

Brexit

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UK and the EU

Until 03/2019

'reluctant insider'

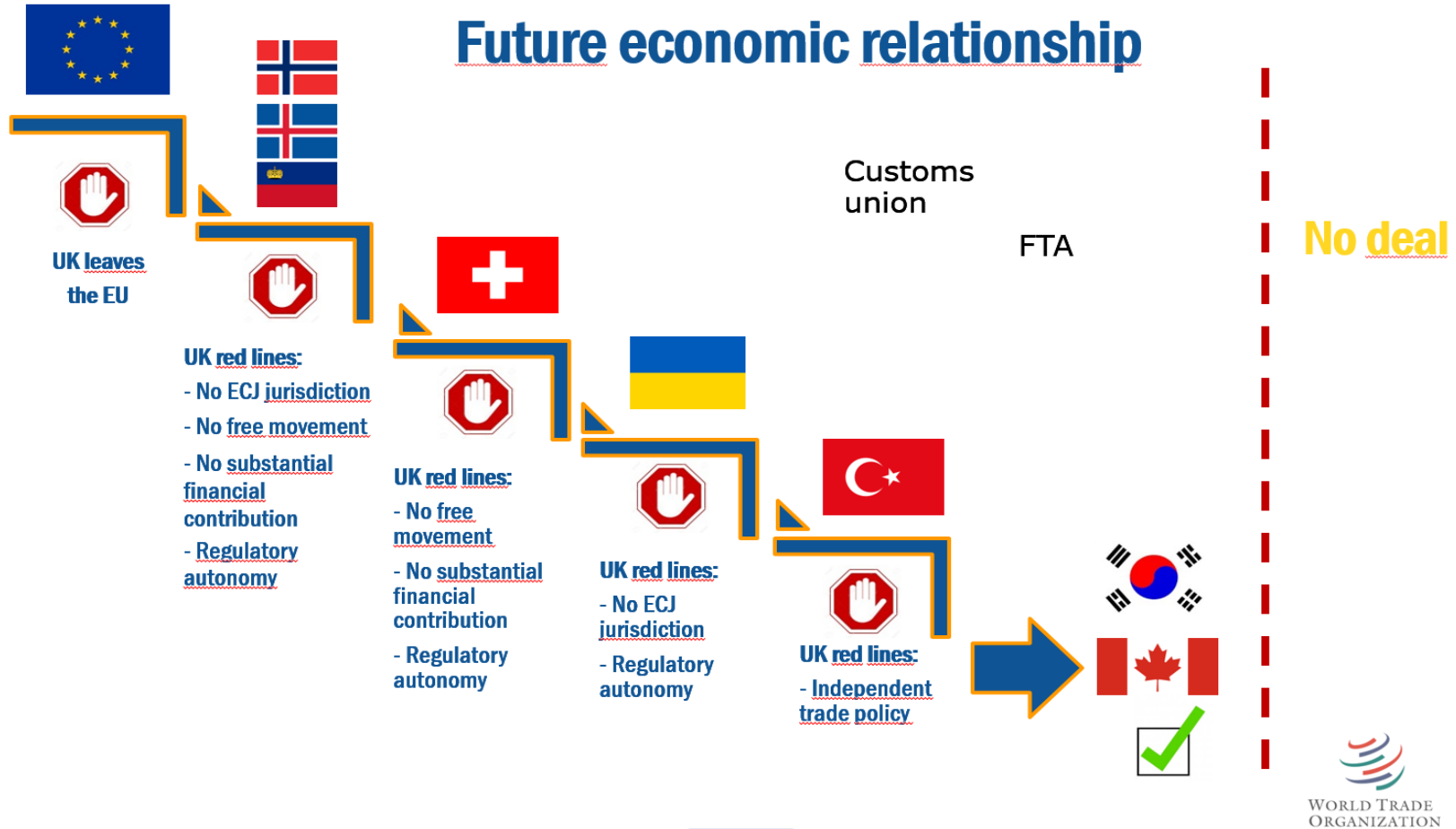
- **Full member** of single market, **with opt-outs** for
 - Monetary union (€)
 - Social Europe
 - Schengen (and Schengen Information System)
 - EU budget contribution
- **JHA opt-in** protocol (Home Affairs)
- Not participating in
 - ESM (EU monetary fund)
 - SSM (Banking Union)
 - SRM & SRF (bank resolution)
 - Fiscal compact

From 01/2021 or before

'unhappy outsider'

- **Great repeal bill** applies, EU rules part of UK law
- **Non-member, with opt-ins** for
 - Security and defence
 - Cooperation on homeland security
 - financial market access ('enhanced equivalence')?
 - Capital movements
- **WA or WTO** rules on market entry for goods (no customs union)
- **Less free movement of persons**
- **1000s** of bilateral arrangements

EU: possible partnerships



Stumbling blocks to WA

- **Irish border:** backstop, this is indefinite no border between 'Irelands'
- **Customs arrangement** and facility to conclude FTAs
- **EU financial markets access:** unclear and unilateral equivalence
 - Only clarified for CCPs and asset management so far
 - What about AIFMD, benchmarks, trading platforms, ...
- Approval by the **European Parliament**, when and how?

Financial centres

- **Multiple factors** influence growth of financial centres:
 1. Critical mass of operations, network effects
 2. Proximity to trade, liberal trade regime
 3. Currency (global role, rating of sovereign)
 4. Regulatory regime
 1. Capital movements
 2. Local financial market regulation and cross-border access (EU passport)
 3. Labour markets (hiring and firing rules)
 4. Tax
 5. Infrastructures and interconnectedness
 6. Abundance of qualified labour
- **London** managed to become the EU's leading financial centre, but the EU's single market was not the only factor
- **Zurich** also remained competitive as non-EU financial centre (2nd European centre in Global FC ranking)

GFCI 2018 – only 2 EU in top 20

Centre	GFCI 24		GFCI 23		Change in	
	Rank	Rating	Rank	Rating	Rank	Rating
New York	1	788	2	793	▲ 1	▼ 5
London	2	786	1	794	▼ 1	▼ 8
Hong Kong	3	783	3	781	0	▲ 2
Singapore	4	769	4	765	0	▲ 4
Shanghai	5	766	6	741	▲ 1	▲ 25
Tokyo	6	746	5	749	▼ 1	▼ 3
Sydney	7	734	9	724	▲ 2	▲ 10
Beijing	8	733	11	721	▲ 3	▲ 12
Zurich	9	732	16	713	▲ 7	▲ 19
Frankfurt	10	730	20	708	▲ 10	▲ 22
Toronto	11	728	7	728	▼ 4	0
Shenzhen	12	726	18	710	▲ 6	▲ 16
Boston	13	725	10	722	▼ 3	▲ 3
San Francisco	14	724	8	726	▼ 6	▼ 2
Dubai	15	722	19	709	▲ 4	▲ 13
Los Angeles	16	721	17	712	▲ 1	▲ 9
Chicago	17	717	14	718	▼ 3	▼ 1
Vancouver	18	709	15	717	▼ 3	▼ 8
Guangzhou	19	708	28	678	▲ 9	▲ 30
Melbourne	20	699	12	720	▼ 8	▼ 21

Importance of EU passport in finance

functions	rules	passport	equivalence
Payments	PSD/e-money/CRD	extensive	<i>not available</i>
Commercial bank	CRD	extensive	limited
Investment bank	CRD/MiFID	extensive	extensive
Trading	CRD/MiFID	extensive	extensive
Insurance	Solvency II	limited	limited
Asset management	CRD/MiFID/UCITS/AIFMD	extensive	extensive
Clearing and settlement	EMIR/CSDR	extensive	extensive
Pension funds	IORP	limited	not available
Rating agents	CRA	extensive	restrictive

Impact on UK finance

Most affected

- Front office
- Wealth management
- Sectors with no or limited equivalence
- Asset management
- Brokerage (end of remote access)
- 'Agency' business
- Rating agencies

Least affected

- Back office
- CCPs, CSDs
- Not harmonised
 - Primary bond issuance
 - Taxation
 - Company law
- 'Proximity' markets
 - Retail banking
 - SME lending
- Bilateral regimes