strengthen the US-UK trade and investment relationship in financial and related professional services. It will also touch on other areas of opportunity such as defence industry cooperation.
4. With new administrations in place, this provides a welcome opportunity to deepen US-UK transatlantic financial trade and cooperation by leveraging our close partnership, including the Atlantic Declaration, through policy and investment. It is a timely moment to signal further cooperation in our policy and regulatory approaches and shape international norms. More broadly, there may be opportunities to build on the strong bilateral cooperation and coordination on defence and security, to develop a transatlantic ecosystem for critical innovative technologies.

### Context: UK and US relations in financial and related professional services (FRPS)

5. Given the size, scale and global reach of UK and US financial markets, this is an especially important relationship which is highlighted by the presence of New York and

London as the world's leading financial centres. The US is the UK's largest single-country trading and investment partner in financial services, and vice-versa. The UK and US are market leaders in key sectors such as investment banking, asset management, insurance, FinTech and professional services. All these sectors play a critical role in delivering economic growth, jobs and national economic security.

6. The US is largest single destination for UK financial and related professional services exports, accounting for 35.7% of the UK's total financial and related professional services exports in 2023.<sup>1</sup> Given the UK's export profile for total financial and related professional services is split three ways: approximately a third to the US, a third to the EU, and third to the rest of the world, the UK government is right to stress that policy must continue to engage both traditional and growth markets. Indeed, further diversifying UK exports is likely to be a key source of future prosperity and resilience.
7. The US also has a substantial interest in the UK and is the largest investor in the country. The UK-US bilateral investment relationship is the largest in the world. By the end of 2023, total US FDI in the UK had reached over \$1.1 trillion, and UK FDI in the US had reached \$630bn out of which \$65bn was in financial services. Total US corporate assets in the UK stood at approximately \$6.3 trillion in 2022 (latest available data), representing 22.3% of total US corporate assets abroad.<sup>2</sup> The UK asset management industry managed £925 billion worth of assets for North American clients.<sup>3</sup> US investors consistently make up the largest single client base for the UK asset management sector. US and UK financial services firms are heavily investing in technology to enhance the sector. UK financial investment into the US has been underpinned by growing trade and investment in fintech, including insurtech, regtech and climate tech, with a steady pipeline of opportunities.

## **TheCityUK's governance structure for US engagement**

8. TheCityUK sets its strategic direction for policy and activity relating to UK-US financial and related professional services via the US Market Advisory Group (MAG), which is a cross-sectoral, senior practitioner body representing some of the largest financial institutions in the world with a presence in both the UK and US. The group engages with government, regulators and industry at the highest levels in both the UK and US to support and develop the 'golden corridor' of transatlantic financial services. US stakeholder engagement is driven by TheCityUK's quarterly visits to Washington DC and an annual MAG delegation visit to the US. TheCityUK works through the UK-US Financial Regulatory Working Group (FRWG) to input ideas for where the UK and US could work more closely together, including digital assets. The FRWG has brought together the two Treasury departments and independent regulatory authorities "to

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<sup>1</sup> Source: TheCityUK estimates based on ONS data

<sup>2</sup> Source: US Bureau of Economic Analysis

<sup>3</sup> Source: The Investment Association

deepen bilateral regulatory cooperation and to enhance: financial stability; investor protection; fair, orderly, and efficient markets; and capital formation across both jurisdictions”<sup>4</sup>.

9. TheCityUK works closely in partnership with British American Finance Alliance (BAFA) supporting their collective efforts, in particular as the joint Secretariat. BAFA was formed in 2020 as a coalition of 20 trade associations representing financial and professional services firms in the UK and the US. It provides a platform that represents the whole of the financial services industry with equal representation from both sides of the Atlantic: capital markets, banking, insurance, asset management, accounting and legal services. BAFA is designed as a ‘one-stop shop’ for engaging with industry on issues concerning the UK’s relationship with the United States. The BAFA initiative was intended to support the US-UK Financial Regulatory Working Group (FRWG). BAFA has regularly inputted into the preparations for the FRWG meetings. We welcome the consultative way in which Treasury, Financial Conduct Authority and Bank of England officials leading on the FRWG have approached these meetings.

## **Deepening UK-US economic cooperation in financial and related professional services**

10. The newly inaugurated Republican administration and Congress offers a strategic opportunity to build on already extensive and productive exchanges on policy issues impacting the financial and related professional services industry. The UK-US Financial Regulatory Working Group is the main bilateral conduit for official dialogue. This is the right time to raise the level of ambition of this forum, potentially raising it from information exchange to a group which takes forward specific initiatives aimed at enhancing two-way trade and investment issues by addressing regulatory barriers. This would enhance the strategic cooperation between the UK and US which is crucial for shaping future financial markets. A revitalised approach might also find ways of better addressing the need for increased private sector input and for a heightened focus on pressing bilateral and multilateral regulatory issues helping to bring current financial operational, risk and opportunity issues to the fore and prioritising work on practical responses to these issues.
11. Prime Minister Starmer’s visit to Washington DC on 27 February has highlighted the opportunity for the UK and the US to develop a new and closer trading relationship in the domain of tech, while ensuring that the UK does not compromise its tech policy. For example, the US has forged one Digital Economy Agreement with Japan, which could serve as a model for the UK.

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<sup>4</sup> See: <https://www.gov.uk/government/publications/joint-statement-us-uk-financial-regulatory-working-group/joint-statement-us-uk-financial-regulatory-working-group>.

12. At the Federal level, industry would welcome a digital agreement which enhances the US-UK data bridge to encompass financial services, fostering closer regulatory alignment on broader technological advancements, including Artificial Intelligence (AI), digital assets, and cybersecurity, and aligning UK pension reforms to attract US investment in productive and financial assets. There is value in the UK being seen as a safe, stable and well-regulated place to develop and deploy key technologies. There is an opportunity for the UK and the U.S. to work together on creating a common or mutually recognized framework of guard rails for AI and related supervisory frameworks to promote innovation and job creation. We take note of the UK's alignment with the US on the AI Summit Declaration.
13. At the State level, we are ready to support existing MOUs and welcome language on financial services and MRPOs (Mutual Recognition of Professional Qualifications) in forthcoming MoUs with Illinois, California, and New York. Stronger cooperation in short-term business mobility is critical for business operations. Streamlining the UK's Senior Managers and Certification Regime (SMCR) can help to foster innovation, cultivate skills in both markets and deliver greater investment opportunities.
14. As part of a continuous dialogue, financial services trade can be further facilitated, and frictions reduced, by the application of certain regulatory recognition measures (such as "deference" or "substituted compliance"), by relevant UK and U.S. Financial services regulatory authorities. We encourage the authorities to use these tools for the mutual benefit of their respective markets and its participants.
15. On the multilateral front, we urge the UK to continue to support such initiatives as the WTO E-Commerce Joint Statement Initiative, while seeking ways of helping to pave the way for the US to join at the earliest feasible opportunity.

## **Deepening UK-US defence industry cooperation**

16. Defence and security are important priorities for both new Administrations. Both countries have a robust defence partnership, which extends to include Australia through the AUKUS security partnership. Pillar II of the AUKUS partnership is designed to 'bolster industry and innovation sector collaboration'. The recently announced exemption to the US International Traffic in Arms Regulations (ITAR) for the UK and Australia removes a significant regulatory barrier to the cooperation and collaboration required to meet the goals of the AUKUS partnership.<sup>5</sup> This underlines the fact that trade liberalisation is possible where national interests are aligned.

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<sup>5</sup> 5 MoD, 'Historic Breakthrough in defence trade between AUKUS partners', (15 August 2024); <https://www.gov.uk/government/news/historic-breakthrough-in-defence-trade-between-aukus-partners>

17. There is a valuable opportunity for the UK government to leverage and support these shared ambitions and interests to develop a cross-border, transatlantic innovation ecosystem which combines private capital with the development of next generation technologies, particularly in the fields of AI, distributed ledger technology (DLT), cybersecurity, and quantum computing. The opportunities associated with funding ventures that start, grow, and scale the critical technologies that support these capabilities highlight the need to increase the flow of capital into all stages in both countries.