POLITEIA

How to Prevent Systemic Risk! UK Laws Must Govern UK Financial Services Trade, Politeia authors say. Eurozone's financial sector is 'under-capitalised, under-collateralised' & Basel rules flouted.

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PDF: [Managing Euro Risk: Saving Investors from Systemic Risk]()

There are overwhelming reasons for the UK to take back control of its own laws once the transition ends later this year. That will matter not just for the whole economy and future trade – but for the financial sector it is imperative.

Politeia's new volume, ***Managing Euro Risk: Saving Investors from Systemic Risk,*** explains that future UK financial services trade with the EU must take place under UK law, on an Enhanced Equivalence basis. Otherwise the UK and the global system could be open to potential systemic risk. Until now that risk was managed under UK law for UK-based business trading in or with the EU. After Brexit, Brussels wants to manage things under its own law, with such business transferred to the EU's management.

The authors, Barnabas Reynolds, a UK and international financial services lawyer, David Blake, an academic economist and Robert Lyddon, a bank accounting and financial analyst, explain that legally the Eurozone has circumvented the Basel Rules, while its accounting practices fall short of full transparency.
The upshot is that the Eurozone's financial sector today is under-capitalised, under-collateralised and less liquid than it should be. They warn that the potential for systemic risk spreading to the UK or globally is grave, endangering businesses, savers and investors.

But the risk can be managed and contagion contained. They propose that the EU should be obliged to apply the Basel and international accounting standards properly, with Eurozone member states adopting joint-and-several liability for each other's debts. Above all, the UK should insist that future financial services trade with the bloc will be on an Enhanced Equivalence basis, with UK trade governed by UK law. If the EU refuses, the UK and US, the regulators of the global financial market, must take whatever steps are needed to prevent systemic risk.

Speaking in advance of publication, Barnabas Reynolds, one of the authors said

> *Understanding the risk presented by the Eurozone, and how to mitigate against it, is vital, so that our negotiators can chart a safe course to a new relationship with the EU that protects savers and investors. This key point changes the dynamics of the current trade dialogue.*

Reynolds adds that the fundamental problem exists that the Eurozone does not manage the risk it creates:

> *There has been an attempt to create an EU-wide currency as if member states were in full control of their currencies, leaving their debt without proper sovereign-state underwriting. The UK has so far played a critical role in shielding investors here – and in the global financial market - from the systemic risk that this Eurozone structure creates. The best solution for everyone is an outcomes-based, predictable, "Enhanced Equivalence" agreement. The UK could then continue to mitigate this risk as it does now, but from the outside.*

Welcoming the publication, Politeia's Director, Sheila Lawlor, says:

> *The Prime Minister has made clear that EU law in this country will end with the transition. This analysis highlights the importance of that happening for Britain's financial services, the worrying picture of rules flouted and unimaginable debt by the Eurozone should be a wake-up signal for the whole sector.*

Dr Lawlor adds that… *Business should insist on 'UK laws for UK businesses' and support an Enhanced Equivalence trade deal. That would protect the UK, its businesses and savers from potential Eurozone risk in years to come.*

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Managing Euro Risk: Saving Investors from Systemic Risk by Barnabas Reynolds, David Blake and Robert Lyddon will be published by Politeia, 14a Eccleston Street, SW1 W9LT, on Thursday 27th February. Hard copies are available from press@politeia.co.uk.

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