

client alert

EU | BREXIT | FINANCIAL SERVICES

2 FEBRUARY 2017

BREXIT: A CHANGE OF HEART FOR BOTH SIDES ON FINANCIAL SERVICES?

In the immediate aftermath of the Leave vote, the future of financial services in the UK seemed very unsure. Commentators in the UK were pessimistic about the ability of the City to retain its position as a global financial centre outside the EU, and many of the other EU member states were relishing the prospect of attracting banks and other financial institutions back to financial centres on mainland Europe such as Frankfurt, Milan and Paris. But as the UK Parliament debates the legislation to permit the Prime Minister to initiate the process of leaving the EU, there are signs that both sides are beginning to revise their views.

THE EUROPEAN PARLIAMENT'S COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS (ECON)

According to [The Guardian newspaper of 1 February 2017](#), it has seen a leaked copy of a report by Econ entitled 'Impact of the UK withdrawal on Econ areas of competence' dated 13 December last year. Citing the fact that UK based financial services account for 40% of Europe's assets under management, 60% of its capital markets business and more than GBP1.1trillion of loans to other EU member states, Econ warns that 'the exclusion of the main European financial centre from the internal market could have consequences in terms of jobs and growth in the EU. It is in the interest of EU27 and the UK to have an open discussion on this point'. *The Guardian* concludes that Econ considers it critical for the economic health of the remaining member states that the current financial eco-system is not hit in the Brexit negotiations. The Governor of the Bank of England, Mark Carney, has come to a similar conclusion; having previously issued a series of dire predictions about the consequences of Brexit for the UK he recently conceded that he no longer considered Brexit is the biggest domestic risk to Britain's economy, and moreover that 'there are greater short term risks on the continent in the transition than there are in the UK'. It may well be that recent political events in the United States have made all sides less willing to contemplate a shift of financial services away from London and towards New York. Whatever the reasons for the change of attitude, it will come as a relief to UK negotiators who, while publicly professing the belief that the EU would be keen to make a 'good deal' with a post Brexit UK, were privately fearful of a punitive approach.

THECITYUK

TheCityUK is a lobbying group which promotes the UK based financial and related professional services industry. One of its stated aims is to 'sustain and enhance the UK's position in the EU' and it campaigned vociferously in the Referendum for the UK to remain in the EU, warning, for example, that Brexit could put at risk up to 100,000 jobs in financial services by 2020, and reduce the sector's contribution to the UK economy by up to GBP12 billion.

Recently, however, it published a [paper on Brexit and UK-based financial and related professional services](#) and yesterday a [report entitled 'Future UK Trade and Investment Policy: TheCityUK Submission'](#) in which it hails Brexit as 'an unprecedented opportunity to recalibrate the UK's trade and investment policy as an effective tool for maximising the UK's access to key trading partners at all stages of development'. TheCityUK identifies several opportunities arising from Brexit, including new networks of trade and investment agreements, the creation of Sharia-compliant central bank liquidity facilities and FinTech. It calls for 'a bespoke agreement [with the EU on financial services] that delivers mutual market access, transitional arrangements to allow for enough time to implement the new relationship and access to talent'. It emphasises the importance of a regulatory regime that works for the users of financial services in the UK, the EU and globally. It calls for transitional arrangements, but, interestingly, recommends that in the event of none being agreed, the UK 'should offer arrangements to keep EU businesses here, similar to those available to non-EU businesses, thus maintaining London as the principal location for Europe's financial sector'.



Check out our dedicated **Gide / Brexit** LinkedIn page to learn more about the consequences and legal implications of Brexit.

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