STUDY

# European financial services after Brexit

by Thierry Philipponnat

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INSTITUT FRIEDLAND

BUSINESS ENVIRONMENT

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# Summary

**One might be forgiven for thinking that the debate on the future of financial services in Europe after Brexit is only the reflection of a struggle to win business on both sides of the Channel.**

**The reality is somewhat more complex. Beyond the unsurprising confrontation between different economic interests, this debate has several other dimensions that need to be brought together to get a sense of where the European financial services industry is headed.**

Six different layers of economic issues interact and influence each other, making the complete picture not straightforward to fathom:

### At country level

- Competition accross the Channel between large EU 27 cities (Amsterdam, Dublin, Frankfurt, Luxembourg, Milan, Paris...) and London to attract business. London does not want to see business go away and EU 27 large cities are keen to attract the business that will have to leave London because of Brexit;

- Competition within the European Union between EU 27 cities (Amsterdam, Dublin, Frankfurt, Luxembourg, Milan, Paris...) to attract the firms leaving the City of London.

### At firms level

- Competition between private firms offering financial services that see, depending on the position they are in today, Brexit as a threat of losing existing business or as an opportunity to win new business;

- Firms currently based in London looking to protect their interest which, facially, looks similar to the interest of London but includes also the possibility to relocate out of London if and when it becomes a condition not to lose business (with a tactical dimension of City firms that are hiding their game to UK authorities in order to avoid annoying them whilst preparing to relocate if and when it becomes unavoidable).

### At decision-making level

- Economists, business leaders and policy-makers asking themselves whether the EU 27 economy will be able to access the financial services it needs after Brexit, in a context where a significant part of wholesale financial services is provided today to the European economy by London-based firms;

- Financial regulators and supervisors caught between their two traditional, and often difficult to reconcile, missions of overseeing the financial system for the public good and promoting the interest of their home market.

> **"Beyond appearances, each camp is riddled with diverging interests that make the game complex to analyse and its outcome impossible to predict today"**

On the UK side, one can see that the authorities and City of London firms have similar interests only to a limited extent: City firms' interests are linked to their business and not to London as such, knowing that if the two coincide today, it might not be the case tomorrow.

On the EU 27 side, it appears that member states have the same political interest of preserving the construction of the EU project as well as the development of the single market. However, they have diverging national economic interests as they are competing with one another to attract business. We are not facing a conceptually simple situation of "one camp against the other" (UK and City firms against EU 27 countries and continental financial services firms).

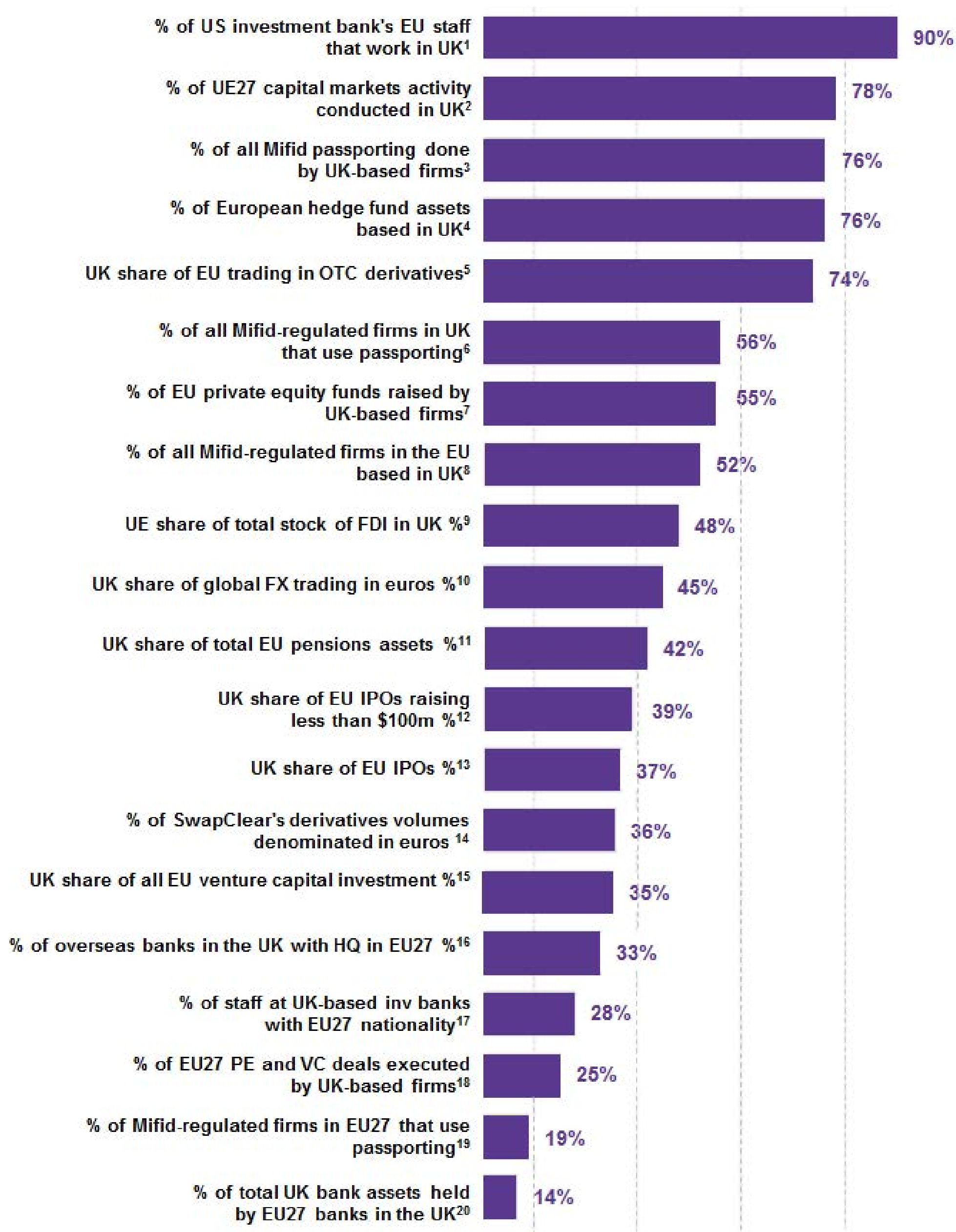
Beyond appearances, each camp is riddled with diverging interests that make the game complex to analyse and its outcome impossible to predict today.

Looking at the situation prevailing in the world of European financial services and regulation, one can spot a number of certainties (I) as well as significant uncertainties (II).

The way policy makers and regulators end up conceiving the world of financial services after Brexit will depend on their ability to tackle moral hazard issues between the UK and the EU as well as a situation of non-cooperative equilibrium between EU 27 member states.

The substance of the actual displacement after Brexit of financial activities away from London and the economic impact of relocation will be linked to the questions of supervisory convergence and common standards setting between EU regulators (III).

## Figure 1 - How interconnected are UK and EU capital markets?




1. Bruegel 2. Oliver Wyman 3. EBA 4. AIMA 5. BIS 6. EBA 7. Invest Europ 8. EBA 9. ONS 10. BIS 11. New Financial 12. New Financial 13. New Financial 14. SwapClear 15. New Financial 16. Bank of England 17. eFinancialCareers 18. Preqin 19. EBA 20. Bank of England

Source: New Financial Report, The potential impact of Brexit on European capital market, April 2016

# 1
# The certainties of the post Brexit financial services landscape

**Brexit will trigger the emergence of a multi-polar financial system in Europe.**

**Financial services will continue flowing towards the European economy.**

Brexit will be anything but negligible for the organisation of European finance. Nonetheless, regardless of the outcome of the coming negotiations, **it will mean neither the end of London as a dominant financial centre nor the interruption of essential financial services to the European economy.** The previous trend towards the concentration of always more financial services providers in London will be reverted and we will witness the emergence of a multi-polar financial system in Europe.

## 1.1 The battle for financial leadership

London's determination to maintain its financial leadership is understandable given the importance of the City of London's business for the UK economy.

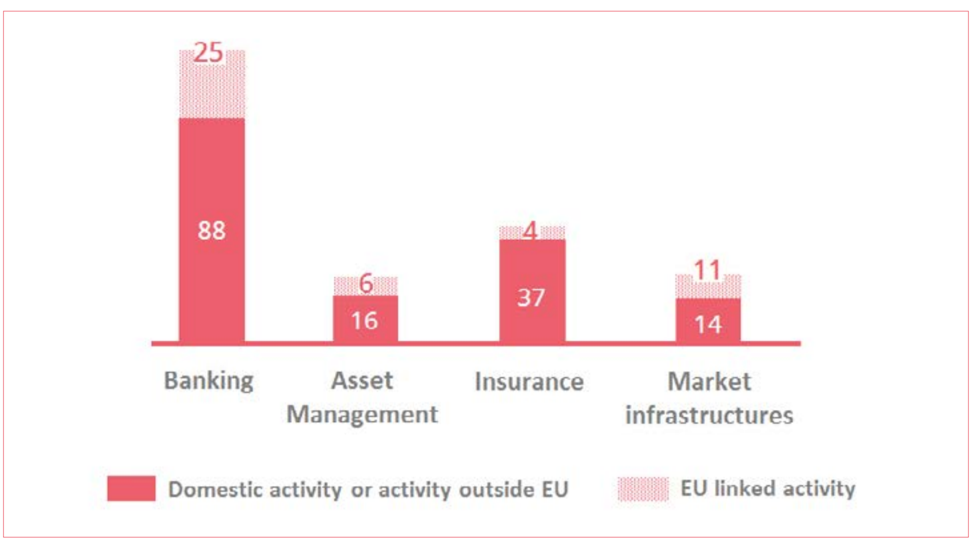
Considering the economic significance of financial services, it is no surprise to see London and the UK fighting to preserve the related business and other cities from EU 27 countries competing to attract it.

**Importance of financial services for the UK economy**

- Circa £ 150 bn. per annum of revenues in financial services (8 % of British GDP)
- £ 225 bn if ancillary services are included (12 % of British GDP)
- Trade surplus in financial and insurance sectors of £ 43.8 billion (around 3 % of UK GDP for the last 10 years)[1]
- £ 71.4bn of tax receipts (11.5 % of total receipts) for HM Treasury in 2016[2]
- Up to 20 % of the revenues of the City of London are related to services sold into the EU single market

1. Source: House of Commons, Financial Services contribution to the economy – March 2017
2. Source: City of London Corporation Research Report, ninth edition – December 2016

**Figure 2 - Breakdown of British financial sector annual income (in euro billions)**




Source: French Senate Finance Committee (data: Oliver Wyman)

## 1.2
## The loss of EU financial passports for London-based firms

The question of whether the loss of the so-called European financial passport for London-based firms is inevitable has been asked since the result of the June 23rd 2016 referendum. Some voices have also expressed the possibility of negotiating a special deal for the City of London to access the EU single market.

A European passport is an authorisation granted by the financial regulator of a member state that is valid throughout the Union. By definition, an authorisation granted after Brexit by a British regulator will not be granted by a regulator of a member state, since the United Kingdom will have left the European Union. Therefore, such an authorisation will not be deemed a European passport.

**336,421** passports held by 5,500 firms based in the UK

- According to the Financial Conduct Authority, 5,500 firms based in the UK rely on 336,421 passports to conduct business in the European single market.
- Over half of the revenues generated by investment banking and market activities in London are done with customers based in the European Union.

**Financial activities based in the UK and solely regulated by the British regulator will lose their passport to access the EU single market from the day of Brexit.**

## 1.3
## Large EU 27 cities are competing to attract business

This is a simple case of competition to win business and the main contenders are: Amsterdam, Dublin, Frankfurt, Luxembourg, Milan and Paris.

The parameters on which competition will operate are:

- the pre-existence of a varied financial ecosystem,
- the local pool of talents required to operate,
- political stability,
- labour law,
- the characteristics of the local tax system,
- the quality of national regulators,
- real estate capacity,
- the international dimension.

European cities competing to attract business from London have all made a similar analysis of the adaptations they have to make to their labour and tax regimes. It is also striking that there are no compelling differences on those points between Frankfurt and Paris, the two biggest financial centres in the list of cities competing.

Among the various parameters that will be considered by firms when they make a decision to relocate from the City of London to the EU, **the existence of a varied financial ecosystem, of a local pool of talents and of a sufficient real estate capacity are likely to be the key deciding factors.**

## 1.4
# Continuity of financial services

Given the normal momentum of the pursuit of their economic interest by financial services firms and the competition deriving from it, one can be assured that European enterprises, EU 27 and UK alike, will be able to access the financial services that they need post Brexit without a disruption of services.

This is true of the different segments of activity to be encountered in financial services:

### Hedging

Hedging services are about derivatives' trading, which is an oligopoly of a dozen among the largest banks of the world. Four EU banks play an essential role in the small world of large derivatives players and those banks will continue to service their customers from their home country after Brexit. It can also be expected that their American, Swiss or British competitors will choose to relocate to cities based in EU 27 member states.

**Provision of hedging services to the European economy after Brexit will therefore not be an issue, notwithstanding the question of the continuity of existing contracts that needs to be addressed carefully.**

### Capital markets funding

For issuers, funding via capital markets comes down to accessing the pool of investors willing to buy their securities (debt or equity). Those investors are based in multiple countries and, therefore, the securities issued are sold internationally.

For corporations tapping the market, the key is not so much where the asset managers are located but whether the investment banking teams servicing them can access them. Market funding means concretely working with the teams of professionals able to analyse, sell and trade their securities.

There is an illusion in speaking about a London, a Frankfurt or a Paris financial market. The reality is that issuers, investment banking professionals and investors are located in different countries.

The key to making financial markets function properly is to ensure that the entire chain from issuers to investors is connected, including the regulatory possibility for intermediaries to operate. The fact that intermediaries are located in one city or another has no impact, as such, on the possibility of corporations to fund themselves or on their cost of funding.

**Brexit will have therefore no consequence on the ability of issuers to access the funding they need through capital markets.**

## Banking

With 8,000 banks counting between them a consolidated balance sheet of euro 45,000 bn. (more than three times European GDP), the European market is, without a doubt, overbanked.

In this context, obtaining the loans they need will not be a problem for EU 27 corporations even if a portion of UK-based banks were not to gain approval to operate from EU 27 regulators and therefore could not lend to them any longer. The question must also be put in perspective with the reality of lending activity by UK-domiciled banks to euro area non-financial firms, which stood at the end of 2016 at 1% (euro 67bn) of total loans extended[1]. The reverse is also true for UK corporations, if they were to lose the possibility to borrow money from a number of EU 27 banks that have been operating in the UK.

Two types of issues may arise for the banks themselves in the wake of Brexit: not getting approval to operate where they need to, or seeing the cost of doing business rise due to new requirements (e.g. a requirement from the European Commission to establish an intermediate EU parent undertaking). However, this will not be a problem for the corporations that need to borrow from banks.

**Competition in an overbanked market will ensure the continuity of the provision of loans from banks to European corporations after Brexit regardless.**

## Insurance

A similar logic applies to the insurance market: there is no lack of insurance companies in Europe and **the normal game of competition will ensure the possibility for the European economy to access the insurance services it needs after Brexit.** There are operational considerations for the insurance companies themselves but not for the economy considered as a whole.

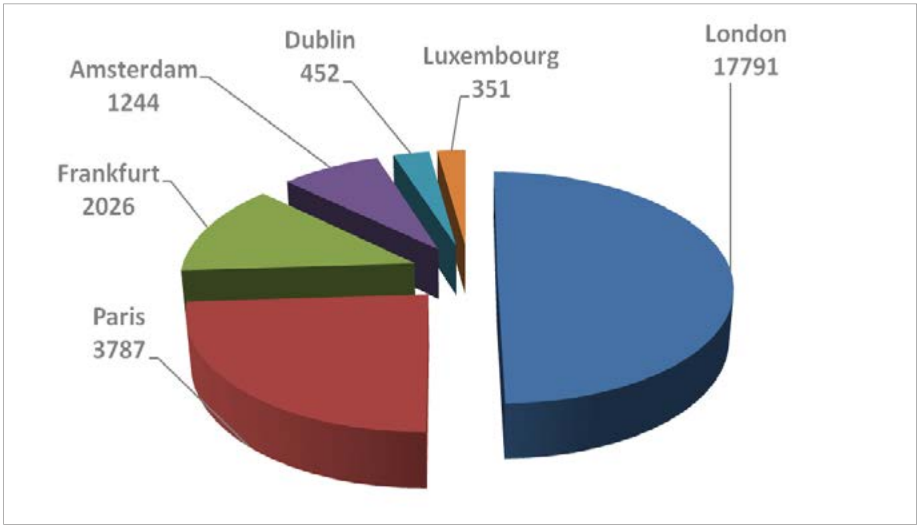
## Asset management

Very much like in the case of banking and insurance services, **the effect of Brexit on the asset management industry will be felt by the players of the industry but it will be of no substantial consequence for customers.** The distribution of asset management products or services solely authorised by UK regulators to the EU market will be impacted, in particular so-called UCITS[2], which represent the bulk of investment fund solutions offered to retail customers in the EU. However, this will not have a significant impact on customers in a world of intense competition and plethora of service providers.



1. Source: European Central Bank, Financial Stability Review, May 2017.
2. Undertakings for Collective Investments in Transferable Securities.

**Figure 3 - Assets under management on 31 December 2015 (in euro billions)**




Source: French Senate Finance Committee

## Percentage of financial assets managed in the EU

| | | |
|---|---|---|
| 37 % | 20 % | 10 % |
| United Kingdom | France | Germany |

# 2

# The uncertainties of the post Brexit financial services landscape

**The post Brexit regulatory framework still has to be found, in particular on the third country equivalence regime and on central clearing.**

The first uncertainty relates to the question of how financial services will be regulated and supervised in the EU and in the UK after Brexit. It leads to the debate around the third country equivalence regime. The second one relates to the issue of clearing of euro-denominated financial products.

## 2.1
## The revision of the third country equivalence regime

In theory, a so-called "third country equivalence regime" could give UK regulated firms access to the EU market. But for a City firm in the business of selling services into the EU, it would be, given its lack of predictability, highly risky to count on it to develop its EU business after Brexit.

EU authorities have now come to the conclusion that the equivalence regime must be revised to ensure the possibility to reflect the evolutions of financial regulation and to fill a number of weaknesses of the current "outcome based" regime.

Three things must be understood about the third country equivalence regime.

### It was never intended to be the main mechanism to regulate financial activity

In a context where European financial regulation was developed and coordinated to be the framework of European financial activity, the third country equivalence regime was meant to enable service providers from non EU countries to enter the EU market, provided the regulation from their home country was deemed equivalent and reciprocity applied.

Brexit creates an entirely new situation as the question is now becoming whether the equivalence regime that was meant to open the EU market for incremental - and relatively marginal - business from third countries can operate as the main tool to regulate the EU market.

### The equivalence regime is based on the principle that competition is good for business

When applied to financial regulation, this principle is a double-edge sword: competition can indeed be good for business as it puts pressure on prices and increases the effectiveness of the system. Yet, financial regulation is also about developing fair markets, managing systemic risk and enhancing financial stability. The right balance must be struck between those sometimes contradictory objectives, which is a delicate exercise.

### Equivalence is based on trust as witnessed by the "Deference principle"

The G20 affirmed in September 2013: "Jurisdictions and regulators should be able to defer to each other when it is justified by the quality of their respective regulatory and enforcement regimes, based on similar outcomes, in a non-discriminatory way, paying due respect to home country regulation regimes". Given the rivalry and the diverging interests between the UK and the EU on financial services, there is little reason to believe that the necessary level of cooperation and trust will prevail between them after Brexit.

When **the same authority is in charge of the two sides of the regulatory equation (free competition vs. financial stability)**, it can be expected that, provided it is reasonably competent, the right balance will be found. But in a world where several authorities are involved, with authority A from a third country willing to win business but not responsible for financial stability, and authority B in the exact opposite situation, one can easily imagine cases where authority A will lower the standards in order to win business for its market without bearing the cost of potential failure. This is a typical case of moral hazard.

Put differently, third country equivalence is an equation with two unknowns: "risk" and "competition". Any attempt to look at it from one side only will inevitably lead to situations that will be undesirable from a systemic and societal standpoint. Third country equivalence is a regime where the legal dimension (free competition) and the economic dimension (systemic risk) of financial regulation have the potential to conflict with one another.

> **Lower standards as a means of attracting business**

From a systemic risk management standpoint (economic approach), races to the bottom between regulators to attract business to their market place are serious threats, in particular for financial stability. A good illustration of this danger is the recent discussions led between European – including UK - regulators on a number of technical points related to the calibration of risk management methodologies for clearing-houses[3].

After long and difficult negotiations, both discussions concluded with the adoption of technical standards that did not make sense from a risk management standpoint. Fed by a regulatory race to the bottom, these two discussions effectively led to a lowering of the standards of resilience for central clearinghouses. The natural tendency of regulatory races to the bottom will be compounded by the lack of trust to be expected between EU and UK regulators after Brexit and by the natural tendency of parties to push asymmetrical situations that benefit them, in particular when large amounts of business are at stake.

Lastly, in order to benefit from the EU equivalence regime, the UK would need to follow the future evolutions of European financial regulation and become a European regulation taker when it used to be a regulation maker. Given the momentum of British political life, this scenario does not seem to be likely, and this makes the use of equivalence as the tool for City of London firms to access the EU single market in the future at best highly unpredictable and therefore not fit for the purpose of developing business.

## 2.2 Clearinghouses' location

Clearing belongs to the category of what specialists call "post-trade" services as it consists of being the counterparty of transactions to ensure they unwind properly after they have been realised. It plays an essential role for the resilience of the financial system as clearinghouses become buyers of the financial products sold by their clearing members and sellers of the products their clearing members have bought.

On derivatives markets, the role of clearinghouses is of particular importance for two main reasons:

- A derivative product is the right or the obligation to buy or sell a financial product or an asset in the future. This characteristic and the related necessity to secure future obligations give clearinghouses a central role for the functioning of derivatives markets.



3. The discussions were about the calculation of portfolio cross-margining benefits and the determination of the period necessary to liquidate the market positions of a clearinghouse in case of a crisis. They ended up with respectively keeping the benefit of portfolio cross-margining above a threshold of 80 % and reducing the period of liquidation to an unrealistic one day.

- The clearing of euro-denominated derivatives products is today highly concentrated in London, where LCH Ltd., owned by the London Stock Exchange, is the dominant player and clears daily the enormous amount of € 827bn of euro-denominated products[4].

The uncertainty surrounding the clearing issue after the UK has left the EU can only be apprehended by considering both its public interest and its private interests dimensions. If clearing stops, financial markets stop. And if a significant clearinghouse defaults, its customers, who are by definition at the heart of the financial system, can find themselves in a very difficult situation leading potentially to their own default.

## "The heart of the financial system "

Clearinghouses have the potential to take the entire system down. This explains why regulators and central banks, whose missions include the stability of the system, cannot afford to let a clearinghouse of significant size default. This is a public good issue and it is the reason why clearing, as an activity, is regulated and supervised.

Conversely, clearing is also a business: it generates very substantial direct and indirect revenues and represents many jobs for the financial industry.

European regulators have to strike the right balance on clearing between a principle of free competition that leads to a continuity of euro-denominated clearing taking place in London, or decide that this activity must take place within the European Union so that they can regulate and supervise it. The latter position could be seen as reflected in the proposal made by the European Commission on 13 June 2017 where "substantially systemic" clearinghouses could be requested to relocate their operations, whereas others may be authorised to operate outside the EU provided local rules are deemed equivalent and they accept EU oversight.

This is a typical moral hazard situation: if the clearing of euro-denominated derivatives products remains in London, the profits from the activity will benefit London but the losses that would arise from an accident would be borne by the European Central Bank and, potentially, by EU member states' tax payers.

Knowing that the total notional amount of outstanding euro-denominated derivatives products cleared by SwapClear/LCH Group stands above euro 87 trillion (over 8 times the size of the GDP of the Eurozone)[5], it must be recognised that European authorities have a point: the potential failure of the LCH Group could have disastrous consequences for the stability of the Eurozone and could have a major destabilising effect for its monetary policy.

This situation would be comparable to what happened in the wake of the financial crisis of 2007-2008 where public budgets had to bear the cost of saving so-called too-big-to-fail banks when the profits of those banks had been previously privatised.

In that context, European authorities consider it their responsibility to supervise the clearing of such a substantial amount of euro-denominated products.

4. Source: LCH Group. www.lch.com
5. At the close the close of business on May 24 2017, the amount of outstanding euro-denominated derivatives products cleared by SwapClear stood at euro 87,289,942,024,364 according to the LCH Group: http://www.lch.com/asset-classes/otc-interest-rate-derivatives/volumes

# Post Brexit financial services landscape

## In short



### What is certain:

CERTAIN

- The City of London does not want to lose out and, conversely, large EU 27 cities want to profit from Brexit
- London-based firms will no longer benefit from EU financial passports from the day of Brexit
- A number of EU 27 large cities are competing with one another to attract business
- The actual access of EU 27 enterprises and economies to the financial services they need post Brexit is not at risk

### What is uncertain:

UNCERTAIN

- The outcome of the third country equivalence regime's revision
- The clearing of euro-denominated products, which is a complex situation caught between free competition arguments and moral hazard issues
- The issue of supervisory convergence and common standard setting between EU national regulators

# 3
# Towards supervisory convergence and common standard setting?

**The level of policy coordination between EU national regulators will determine the landscape for post Brexit financial services in Europe.**

Financial activities representing up to 20 % of the City's business will have to relocate. The important question becomes about the substance of the displacement of financial activities away from London. This issue is highly dependent on the level of supervisory convergence and common standards setting between national regulators in the EU.

## 3.1 What strategy to attract financial firms?

What will be the "substance" of the relocation of financial services firms moving from London to an EU 27 city? What will European national regulators require from those firms? Will a light local implementation with the bulk of the functions still operated from London be considered sufficient or will national authorities require a complete local implementation to grant an authorisation? Which parts of the front office, middle office and back office functions will be required to relocate?

In short, will a simple letter-box located in the EU suffice or will there be an EU-wide requirement for a minimum level of substance of operations?

### "Relocation: it's all about the definition"

This situation is a reflection of diverging economic interests between members of the European Union. To a large extent, it can be compared to the situation prevailing between European countries on tax competition. The likelihood here is that **a number of jurisdictions will be tempted to play the card of attracting business towards them on the basis of lighter requirements with a logic of "better get a little than nothing"**.

The heart of this issue will reside in the balance that the EU can find between its political interest, which as a zone, is globally coherent, and the diverging economic interests of its member states.

The recent initiative of the European Securities Markets Authority (ESMA) to coordinate the action of national regulators on this subject is therefore particularly important. It remains to be seen whether ESMA's criteria will prove sufficient to avoid a competition between EU national regulators, which could end up empting from its content the concept of relocation of City firms to the EU. Nevertheless, it has the merit of raising the question of the convergence of practices across the EU.

## 3.2 Coordination vs competition

The capability of national regulators in the EU to coordinate and require equivalent standards throughout the EU to grant an authorisation will be a key determinant of the actual result of Brexit for financial services.

### "Without coordination: limited relocation"

At one extreme, **in a situation of absence of coordination between national regulators, the relocation process of City firms will be minimal** and London will continue to operate as the financial centre that we know today, virtually unaffected by Brexit.

At the other extreme, where high standards of materiality and close coordination between EU regulators would be the norm, the relocation process will concern a significant proportion of the numerous business lines selling financial services today to the EU single market from the City of London.

## Sharing common rules is necessary but not sufficient

If two countries have a rule in common but enforcement authorities have a diverging interpretation of the rule, it cannot be said that they effectively share this rule. This is probably the area in which the EU single market for financial services has the most to do.

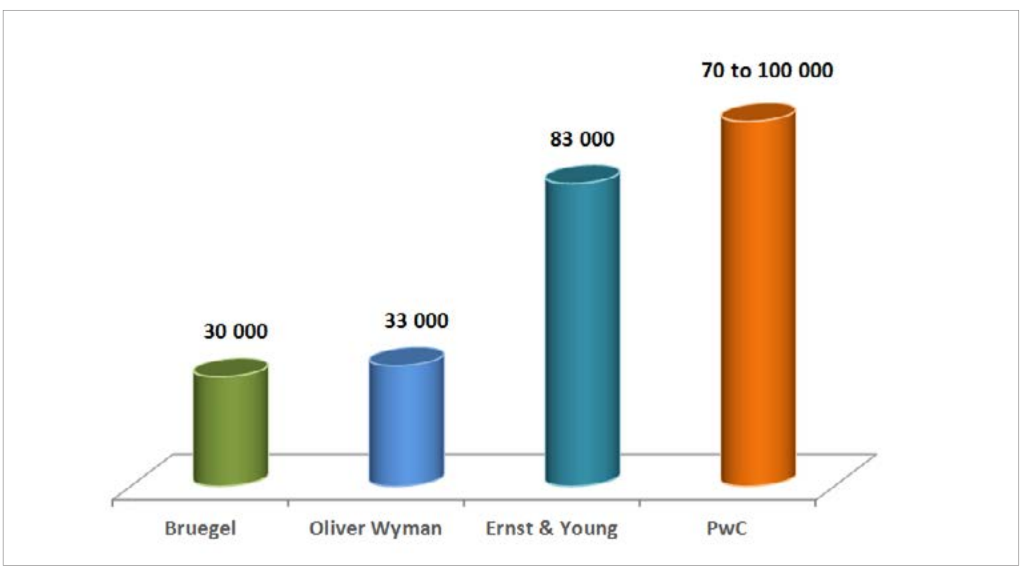
The challenge the EU faces is well explained by game theory: even if the cake generated by the fallout of Brexit for the EU considered as a whole will be bigger if the EU manages to cooperate, non-cooperation might lead to situations where some member states will benefit more when considered individually.

If a situation arises where the zone as a whole benefits 10 and a particular country benefits 1 in a situation of cooperation, whereas the zone benefits 5 and that particular country benefits 2 in a situation of non-cooperation, the particular country has a strong incentive not to cooperate. **All things considered, the question of the effect of Brexit on the organisation of financial services in Europe and in the City of London comes down to the coordination of EU financial regulation and supervision between EU member states.**

**60 %** of total capital markets revenues generated in London are concerned by possible relocation according to the Association for Financial Markets in Europe

(AFME, Implementing Brexit, April 2017)

**Figure 4 - Estimated volume of relocated jobs in the short-term in case of "hard" Brexit (in euro billions)**




Source: French Senate Finance Committee

From the EU's perspective, standards setting coordination and supervisory convergence have been until now a largely technical issue with politically limited consequences. With Brexit, the question acquires an obvious political dimension: building a single market is not only about applying the famous four freedoms (goods, capital, services and labour) the EU is built upon but is, as importantly, about applying the same rules in a consistent manner throughout the Union. Economic coordination is today essential for the EU project and, conversely, lack of coordination potentially a deadly trap.

Beyond its political and its technical dimensions, the subject concerns also the potential relocation of several dozens of thousands of people from London to, most probably, a handful of EU 27 cities. As such, it will have significant human, social and economic consequences on top of determining the future shape of financial services in Europe.

# Conclusion

## Dynamics of Brexit negotiations: the great game

As far as negotiating Brexit is concerned, the City of London and the UK government have an interest in pursuing a strategy that encourages the current state of divergence between the political interest of the European Union and the economic interests of its members. Their best card is to exploit the lack of coordination between EU 27 member states, work on influencing the revision of the equivalence regime in their favour - meaning keeping the regime as close as possible to the status quo - and obtain authorisations from EU regulators willing to grant them with low requirements for local substance.

Conversely, the EU's strategy should concentrate firstly on the revision of the equivalence regime to ensure that what was meant to be a degree of flexibility in addition to the passport regime does not become the heart of the regulatory engine. Secondly, it should focus on the convergence of financial supervision and standards setting to avoid a supervisory race to the bottom between EU 27 member states.

The future of European financial services depends on the game of influence and tactical moves that will take place on both sides until the completion of Brexit. This game could be compared to another one played in High Asia between Russia and Great Britain in the second part of the 19th century. The stakes are equally high and the struggle to be expected equally fierce. The outcome of this 21st century great game will depend on the treatment, by the different parties involved, of the moral hazard situation and of the non-cooperative equilibrium that is underlying the coming negotiations and hiding behind the technical subjects of third country equivalence and supervisory convergence.

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**European financial services after Brexit**

**Directeur de publication et de la rédaction :**
Thierry Philipponnat

**Auteur :**
Thierry Philipponnat

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When the United Kingdom leaves the European Union, the authorisations granted by British regulators to conduct financial services activities will lose their so-called European passport status. The immediate effect will be that UK regulated entities will no longer be able to provide, from London, a large number of services to clients based in the European Union.

Given the importance of London as a financial centre, Brexit will be anything but negligible for the organisation of European finance. It will trigger the reorganisation of entire parts of the European financial services sector and will have an impact on the development of a number of European cities. Brexit will not mean the end of London as a dominant financial centre but, in all likelihood, the previous trend towards the concentration of always more financial services providers in London will be reverted to the benefit of a number of EU 27 cities.

However, understanding the economic drivers of the up-coming negotiations also requires addressing a number of economic and regulatory issues of the post Brexit world:

1. Will EU 27 economies and enterprises be in a position to access the financial services that they need?
2. What will be the regulatory and supervisory framework for financial services in Europe?
3. Will policy coordination prevail within the EU for the benefit of the EU 27, or will competition to attract business lead to dysfunctional situations?

If a number of clear trends can be anticipated today, a new framework still has to be found on the third country equivalence regime and on central clearing. This will determine the landscape for post Brexit European financial services and it will be at the heart of the game of influence between the different parties involved until the United Kingdom leaves the European Union.

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