EVERYTHING YOU EVER WANTED TO KNOW ABOUT BREXIT (BUT DIDN’T HAVE TIME TO READ)

A summary of nearly 50 papers and reports on the potential impact of Brexit on financial services and the City of London

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by Panagiotis Asimakopoulos
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Introduction

There are few issues more challenging for the City of London and the financial services industry than the potential implications of Brexit. Yet there are few things less enticing than the prospect of reading the many dozens of often dense reports that have been written on the subject.

We’ve read more than 70 reports on the potential impact of Brexit and summarised nearly 50 of them, so that you don’t have to. In this report we have tried to boil down the essentials of each report, strip out the jargon and legalese, and cut back the repetition and context that can make navigating many of these reports such hard work.

In the interests of challenging preconceptions and stimulating debate, we have started our summary with the minority of reports that paint a relatively positive or optimistic future for the City of London and financial markets post-Brexit.

This report is broken down into five parts:

1. A 10-point summary of the ‘optimistic’ argument
2. A 10-point summary of the ‘pessimistic’ argument
3. A one sentence summary of every report in our sample
4. A summary of the main points in each of the ‘optimistic’ reports
5. A summary of the main points in each of the ‘neutral / pessimistic’ reports

The report is not intended to be read in one sitting. If you read nothing else, read the 10-point summaries of the optimistic case and the pessimistic case for Brexit.

If you’re interested in the full range of views, read the one sentence summary of each report. And if you’re still going, read the full summaries of each report. We hope that it provides a useful summary of the range in different views and perspectives on the impact of Brexit, and acts as a reference to the vast body of reports that have been written.

There was a wide range in the depth and quality of the reports, and to be clear, these summaries do not represent the views of New Financial. Condensing a 50 or 100 page report into a few bullet points is a challenge, and we apologise to any organisations and authors who feel that their report or views have been misrepresented. There were many reports that we read but chose not to include in this summary, mainly because we felt that they didn’t add to the debate. Please send any queries (and any additional reports) to Paragiotis Asimakopoulos at paragiotis@newfinancial.eu

At New Financial, our main interest in Brexit is on its potential impact on the development of bigger, better and more efficient capital markets in Europe. We are hosting a series of events this year on the different perspectives on Brexit in different countries, and will be publishing more research throughout the year.

For more information on our work, contact:

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Managing director
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Part 1 – a 10-point summary of the positive / optimistic outlook for Brexit

This section summarises the main points made in reports and papers that were broadly positive about the outlook for financial services in the wake of Brexit. These summaries aim to reflect the views of the authors of the individual reports and do not necessarily represent the views of New Financial.

1. Much of the pessimism over the outlook for the City of London has been overdone. For most firms in the UK, passporting is not a significant part of their business model, and even at larger investment banks and asset managers it accounts for only about one fifth of the business they conduct in London. While some firms may have to relocate some staff and operations to the EU, the impact on business volumes and jobs in the UK will be manageable, and far less than claims that hundreds of thousands of jobs will be lost.

2. The most likely settlement is an equivalence-based framework in which UK-based financial institutions and market participants can continue to conduct business in the rest of the EU and vice versa. The UK and the EU can build upon existing equivalence arrangements – and fill in the gaps in sectors where equivalence does not currently apply – to reach a mutually beneficial model based on international standards and a transitional arrangement to minimise any short-term disruption.

3. The UK has a strong hand in the negotiations. London is a strong player in setting the global standards that play an increasingly important role in shaping regulation around the world, and the UK’s expertise is valuable to regulators and policymakers across the EU.

4. At the same time, the rest of the EU needs access to the City of London as much if not more than the City needs access to the rest of the EU. It is unlikely that the EU will cut off its nose to spite its face by preventing companies and investors in the EU27 from accessing the expertise, capital, and liquid markets in the UK.

5. Brexit is a great opportunity to remove onerous EU regulation over which the UK has increasingly little control. EU regulation is based on a one-size-fits-all regime and burdensome rules such as the bonus cap, the potential financial transaction tax, and other regulations are a drag on financial services in the UK, and are often applied to domestic institutions that don’t do any business with the rest of the EU. The potential savings from deregulation could add up to 2% to 3% of the sector’s costs per year.

6. Even within an equivalence framework there is a lot that the UK can do to further improve its competitive advantage. There is plenty of scope for UK policymakers to rewrite some legislation while ensuring market integrity and financial stability. The UK could also reform corporate taxation to make it a more attractive destination, and could even set up a ‘financial freezone’ to attract and retain international business.

7. While the EU and single market membership have played a role in London’s success, it was a successful international financial centre long before the introduction of passporting. Its success is based primarily on the language, location and time-zone, a deep pool of talent, strong rule of law and efficient legal system, flexible labour markets, openness, and regulatory expertise. These advantages will continue on the other side of Brexit. And besides, the single market in financial services is largely illusory.

8. These advantages have combined with technology to create a network effect and the growth of an ecosystem around financial markets. While other financial centres in the EU may poach some business from London at the margin, none of them will be able to replicate this ecosystem in any significant way.

9. While London has benefited from free movement of people, it will continue to act as a magnet for non-EU nationals. EU nationals currently working in the industry in the UK will be allowed to stay, and it is likely that the UK will set up a liberal work permit scheme for skilled workers from the EU.

10. Brexit opens up new horizons: London can turn to and partner with emerging markets such as China and Brazil and other non-EU markets. New agreements will boost jobs, taxes, and the financial services surplus that will more than offset any impact from leaving the EU. These opportunities include Islamic finance, masala bonds, renmimbi trading, green finance and fintech.
Sector specific opportunities

Here are some specific ways in which different sectors could benefit from Brexit from the reports and papers that were broadly positive about the outlook for financial services. This summary aims to reflect the views of the authors of the relevant reports and do not necessarily represent the views of New Financial.

Banking and investment banking

- Brexit is a great opportunity for the banking industry. The UK will be free from some of the most burdensome EU regulation and will be able to attract more international business. It also represents an opportunity to introduce much-needed reform and more competition into the banking sector. Even within an equivalence-based framework, banking in the UK could extend its competitive advantage over the EU.
- The City is unlikely to lose its share in foreign exchange and securities trading because of its incumbent advantages. Any attempt to force trading or clearing to relocate to the EU would fragment liquidity and raise costs for EU companies and investors.

Asset management

- Asset managers will continue to thrive in the UK. More than 40% of all assets under management in the EU (and roughly 80% of all hedge funds) are managed in the UK, and as little as 10% of assets under management would be directly affected by the loss of passporting.
- Reworking existing legislation and perhaps introducing a domestic or non-EU regulatory regime for domestically-focused asset management firms could make the industry even more competitive relative to the rest of the EU.
- Most asset management firms that need to already have subsidiaries in EU countries such as Ireland and Luxembourg to distribute their funds to EU investors and for many of them Brexit would be little more than an administrative headache. Besides, the internal market is far from complete when it comes to the cross-border distribution of funds so the impact of leaving it will be minimal.

Insurance

- The insurance and pension industry will hardly be affected by the loss of passporting rights as there is no single market in these sectors. More than 80% of UK insurers operate in the EU, but they do so mainly via subsidiaries rather than branches and less than 30% of insurance exports goes to the EU.

Market infrastructure

- The EU does not have the power to take control of the euro-denominated business. London’s position in clearing remained prominent even when the UK did not join the Eurozone. Especially, in foreign exchange, equity and commodity markets the impact of Brexit will be minimal as business does not depend on access to EU clearing.

Financial centres

- London will not lose its crown and won’t cease to be Europe’s financial centre. Given its attractive location, rule of law, language, size and liquidity of markets, the depth of skills and infrastructure, and the tendency for financial services to form clusters, London will remain an attractive place to set up headquarters and conduct business.
- London is the most competitive city in the world for financial services, while its closest EU rivals rank 15th and 19th. In addition, the UK has the best scores in economic freedom and is positioned in the top 10 globally. And the UK surpasses by far its European counterparts when it comes to the rule of law, the strength of the legal system as well as the openness of markets.
- These advantages, along with the highly developed financial ecosystem and supporting services cannot be replicated elsewhere. Even if some business moves away the impact will be manageable and in the longer-term London can partner with Hong Kong, Mumbai and Singapore, with whom there is already a strong historical and cultural relationship.
- London can improve further its position as a financial and can compete with other global centres by creating a ‘financial freezezone’, which will be deregulated having its own laws and regulations, an independent judicial system and free movement of people to attract the best talent from all over the world.
Part 2 – a 10-point summary of the negative / pessimistic outlook for Brexit

This section summarises the main points made in reports and papers that were broadly neutral or negative about the outlook for financial services in the wake of Brexit. These summaries aim to reflect the views of the authors of the relevant reports and do not necessarily represent the views of New Financial.

1. None of the solutions put forward as an alternative to existing membership of the single market provide anything like the same level of access or certainty which many UK-based firms currently use to access markets and clients in the EU (and vice versa) and none of the alternatives would realistically be concluded within two years from triggering Article 50. This means that the UK government and the industry will have to invest a huge amount of time developing a ‘next best’ solution.

2. Whatever settlement is agreed, the UK will have to negotiate a transitional arrangement to minimise the short-term disruption to the industry. However, even with a transitional arrangement in place, many firms will have to put contingency plans into action to ensure that they have continued access to the EU regardless of the final agreement.

3. Losing access to the single market means that many UK-based firms will need to set up subsidiaries with their own capital and risk management, which would entail substantial costs and disruption to them and their clients. Some operation and jobs will move to the EU as well as to the US. This will cost many thousands of jobs, along with lost tax revenues, spending power and economic output.

4. The UK would lose influence over the future direction of the capital markets on its doorstep, which represent the biggest market for many firms based in the UK. Without a seat at the table it would lose influence over future EU regulation (but may have to implement it).

5. Continued membership of the single market via the EEA was never politically achievable nor desirable, as the UK would have to accept all four freedoms of movement (goods, workers, services, capital) and contribute to the EU budget without having a say on existing or future legislation.

6. Equivalence is not a panacea; it does not grant full access to the single market. It requires a degree of compliance with existing and future legislation with minimal input, is not available across all EU financial regulation, and can be withdrawn if and when EU and UK regulations diverge over time. Proposals for some form of enhanced equivalence based on global standards are welcome, but are likely to take many years to agree.

7. Swiss-type and other types of FTAs involve a series of bilateral agreements in which negotiations can take many years. There is no precedent where access similar to the one provided by passporting has been granted and requirements for financial institutions are usually strict. If a bilateral agreement is not achieved, WTO rules will apply and EU’s services commitments with WTO are not generous.

8. Wholesale deregulation of UK markets is not a realistic prospect: UK firms will still need to comply with EU regulations when they transact in the EU; most regulation will stay in place as the UK has played a huge role in formulating EU financial services regulation; many rules stem from international bodies such as the FSB and G20; and in many cases UK authorities have been stricter than their EU counterparts. There is a fundamental trade-off between deregulation and equivalence: London can either try to enhance its position as an international financial centre by deregulating in order to increase its share of non-EU business, or remain equivalent to EU rules to retain some access to the single market.

9. UK financial firms will not be protected against discrimination from other member states by EU institutions. By leaving the EU, the UK authorities and UK-based firms will also lose some of their international bargaining power in international forums such as the G20 and FSB.

10. The industry could lose access to EU markets just as the EU economy begins to recover and the EU27 push ahead with closer integration and capital markets union. At the same time, the UK would lose automatic access to the large pool of EU talent in financial services; EU nationals represent as much as a quarter of staff in sectors such as private equity, hedge funds and investment banking.
Sector specific challenges

Here are some specific challenges facing different sectors as a result of Brexit from the reports and papers that were broadly neutral or negative about the outlook for financial services. This summary aims to reflect the views of the authors of the relevant reports and do not necessarily represent the views of New Financial.

Banking and investment banking:
- Without passporting rights UK-based banks will probably have to set up separately capitalised subsidiaries with their own governance, risk management and regulatory requirements. Banks and investment banks would be hit hardest, raising costs for them and their customers. As much as 41% of banking and investment services exports from the UK go to the EU compared to only 25% to the US. A fifth of UK banks’ annual revenues relies on passporting as do 15% of the US investment banks’ revenues.
- Banking and investment banking services are not fully covered by third-country equivalence regime. For example, lending and deposit-taking are not included. Unless there is a bespoke agreement, firms will see significant disruption.
- Trading faces similar challenges: MiFid II sets strict rules for third countries, while the third country regime is not available for FX trading and other sectors of the industry.
- While the initial impact of job moves and relocation could be limited, over time it is likely that national regulators in the EU will require firms to increase their local presence.

Asset management:
- Asset managers that use passports will probably have to disentangle their operations, split their capital base, and set up separately capitalised and licensed operations with sufficient management presence across the EU. While the physical impact could be limited – most asset management firms already have operations in the EU27 to distribute their funds – the administrative impact on everything from rewording existing contracts to handling future RFPs is likely to be expensive and time-consuming.

Market infrastructure:
- Businesses with more mobile activity may move to continental Europe, such as the euro-denominated business derivatives trading in which London has the biggest share (roughly three quarters of EU activity).
- The biggest hit could be in market infrastructure, which is not covered by existing third country regimes. Access for wholesale payments could be lost and UK providers may not be able to offer services to the EU. The clearing and settlement of euro-denominated derivatives as well as EU corporate and government bonds could easily move elsewhere in the EU or internationally. The ECB will probably try again to take more control of euro-denominated clearing and settlement and the UK will lose the existing protection of EU institutions.
- It is likely that the direct impact of clearing houses potentially moving to the continent will be small when it comes to lost revenue and jobs, but the impact on costs for users (through higher capital and margin requirements) could be huge. And the longer-term impact could be severe if the rest of the ecosystem in London migrates over time.

Financial centres:
- Arguments that London will retain its dominant position as a global financial centre due to its natural and historic advantages are overly optimistic. Financial institutions will have to choose between continuing to base the bulk of their EU operations in the UK and continued seamless access to EU markets. Banking and finance is a question of scale, and any fragmentations of operations, capital, liquidity or regulation will increase costs and complexity for firms and their customers.
- While no single rival financial centre in Europe is in a position to displace London as a financial centre, many of them are actively pitching to firms in London to relocate a part of their business. Many of these cities score highly in rankings of quality of life, in cultural vibrancy, infrastructure, English proficiency, independent judiciary and strong rule of law.
- If each of Amsterdam, Dublin, Frankfurt, Luxembourg and Paris took a few percent of business from London it could quickly add up and make a big dent in London’s dominance. Other countries such as Poland, Portugal and the Baltic states are actively pitching for firms to relocate their IT and support services. Some EU-owned firms with significant operations in London could face political pressure to repatriate at least some of their UK operations.
Part 3 – a single sentence summary of each report

This section summarises each report and paper on the implication of Brexit for the City of London / financial services industry in one sentence. The reports are presented in reverse date order, with the most recent first, and we have started with reports that are broadly optimistic about the outlook for the industry:

**a) Broadly positive / optimistic reports**

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Summary of report</th>
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<tbody>
<tr>
<td>TheCityUK</td>
<td>Future UK trade and investment policy: TheCityUK submission</td>
</tr>
<tr>
<td>January 2017</td>
<td>Brexit is an unrivalled opportunity to redesign the UK’s trade and investment policy and put a framework in place which strengthens existing links with non-EU countries, connects the UK with fast-growing developing markets, and focuses on free trade in financial services.</td>
</tr>
<tr>
<td>Policy Exchange</td>
<td>Clean Brexit</td>
</tr>
<tr>
<td>January 2017</td>
<td>The EU single market is not equally important to all firms or sectors in financial services, and Brexit will enable the City of London to maintain most of its existing advantages and to increase its global business by rewriting damaging EU rules over which the UK has diminishing influence.</td>
</tr>
<tr>
<td>Financial Services Negotiation Forum</td>
<td>Examining regulatory equivalence</td>
</tr>
<tr>
<td>January 2017</td>
<td>The UK and the EU can reach a mutually beneficial and bespoke model which addresses the main challenges to existing rules on equivalence, namely the risk of the politicisation of equivalence decisions, and the lack of clear benchmarks for third countries.</td>
</tr>
<tr>
<td>Financial Services Negotiation Forum</td>
<td>Euro-clearing and Brexit</td>
</tr>
<tr>
<td>January 2017</td>
<td>Any attempt by the ECB or European Commission to force the relocation of euro-clearing could have damaging political and economic consequence for the Eurozone and EU27, and a more likely settlement is one of enhanced cooperation and supervisory collaboration.</td>
</tr>
<tr>
<td>CSEF</td>
<td>Getting Brussels Right: “best practice” for City firms in a post-referendum EU</td>
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<tr>
<td>December 2016</td>
<td>The City of London can maximise the opportunity post-Brexit by increasing representation in Brussels, networking with EU staff and building alliances with EU27 countries, educating UK ministers and Commission officials, being humble, and recruiting more people with EU expertise.</td>
</tr>
<tr>
<td>Shearman &amp; Sterling (by Barnabas Reynolds)</td>
<td>A Blueprint for Brexit</td>
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<tr>
<td>November 2016</td>
<td>The financial sector can thrive outside the EU by developing further its competitive advantage and by removing burdensome and unnecessary regulatory requirements, following either an expanded EU equivalence model or a standalone global financial centre model.</td>
</tr>
<tr>
<td>Leave means leave</td>
<td>Why our financial services need a clean Brexit</td>
</tr>
<tr>
<td>October 2016</td>
<td>The City of London will thrive as it will turn to non-EU markets (currently 60% of exports), repeal EU regulations resulting in 3% annual cost savings, and exit a single market that is not working - while retaining advantages such as depth of skills, law, and infrastructure.</td>
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<tr>
<td>The Heritage Foundation</td>
<td>Brexit could lift all boats, if the EU will let it</td>
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<tr>
<td>October 2016</td>
<td>The City of London will continue to thrive on the other side of Brexit because international investors have confidence in the City’s many advantages and the rule of law: it is not an accident that most international financial contracts are drawn up under English law.</td>
</tr>
<tr>
<td>Shearman &amp; Sterling</td>
<td>Brexit: a financial free zone within the City</td>
</tr>
<tr>
<td>September 2016</td>
<td>The UK can thrive on the other side of Brexit by creating a financial ‘freezone’ in London, which will have its own territory, a separate and deregulated framework, an independent judicial system, and continued free movement of people.</td>
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<tr>
<td>Organisation</td>
<td>Summary of report</td>
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<tr>
<td>Legatum Institute</td>
<td>Brexit and financial services</td>
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<tr>
<td>September 2016</td>
<td>There are six myths around Brexit: 1) that the single market works 2) that passports are the only way to conduct business 3) that jobs will leave London 4) that thousands of firms rely on passing 5) that the EU will deny market access 6) and that workers will want to leave.</td>
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<tr>
<td>Centre for Policy Studies</td>
<td>The City boys are here to stay</td>
</tr>
<tr>
<td>September 2016</td>
<td>Brexit is a great opportunity for the City; the single market is imperfect and UK will get rid of burdensome regulations, while the City has many natural advantages such as tax competitiveness and will be able to focus more on non-EU markets which already accounts for 60% of total financial sector exports.</td>
</tr>
<tr>
<td>Policy Network</td>
<td>The impact of Brexit on the City and the British economic model</td>
</tr>
<tr>
<td>July 2016</td>
<td>The City of London may be able to reinvent itself internationally, but losing passporting, the potential benefits of capital markets union, and access to a deep pool of talent will involve significant costs and reduce the influence of UK regulators and policymakers on the international stage.</td>
</tr>
<tr>
<td>Adam Smith Institute</td>
<td>Rebooting Britain: Making the most of Brexit</td>
</tr>
<tr>
<td>July 2016</td>
<td>Brexit is a great opportunity for the UK to get rid of burdensome EU regulation, deregulate the financial services sector, and introduce much-needed competition in the banking industry.</td>
</tr>
<tr>
<td>Capital Economics (for Woodford Investment Management)</td>
<td>The economic impact of Brexit</td>
</tr>
<tr>
<td>February 2016</td>
<td>A short-term threat but a long-term opportunity: Brexit does not necessarily come with deregulation and without passporting EU financial services exports could fall by half, but London can offset these losses by retaining its current advantages and by doing more business with faster-growing emerging markets.</td>
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b) Broadly neutral / pessimistic reports

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<thead>
<tr>
<th>Organisation</th>
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<tbody>
<tr>
<td>Bruegel</td>
<td>Making the best of Brexit for the EU27 financial system</td>
</tr>
<tr>
<td>February 2017</td>
<td>Brexit will cause significant migration of firms and jobs in wholesale banking and finance from the UK to the rest of the EU, and presents a great opportunity for the remaining EU27 to further integrate and develop their financial markets, and to reduce their reliance on both the City of London and on bank lending.</td>
</tr>
<tr>
<td>International Regulatory Strategy Group</td>
<td>The EU’s third country regimes and alternatives to passporting</td>
</tr>
<tr>
<td>January 2017</td>
<td>Existing third country regimes or local laws are not sufficient to provide continued access to EU markets because of limited coverage, uncertainty, and a lack of clarity and safeguards. It will be crucial to reach a ‘mutual access’ agreement including transitional arrangements to minimize unnecessary relocation or restructuring of firms.</td>
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<tr>
<td>The CBI</td>
<td>Making a success of Brexit: A whole-economy view of the UK-EU negotiations</td>
</tr>
<tr>
<td>December 2016</td>
<td>Existing rules on equivalence are not sufficient: they are not available in all sectors and can be removed at any time, while the UK must ensure it maintains its reputation, access to the pool of talent, and achieves a transitional arrangement to avoid disruption.</td>
</tr>
<tr>
<td>House of Lords</td>
<td>Brexit: financial services</td>
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<tr>
<td>December 2016</td>
<td>There could be substantial negative effects as the least disruptive option (continued membership of the single market) is not politically achievable and all other options, including equivalence, do not compensate the loss of passporting, which will have a varying impact on different sectors.</td>
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<tr>
<td>Organisation</td>
<td>Summary of report</td>
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<tr>
<td>FCA November 2016</td>
<td>Written evidence for the House of Lords EU subcommittee on financial affairs. Everything depends on the precise nature of the future relationship with the EU, but Brexit inevitably poses certain risks to competition, consumer protection and the smooth functioning of financial markets.</td>
</tr>
<tr>
<td>TheCityUK (report by Oliver Wyman) October 2016</td>
<td>The impact of the UK's exit from the EU on the UK-based financial services sector. Under an EEA-scenario revenues from EU business will decline by 2%, 4000 jobs will be lost and tax revenues would decrease by £500m per year, while under WTO rules, nearly 50% of revenue could be lost, 35,000 jobs could go as well as £5bn in tax revenues per year.</td>
</tr>
<tr>
<td>Open Europe October 2016</td>
<td>How to ensure UK and European financial services continue to thrive after Brexit. The success of the City of London is not based solely on full single market access, but losing passporting will significantly hurt some sectors such as banking, while equivalence is political, static, covers only banks and reinsurance and granting it requires a long process.</td>
</tr>
<tr>
<td>Peterson Institute for International Economics September 2016</td>
<td>Brexit: An impossibly complex task for the UK’s new trade negotiators? The fallback position of the WTO framework that would apply to the UK in the event of no agreement being reached are nothing like as generous for trade - and particularly financial services - as the existing single market model.</td>
</tr>
<tr>
<td>Open Europe (by Andrew Tyrie MP) September 2016</td>
<td>Giving meaning to Brexit. Access to EU markets based on EEA-status or equivalence will not work for the UK because it would become a ‘rule-taker’ with little say on the future of regulation, while any hybrid deal will not enable the level of access to EU markets enjoyed by the City today.</td>
</tr>
<tr>
<td>Bruegel September 2016</td>
<td>The City will decline and we will be the poorer for it. UK institutions may face a less accommodative stance from EU and US institutions and regulators when their single market leverage is gone.</td>
</tr>
<tr>
<td>Centre for European Policy Studies September 2016</td>
<td>EU financial market access after Brexit. The City has much to lose: equivalence grants limited access but is not available across all regulations and is subject to repeal at short notice, while other bespoke agreements would take years and may need approval from all member states.</td>
</tr>
<tr>
<td>Bruegel September 2016</td>
<td>Written evidence for the House of Lords EU subcommittee on financial affairs. The UK may seek to attract extra global business with light-touch regulation, but in doing so could lose access to EU markets: a more likely option would be to remain equivalent to EU legislation, retaining most of its existing EU-related and global business.</td>
</tr>
<tr>
<td>Centre for European Policy Studies September 2016</td>
<td>The economics of Brexit: it’s not about the internal market. The City of London can survive Brexit due to its many other advantages an international financial centre, but it is unlikely to maintain its previous vigour.</td>
</tr>
<tr>
<td>New Financial September 2016</td>
<td>What do EU capital markets look like post-Brexit? Brexit will cause significant disruption to market participants and their clients because of the high concentration of EU activity conducted in the UK, but at the same time it presents a nudge and an opportunity for EU27 to develop their own capital markets further.</td>
</tr>
<tr>
<td>House of Commons Library August 2016</td>
<td>Brexit: impact across policy areas: Brexit &amp; financial services. Equivalence is a burdensome process, but the UK some bargaining power and it will remain attractive due to its infrastructure, location, depth of skills, size and liquidity of its markets.</td>
</tr>
<tr>
<td>Institute for Fiscal Studies August 2016</td>
<td>The EU Single Market: the value of membership versus access to the UK. All options other than EEA membership, in which the UK will have no influence on regulations, will mean limited single market access and result in a smaller financial sector, while the global nature of most regulation will limit the scope for wholesale deregulation.</td>
</tr>
<tr>
<td>University of Oxford and Norton Rose Fullbright July 2016</td>
<td>Brexit and financial services: 10 things you should know. Under a total exit model, firms should consider whether the EU legislation they are subject to has extraterritorial provisions, and they should also put their commercial and outsourcing agreements under the spotlight.</td>
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<tr>
<td>Organisation</td>
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<tr>
<td>Congressional Research Service</td>
<td>Economic implications of a United Kingdom exit from the European Union. All options other than the EEA membership would be difficult to achieve and result to higher costs with some business moving to continental Europe.</td>
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<tr>
<td>June 2016</td>
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<tr>
<td>Bruegel</td>
<td>Lost passports: a guide to the Brexit fallout for the City of London. Losing passporting will mean some business moving to the rest of the EU; the City will most likely lose its dominant position in the clearing and trading of euro-denominated derivatives.</td>
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<tr>
<td>June 2016</td>
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<tr>
<td>Global Counsel</td>
<td>Brexit: the impact on the UK and the EU. UK will retain its strong competitive edge in global financial markets, but it will lose significant amounts of business such as euro-denominated clearing and trading, while a future agreement based on equivalence will be costly and incomplete.</td>
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<tr>
<td>June 2016</td>
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<tr>
<td>New Financial</td>
<td>Beyond Brexit: what happens next for European capital markets? The most likely outcome is a complete separation between the UK and EU markets with some business and talent moving away from London (although perhaps not as much as some of the more dire warnings) – but whatever the outcome, the UK will lose influence over the future tone and direction of EU regulation that in many cases it will have to adopt.</td>
</tr>
<tr>
<td>June 2016</td>
<td></td>
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<tr>
<td>Centre for Economic Performance, LSE</td>
<td>Brexit 2016: Policy analysis from the Centre for Economic Performance. The loss of passporting will have a negative impact and the UK will lose the euro-denominated clearing business because the EU will be unlikely to grant special bilateral terms so that Frankfurt and Paris can grab part of London’s share.</td>
</tr>
<tr>
<td>June 2016</td>
<td></td>
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<tr>
<td>PwC</td>
<td>Leaving the EU: Implications for the UK financial services sector. Without single market membership via the EEA or equivalence, the value added to the economy will decline by up to 9.5% by 2020, the sector’s growth will be 3% to 6% lower and it will lose 70,000 to 100,000 jobs, and by 2030 more companies will relocate activities.</td>
</tr>
<tr>
<td>April 2016</td>
<td></td>
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<tr>
<td>OECD</td>
<td>The economic consequences of Brexit: a taxing decision. Foreign direct investment in the UK will decrease, financial services trade costs will increase by as much as 20% while regulatory and compliance costs will rise – and by the time a free trade agreement is agreed, overall trade volumes could be 6% lower.</td>
</tr>
<tr>
<td>April 2016</td>
<td></td>
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<tr>
<td>Grant Thornton</td>
<td>The impact of Brexit on the financial services sector. London’s position as a dominant financial centre will not be challenged immediately, but over the long-term, euro-related activities may move and the loss of passporting may lead to a loss of around £10 billion in financial services exports.</td>
</tr>
<tr>
<td>April 2016</td>
<td></td>
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<tr>
<td>Centre for European Reform</td>
<td>The economic consequences of leaving the EU. The City will not collapse, but some activity will be lost and the costs will likely outweigh the benefits of more sovereignty over regulation, and London will lose its formal legal mechanisms to defend itself against attempts by the ECB to repatriate euro-related activity.</td>
</tr>
<tr>
<td>April 2016</td>
<td></td>
</tr>
<tr>
<td>AFME (with Clifford Chance)</td>
<td>The UK referendum: challenges for Europe's capital markets. It will be difficult to sustain the single market as it operates today with any future arrangement: equivalence is a political decision, costly and static, and not available across all EU laws, while the UK would have significantly less influence on shaping future regulation.</td>
</tr>
<tr>
<td>March 2016</td>
<td></td>
</tr>
<tr>
<td>Allen &amp; Overy</td>
<td>What impact will Brexit have on regulated firms established in the UK, Europe &amp; third country jurisdictions? The size of the Brexit effect depends on whether there will be a transitional agreement, the precise details of the future relationship with the EU, and how much access will UK firms will have to EU clients.</td>
</tr>
<tr>
<td>February 2016</td>
<td></td>
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<tr>
<td>FTI Consulting</td>
<td>Briefing: the impact of Brexit on financial services. The size of the negative effect will depend on the precise nature of the new relationship, but it is worth considering that in a bilateral deal the negotiation dynamics will be different than in the Swiss case since Switzerland was looking to access EU markets rather than withdraw from them.</td>
</tr>
<tr>
<td>August 2015</td>
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Part 4 – the main points of each report: broadly positive / optimistic reports

This section summarises the main three to five points in each report paper on the implication of Brexit for the City of London / financial services industry. The reports are presented in reverse date order, with the most recent first, starting with reports that are broadly positive / optimistic about the outlook:

<table>
<thead>
<tr>
<th>Future UK trade and investment policy: TheCityUK submission</th>
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<tbody>
<tr>
<td>TheCityUK – January 2017</td>
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<tr>
<td>Brexit is an unrivalled opportunity to design from scratch the UK’s trade and investment policy and put a framework in place which strengthens the existing links with non-EU countries, connects the UK with rapidly growing developing markets, and focuses on free trade in services and financial services.</td>
</tr>
<tr>
<td>• The current UK trade and investment policy has been pooled within the EU framework which is outdated, ignoring the changing dynamics in economic power and global trade. It is a common view that 90% of global economic growth in the next 10 to 15 years is expected outside Europe.</td>
</tr>
<tr>
<td>• No future trade or investment relationship should be agreed without taking into account the interests of financial services: the UK is the world’s largest net exporter of financial services and recipient of foreign investment and the sector’s exports account for more than half the surplus of all UK exporting industries.</td>
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<tr>
<td>• UK policymakers should be innovative and avoid long negotiation periods to reach FTAs with individual trading partners. They should follow a sectoral approach and regional/bilateral preferential agreements as well as proceed to further liberalisation of the economy.</td>
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<tr>
<td>• Policymakers need to achieve regulatory cooperation and coherence between the UK and other countries and should use Brexit to promote the application of international standards.</td>
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<th>Clean Brexit</th>
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<tr>
<td>Policy Exchange - January 2017</td>
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<tr>
<td>The EU single market is not equally important to all firms or sectors in financial services, and Brexit will enable the City of London to maintain most of its existing advantages and to increase its global business by rewriting damaging EU rules over which the UK has diminishing influence.</td>
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<tr>
<td>• London will remain the dominant financial centre of Europe. No other city has the infrastructure and combination of skills or knowledge. London is competing with New York and Singapore, not Paris or Frankfurt.</td>
</tr>
<tr>
<td>• Remaining in the EU poses serious challenges for the financial services industry: the previous government’s own research warned of a declining ability of the UK to influence the regulatory agenda within the EU, as well as the risk of specific issues such as the financial transactions tax, the ban on short-selling or bankers’ bonus tax. Domestic retail markets in the UK will avoid future intrusion once the UK leaves the EU.</td>
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<tr>
<td>• Concerns around the loss of passporting do matter for some firms – particularly Japanese, Swiss or US investment banks - but much of the concern is overdone and for most firms in the UK passporting is a marginal issue.</td>
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<tr>
<td>• Passporting works both ways. There are significantly more EU-based financial services firms doing business in the UK via passports than there are UK-based firms operating in the EU.</td>
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<tr>
<td>• Many non-EU members trade financial services across the EU using equivalence rules. This rules will apply to the UK as it is currently compliant with EU regulation. One solution could be an ‘opt-in’ approach for firms if the single market is important and an opt-out if it is not. An extended equivalence model would be the best outcome.</td>
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<table>
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<tr>
<th>Examining regulatory equivalence</th>
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<tbody>
<tr>
<td>Financial Services Negotiation Forum (Report by Norton Rose Fulbright) – January 2017</td>
</tr>
<tr>
<td>The UK and the EU can reach a mutually beneficial and bespoke model which addresses the main challenges to existing rules on equivalence, namely the risk of the politicisation of equivalence decisions, and the lack of clear benchmarks for third countries.</td>
</tr>
<tr>
<td>• There is a need for a clear, unambiguous definition of equivalence, which is currently lacking in European legislation.</td>
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<tr>
<td>• There is a need for clear, definitive benchmarks for the assessment of equivalence determinations by the European Commission and EU regulators, which could draw upon international standards in order to provide a ‘dynamic’ version of equivalence which mitigates the risk of equivalence being unexpectedly withdrawn.</td>
</tr>
<tr>
<td>• Building upon the current European approach to equivalence (a ‘building blocks model’), it would be pragmatic and mutually beneficial to both the EU and UK to utilise existing concepts and established precedents to augment European equivalence through sector-specific procedural tools: a transitional arrangement to avoid disruption a comprehensive memorandum of understanding and data sharing; and an acceptance that mutual recognition of equivalent regulatory frameworks is beneficial for both sides.</td>
</tr>
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</table>
Euro-clearing and Brexit
Financial Services Negotiation Forum – January 2017

Any attempt by the ECB or European Commission to force the relocation of euro-clearing could have damaging political and economic consequence for the Eurozone and EU27, and a more likely settlement is one of enhanced cooperation and supervisory collaboration.

- The ECB is justifiably concerned that Brexit will mean that large volumes of euro-denominated instruments will be cleared outside of the EU and beyond the influence of the ECB, because of the potential systemic risk.
- However, any move to enforce the relocation of euro-denominated clearing to inside the Eurozone will have involve significant market, economic, legal and operational risks.
- Not least, it is unclear whether the ECB has the authority to compel users to clear their euro-denominated activities via an EU-based clearing house, and any restrictions on access for non-EU CCPs or non-EU markets participants could trigger a similar reaction form the US. This approach could also affect the euro’s status as a reserve currency.
- Any future agreement should involve a recognition of the ECB’s concerns over risk, close collaboration between the ECB and UK regulators (building on the existing enhanced information-sharing agreement between the Bank of England and ECB), and a full consultation on the potential impact on market participants and their customers.

Getting Brussels Right: "best practice" for City firms in a post-referendum EU
CSFI – December 2016

The City of London can maximise the opportunity post-Brexit by increasing representation in Brussels, networking with EU staff and building alliances with EU27 countries, educating UK ministers and Commission officials; being humble, and recruiting more people with EU expertise.

- The environment for City firms engaging with the EU has changed over recent years in terms of the number and seniority of UK nationals working in Brussels, the diminishing influence of the UK government on EU-wide legislation; and the heightened competitiveness between national capitals, firms and politicians.
- The UK must support British MEPs to maintain their positions for as long as possible; encourage UK officials to stay in place; build networks in Brussels and the EU which can endure beyond Brexit; and help build financial expertise amongst Commission and European Parliament staff while the UK is still a member state.
- City firms must focus on educating the new UK government and actively share expertise with the government departments involved in EU negotiations.
- The UK should not be arrogant about London’s global status because in a post-Brexit world, remaining EU members will have less patience and less obligation to put up with it. In addition, it will be important to understand and respect what the 27 other member states are trying to achieve and the challenges they face. This will make City firms more effective in getting their points across.
- The City will need to call on its north European, economically-liberal friends to represent its pro-market, pro-innovation interests in Brussels. In addition it will need to recruit people with EU expertise to help maintain influence in Brussels and build relations with EU27 capitals on the other side of Brexit.

A Blueprint for Brexit
Shearman & Sterling (by Barnabas Reynolds) – November 2016

The financial sector can thrive outside the EU by developing further its competitive advantage and by removing burdensome and regulatory requirements, following either an expanded EU equivalence model or a standalone global financial centre model.

- The passporting system is far from indispensable. Burdensome regulation, supranational bodies, and free movement are the main short-comings, and it is not critical for the provision of most services to EU customers.
- Maintaining the passporting system (or a similar system based on a grand bilateral agreement) would not only require concessions on sovereignty, free movement of persons and payments to the EU, but would also result in the UK’s financial services sector being subject to rules which the UK had no hand in formulating.
- There are two models under which the sector can succeed. These are a) equivalence-based access, which would require the EU to adjust and improve the existing equivalence regime and achieve fair treatment for both sides, and b) the financial centre model. The model selected will depend on politics and the willingness of the EU to negotiate in its best economic interests. Under both models it will be possible for most of the financial sector in the UK to carry on providing services across the EU and the world with minimal interruption.
- The UK must ensure it continues to be a key centre for the trading and clearing of instruments denominated in any globally important currency, including the euro, and should robustly resist any compromises or offers to cease trading or clearing euros in the UK. The EU does not have the power to take control of the euro-denominated business.
- By building upon the UK’s natural advantages – of time-zone, English law and language, and an established financial ecosystem and talent pool – the UK can create a highly competitive environment for the City outside the EU.
Why our financial services need a clean Brexit
Leaves means Leave – October 2016

The City of London will thrive as it will turn to non-EU markets (currently 60% of exports), repeal EU regulations resulting in 3% annual cost savings, and exit a single market that is not working - while retaining advantages such as depth of skills, law, and infrastructure.

- The majority of employment and gross value added in domestic financial services is negatively impacted by EU regulation but does not benefit from UK membership of the Single Market. In addition, the majority of financial services employment is domestic-focused.
- The current EU regulatory approach is burdensome and provides a one-size-fits-all regime with little scope for national circumstances. The UK will regain the legal power to regulate financial services more effectively, whereas currently regulatory authority resides at EU level. The potential savings are very significant and could equate to 2% to 3% of sector costs or between £8bn to £12bn a year.
- The UK’s deep financial services culture, critical mass, skilled labour, rule of law, and economic stability has created a successful ecosystem, backed up by the UK’s influence as ‘soft power’. With deregulation these advantages will increase.
- Nearly 60% of the UK’s surplus in financial services is with non-EU countries and exports with the rest of the world are growing much more quickly. The City is positioning itself in some of the growth markets of the future, such as offshore Chinese currency, Islamic finance or global insurance services in the rest of the world.
- There is no real single market in financial services: no banking union, no single stock market, a patchwork of pension regulations and highly different cultural attitudes to banking, pensions and insurance across the continent. The one area where there is conformity is in product regulation, such as MiFid, but that has been inefficient and costly.
- If there is no deal on financial services, many firms in the EU27 will have to move teams to London as the UK has the deepest, most liquid capital market in Europe. In addition, UK firms should already be fully compliant with EU law and City firms are already establishing brass plates and subsidiaries where they need them at relatively modest cost.

Brexit could lift all boats. If the EU will let it
The Heritage Foundation – October 2016

The City of London will continue to thrive on the other side of Brexit because international investors have confidence in the City’s many advantages and the rule of law: it is not an accident that most international financial contracts are drawn up under English law.

- The UK, Ireland and Estonia were the only EU countries ranked among the top 10 in The Heritage Foundation’s annual Index of Economic Freedom in 2016 and with Brexit, the EU will lose a role model of economic freedom. In addition, the UK has especially strong scores for its legal system and the openness of its markets. And the EU should make structural reforms to reduce regulatory burdens on business.
- While the UK’s economy accounts for only about 17% of total EU gross domestic product, approximately 40% of all euro-denominated assets are held or traded in Britain.
- A recent study by The Centre for Policy Studies, concluded that the City of London will continue to thrive post-Brexit because international investors have confidence in British rule of law. It is no accident that most international financial contracts are drawn up under English law.

Brexit: a financial ‘freezone’ within the City
Shearman & Sterling – September 2016

The UK can thrive on the other side of Brexit by creating a financial ‘freezone’ in London, which will have its own territory, a separate and deregulated framework, an independent judicial system, and continued free movement of people.

- Brexit could be an opportunity to create a London International Financial Centre (‘LIFC’): a new, small territorial area within London demarcated for London-based financial institutions wishing to operate on an even more free-market based model than the rest of the market.
- An LIFC would have its own laws and regulations, based on the common law and UK statutes, but tailored for a high-growth, highly dynamic market subject to the main constraint that the laws must nevertheless (as with all modern financial services laws) minimize systemic risk and ensure clean markets. The LIFC could also create streamlined work visa processes, to ensure continuing ready access to a worldwide talent pool.
- The likely outcome for the UK is an equivalence-based relationship with the EU for financial services where financial market participants established in the UK can do business that is cross-border in law with counterparties and customers in the EU under UK laws that are already equivalent to those in the relevant sector in the EU – and vice versa.
- There are some holes in equivalence regimes, many of which (if not all of them) we believe are likely to be plugged.
- An LIFC is an exciting prospect for the UK. It could further boost the UK’s position as a major financial centre and offer new opportunities to the UK, the EU economy and other markets around the world.
**Brexit and financial services**
Legatum Institute – September 2016

There are six myths around Brexit: 1) that the single market works 2) that passports are the only way to conduct business 3) that jobs will leave London 4) that thousands of firms rely on passporting 5) that the EU will deny market access 6) and that workers will want to leave.

- There are would still be legal and practical barriers to the single market even if the UK became a member of EEA. For example, some countries may apply stricter requirements to UCITS. In addition, passporting is not the only way to conduct business in European markets: other options include equivalence or an expanded FTA.
- If, as seems likely, the UK does not pursue the EEA route, jobs will not leave London as third-country equivalence would apply to most sectors of activity under most EU regulations.
- Concerns over passporting are overblown: the fact that more than 5,000 UK-based firms have a passport does not mean that they need it or use it.
- There is at least as much interest for EU countries to access the City as there is interest among UK firms to have access to the EU, so the EU is unlikely to cut off its nose to spite its face.
- The argument that EU citizens will leave and the City will not be able to retain enough workers does not reflect the reality. EU citizens currently working in the UK will retain rights to live and work in the UK.

**The City boys are here to stay**
Centre for Policy Studies (Views of Daniel Mahoney, Tim Knox and Jon Moulton) – September 2016

Brexit is a great opportunity for the City: the single market is imperfect and UK will get rid of burdensome regulations, while the City has many natural advantages such as tax competitiveness and will be able to focus more on non-EU markets which already accounts for 60% of total financial sector exports.

- The UK’s existing strengths will mean that London continues to be Europe’s leading financial centre. London is ranked the most competitive in the world for financial services, while its closest EU rivals rank 15th and 19th.
- Brexit negotiations need to offer an alternative to passporting. The UK could achieve third-party equivalence status in many sectors of financial service, but may struggle in others.
- The incomplete single market in services offers limited benefits in most sectors. Services make up 70% of Europe’s economies and generate more than 90% of new jobs, yet services account for just 20% of intra-EU trade.
- Brexit opens up new opportunities for UK financial service firms. Bilateral trade agreements with emerging financial centre such as Hong Kong and Singapore would be possible on the other side of Brexit.
- Brexit also offers opportunities for the UK to opt out of punitive EU regulation.

**Rebooting Britain: Making the most of Brexit**
Adam Smith Institute – July 2016

Brexit is a great opportunity for the UK to get rid of burdensome EU regulation, deregulate the financial services sector, and introduce much-needed competition in the banking industry.

- Brexit is an opportunity for the banking sector to change: UK banking needs major reforms and more competition.
- The financial sector is one of the most regulated sectors and government intervention is largely to blame for many of the distortions in the behaviour of banks and other financial services firms.
- More competition, less regulation and less government intervention will lead to a more flexible and safer banking sector.

**The impact of Brexit on the City and the British economic model**
Policy Network – July 2016

The City of London may be able to reinvent itself internationally, but losing passporting and access to a deep pool of talent will involve significant costs and reduce the influence of UK policymakers on the international stage.

- The loss of passporting would make business in the EU more complicated for UK firms, but it does not mean the end of the road for the City. By opening subsidiaries in the EU, UK firms will be able to keep a foothold in the single market.
- London is home to 35% of EU wholesale financial activity, 78% of FX trading and 74% of derivatives trading.
- Equivalence will give partial access to the single market, through Mifid II, but it will be conditional on the UK continuing to apply EU rules and on political goodwill.
- If access to the single market is not achieved, Britain intends to remain an attractive place for foreign capital, and suggestions to reduce corporate tax rates confirm the fear in the EU that Britain will become an aggressive tax haven.
- Whether this is realistic given Britain’s fragile fiscal situation is questionable, but will provide it with significant leverage in EU negotiations.
The economic impact of Brexit
Capital Economics (for Woodford Investment Management) - February 2016

A short-term threat but a long-term opportunity: Brexit does not necessarily come with deregulation and without passporting EU financial services exports could fall by half, but London can offset these losses by retaining its current advantages and by doing more business with faster-growing emerging markets.

- There is a good chance that the City would prosper after Brexit, mainly due to its advantages (legal system, language, time zone, openness, expertise). It would also free the UK from the rules of the European Union’s customs union and commercial policy, which prevents it from negotiating bilateral trade deals with other countries.
- There is major uncertainty over the importance of passporting. Losing these rights could mean that banks would simply establish a brass plate subsidiary in the EU, but it could also lead to the loss of a lot of business.
- The UK’s financial services exports accounts for 0.2% of the EU’s output, falling to just 0.1% for the US, 0.08% for Japan and 0.06% for Canada. Much of this geographical pattern is not down to EU membership but time zones: it is much easier to sell wholesale financial services (such as investment banking) into markets in the same time zones.
- Without passporting, the exports of financial services to the European Union could fall by half, or about £10bn.
- Leaving the EU would not result in less regulation for the City. The UK has shown more zeal for regulation than its continental peers recently. Unlike their EU counterparts, UK banks have to ringfence retail operations from their commercial banks from 2019. The Bank of England’s stress tests were tougher than the European Banking Authority’s.

Look on the bright side:

This section includes some of the more optimistic comments on the impact of Brexit from reports that were otherwise more pessimistic:

Written evidence for the House of Lords EU sub-committee on financial affairs
FCA - November 2016

- Passporting is not essential for all sectors of the industry.
- Strong regulation and competitiveness are not mutually exclusive. Equivalence is not necessarily antagonistic to competitiveness, with many regulations based on global standards.

How to ensure UK and European financial services continue to thrive after Brexit
Open Europe – October 2016

- There is no such thing as a single ‘passport’: there are a sector-specific passports built upon many regulations and principles. In some sectors, the passport is important to the business, but in other sectors it has much less value. Equivalence is easier to achieve as the UK starts from the basis of having the exact same regulation as the EU, something no other country has done.
- The loss of passporting could be very disruptive for banks because there is no formal framework for equivalence, but it is not a life death move for the insurance or asset management industries: most insurers already operate across the EU via national subsidiaries, and little as 10% of assets under management in the UK would be directly affected.

The impact of the UK’s exit from the EU on the UK-based financial services sector
TheCityUK (report by Oliver Wyman) - October 2016

- There are likely to be opportunities arising from new networks of trade and investment agreements and nurturing of growth areas, boosting jobs, taxes and the trade surplus. Examples include: the creation of Sharia-compliant central bank facilities; support for emerging markets wealth management; masala bond initiatives; green finance; and fintech.

Written evidence for the House of Lords EU sub-committee on financial affairs
Bruegel – September 2016

- The UK is likely to retain most (but not all) of its existing EU-related business through some form of equivalence arrangement with the EU, and it will continue to attract non-EU business in which it is already a dominant global player.
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<th>Title</th>
<th>Author/Source</th>
<th>Date</th>
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<td>The economics of Brexit: it's not about the internal market</td>
<td>Centre for European Policy Studies</td>
<td>September 2016</td>
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| • The industry's success has only partly been the result of the UK's EU membership. Other factors have been the tendency of the financial sector to form clusters along with London's advantages such as the language, the efficient legal system, the flexible labour markets, and the streamlined regulatory regime.  
• London financial services industry can survive Brexit as most of these advantages will remain post Brexit and the loss of passporting might be offset by the creation of subsidiaries or bridgeheads within the EU. |                                                      |            |
| What do EU capital markets look like post-Brexit                     | New Financial                                     | September 2016 |
| • The UK has by far the largest and deepest capital markets of any country in the EU, which will continue on the other side of Brexit.  
• Brexit also presents a nudge and an opportunity for EU27 to develop their own capital markets further. |                                                      |            |
| Brexit: impact across policy areas: Brexit & financial services      | House of Commons Library                          | August 2016 |
| • Given its attractive location, the size and liquidity of its markets, the depth of skills and infrastructure, London will remain an attractive place to set up headquarters.  
• But Brexit might be an opportunity for the UK to negotiate rules and given London's position as a financial centre, the UK might have more negotiating leverage than Switzerland. |                                                      |            |
| Brexit and financial services                                        | DeHavilland                                      | August 2016 |
| • There could be an opportunity for significant deregulation, depending on the government in power and the UK will also be able to avoid future burdensome regulation.  
• The British financial sector is strong for reasons that would not be affected by Brexit, such as geographical location, legal framework, and language. In the longer term the UK might have more flexibility to arrange more tailored agreements with emerging markets around the globe. |                                                      |            |
| The impact of Brexit on the financial services sector                | Grant Thornton                                   | April 2016  |
| • London is unlikely to be challenged in the short term as it enjoys considerable competitive advantages and a highly-developed ecosystem of capabilities and support services that would be hard to replicate elsewhere.  
• Over the longer term, there could be an opportunity for bilateral trade agreements with emerging financial centres, such as Hong Kong and Singapore, with which the UK has considerable historical and cultural ties. |                                                      |            |
| The economic consequences of leaving the EU                          | Centre for European Reform                        | April 2016  |
| • London emerged as a leading financial centre based on its predictable legal system, the international status of English, the accommodative regulatory environment, its expertise in finance, the openness to foreign firms and migrants, and the integrity of the markets and market infrastructure.  
• The City of London will not collapse in the event of Brexit. Its central role in foreign exchange and securities trading, insurance and asset management, financial law and accountancy will continue. It will remain the location of choice for leading private equity and hedge funds. |                                                      |            |
| What impact will Brexit have on regulated firms established in the UK. Europe & third country jurisdictions? | Allen & Overy                                     | February 2016 |
| • Given the UK's historic role in formulating the EU's financial services laws, the regulatory frameworks are similar and likely to remain so. But leaving the EU may enable the UK authorities to 'switch off' provisions under different single market directives that have proved particularly burdensome and run counter to UK policy, maximising the flexibility of the UK as a financial centre. |                                                      |            |
Part 5 – the main points of each report: broadly neutral / negative / pessimistic reports

This section summarises the main three to five points in each report that was broadly neutral or negative on the implications of Brexit for the City of London / financial services industry. The reports are presented in reverse date order, with the most recent first.

### Making the best of Brexit for the EU27 financial system
Bruegel – February 2017

Brexit will cause significant migration of firms and jobs in wholesale banking and finance from the UK to the rest of the EU, and presents a great opportunity for the remaining EU27 to further integrate and develop their financial markets, and to reduce their reliance on both the City of London and on bank lending.

- The UK could lose around one third of its share of EU wholesale markets. Around 35% of wholesale banking activity in London is related to EU27 clients and about 17% of all UK banking assets might move to the EU27.
- Around 10% to 15% of positions (3,300 jobs) at the five top US investment banks and a total 10,000 positions in wholesale banking will move, along with nearly 20,000 jobs related to professional services is expected to migrate.
- The EU27 has to minimise the financial market fragmentation and the increase in firms’ borrowing costs that Brexit will bring by upgrading its financial surveillance architecture.
- The EU27 needs to work on improving regulation, infrastructure, tax and labour laws and English-language proficiency in order to attract activity and jobs.
- The EU needs a fully integrated single market for financial services with harmonised rules and consistent supervision and enforcement. ESMA should be given more power; the banking union should accelerate. These policies will reduce the need for financial concentration.

### The EU’s third country regimes and alternatives to passporting
International Regulatory Strategy Group – January 2017

Existing third country regimes or local laws are not sufficient to provide continued access to EU markets because of limited coverage, uncertainty, and a lack of clarity and safeguards. It will be crucial to reach a ‘mutual access’ agreement including transitional arrangements to minimize unnecessary relocation or restructuring of firms.

- Given their limited scope (compared to current rights of access), uncertainty and lack of safeguards, the equivalence regime does not provide an acceptable long-term, sustainable solution for the UK-based industry to access EU markets.
- The process for granting equivalence is unpredictable and time consuming, it can be withdrawn or varied by the EU at little notice, and there is little right of appeal against a determination of non-equivalence.
- Relying on individual member states’ local laws is not sufficient either. Since the UK’s current regime for allowing access to overseas firms is more liberal than that of many member states, the UK would be left at a disadvantage.
- The debate should focus on what a bespoke agreement between the UK and the EU allowing mutual market access should look like.
- Transitional arrangements will have to be agreed as quickly as possible to ensure continuity of service provision until a new settlement can be implemented and to minimise unnecessary relocation or restructuring.

### Making a success of Brexit: A whole-economy view of the UK-EU negotiations
The CBI – December 2016

Existing rules on equivalence are not sufficient: they are not available in all sectors and can be removed at any time, while the UK must ensure it maintains its reputation, access to the pool of talent, and achieves a transitional arrangement to avoid disruption.

- Financial services is a mainstay of the UK economy: it employs 1.1 million workers and contributes 7.2% of total gross value added (£119 billion). Exports reach £64 billion, while imports are £9 billion.
- A loss of UK access means that other international markets will also lose access to EU customers and markets. UK-based firms will move operations. In addition, the loss of passport will result in higher costs, lower liquidity, more trapped capital and less efficient capital markets.
- Third party access or regulatory equivalence alone is not enough to ensure the continuation of the smooth flow of financial services between the UK and EU, as it is a patchy system that poses the risk of being changed or even removed at any given point in time.
- It is important that the UK government and regulators continue to take an active role in developing EU legislation during the negotiation period. The UK must maintain its position as a global leader in, rather than a recipient of, regulations.
- A transitional arrangement is important to ensure to UK firms are able to continue to provide services to clients.
**Brexit: financial services**
House of Lords – December 2016

There could be substantial negative effects as the least disruptive option (continued membership of the single market) is not politically achievable and all other options, including equivalence, do not compensate the loss of passporting, which will have a varying impact on different sectors.

- Any attempt to unpick London’s highly developed financial services ecosystem could result in much of the business lost by the UK relocating to New York or other financial centres outside the EU, rather than to the EU.
- There is a chance that the UK will lose the ability to clear euro-denominated transactions following Brexit. But it is unlikely that relocation of clearing to the Eurozone would provide the benefits to the wider EU economy.
- Some firms do not appear to be fully aware of the extent of their reliance on current passporting arrangements. They should work closely with government and regulators to determine the true extent of such reliance.
- The fintech sector, in which London is a world leader, is heavily dependent on the free movement of talent.

**Written evidence for the House of Lords EU sub-committee on financial affairs**
FCA - November 2016

Everything depends on the precise nature of the future relationship with the EU, but Brexit inevitably poses certain risks to competition, consumer protection and the smooth functioning of financial markets.

- Passporting is not essential for all sectors of the industry but several sectors would be hit by the loss of current access.
- Under an EEA model or equivalence there will be a risk of diminished UK influence on EU legislation and regulation.
- Neither the Swiss model nor the EFTA approach covers financial services and is not equivalent to passporting. Risks to market integrity and liquidity in case of fragmentation could also lead to greater systemic risk.
- Equivalence frameworks are permitted under some and not all legislation.
- Strong regulation and competitiveness are not mutually exclusive. Equivalence is not necessarily antagonistic to competitiveness, with many rules based on global standards.

**The impact of the UK’s exit from the EU on the UK-based financial services sector**
TheCityUK (report by Oliver Wyman) – October 2016

Under an EEA-scenario revenues from EU business would decline by 2%, 4000 jobs will be lost and tax revenues would decrease by £500m per year, while under WTO rules, nearly 50% of revenue could be lost, 35,000 jobs could go as well as £5bn in tax revenues per year.

- The UK financial services sector annually earns approximately £190bn to £205bn in revenues, and generates about £60bn to 67bn in taxes each year. It contributes a trade surplus of around £38bn to the UK’s balance of payments.
- If the UK retains passporting and equivalence with access to the single market, there would be only a modest reduction in UK-based activity. Revenues from EU-related activity could decline by £2bn; 3,000 to 4,000 jobs could be at risk; and tax revenues could fall by less than £0.5bn per year.
- If the UK’s relationship with the EU were to rely on WTO rules, 40% to 50% of EU-related activity (£18bn to £20bn in revenue) and up to 35,000 jobs could be at risk, along with about £3bn to £5bn of tax revenues per year.
- The knock-on impact could extend beyond only the loss of direct EU business. A further £1-4bn to £18bn of revenues, 40,000 jobs and £5bn in tax revenue could be at stake if firms moved outside the EU or scaled down their businesses.

**How to ensure UK and European financial services continue to thrive after Brexit**
Open Europe – October 2016

The success of the City of London is not based solely on full single market access, but losing passporting will significantly hurt some sectors such as banking, while equivalence is a poor substitute.

- There is no such thing as a single financial services ‘passport’: instead passporting is a series of sector-specific rules based on different regulations.
- Passporting is most applicable to the banking sector: a fifth of UK banks’ annual revenue relies on passports, and around 15% of US investment banks’ revenues. EU legislation does not cover equivalence in banking and thus, without a bespoke agreement, banks could see significant disruption.
- EU directives permit some delegation of portfolio management functions outside the of EU, which would mean that only around 7% of assets managed in the UK would be directly threatened by the loss of passports.
- The loss of the passport will not be as damaging to UK insurers: most insurance operate across EU borders via subsidiaries and only 28% of UK insurance exports goes to the EU.
Brexit: An impossibly complex task for the UK’s new trade negotiators?
Peterson Institute for International Economics – September 2016

The fallback position of the WTO framework that would apply to the UK in the event of no agreement being reached are nothing like as generous for trade - and particularly financial services - as the existing single market model.

- EU membership has allowed a UK-based firm to establish a branch anywhere in the EU to offer legal, banking, insurance, or other financial services. Loss of this right will have significant implications.
- Without a bilateral UK-EU agreement on services and free movement of labour, the legal commitments that the EU has made with the WTO would apply to UK service providers seeking to do EU business. And the EU’s WTO legal commitments for services are not nearly as generous as the status quo.
- US- and Asia-based multinational companies (and financial services firms) have undertaken major foreign direct investment projects in the UK as the beachhead for their EU-based business. Without continued access to EU markets, the UK could become a significantly less attractive destination for this sort of investment.

Giving meaning to Brexit
Open Europe (report by Andrew Tyrie MP) – September 2016

Access to EU markets based on EEA-status or equivalence will not work for the UK because it would become a ‘rule-taker’ with little say on the future of regulation, while any hybrid deal will not enable the level of access to EU markets enjoyed by the City today.

- The only arrangements to preserve the current level of access would be through EEA membership, but this means that the UK would have to comply with EU financial services regulation now and in the future without having any say over its content or development.
- Another option would be a hybrid comprising of ‘equivalence’ provisions combined with specific market access provisions for UK financial firms. But such provisions exist only in some EU regulations covering financial services; for example banking is not covered.
- In addition, the Commission decides whether a country is equivalent and it could also withdraw equivalence as and when EU rules change, while the UK would be vulnerable to misinterpretation or abuse.
- Theoretically, it is possible to negotiate access for the areas that equivalence provisions do not exit, but there is no existing trade agreement that grants the same level of access as the passporting regime.

The City will decline and we will be the poorer for it
Bruegel - September 2016

UK institutions may face a less accommodative stance from EU and US institutions and regulators when their single market leverage is gone.

- Non-EU financial firms have been able to conduct most of their European business from a single location bringing huge cost savings. The optimistic view is that only a limited share of the City's business (15- 25%), will need to remain inside the single market and thus will move outside the UK, with the rest unaffected by Brexit.
- However, this does not incorporate risk-management and cost advantages of keeping all business under one entity. Thus, losing access to the single market will become a clear disadvantage compared to other EU cities.
- There are enough places in the EU with top marks in cultural vibrancy, physical infrastructure, English proficiency, independent judiciary, and other key factors, so that it is likely that at least one or several could attract business.
- Any loss of business would have a significant impact on public finances. According to the City of London Corporation, in the year to March 2015, the financial sector paid £67bn in tax, equivalent to almost two thirds of the national health service budget.
- Up to now EU authorities and EU laws have protected UK firms from discrimination, which will probably not be the same once the UK leaves. The same stands for the US authorities as UK will not be able to use its single market leverage.
### EU financial market access after Brexit

Centre for European Policy Studies - September 2016

The City has much to lose: equivalence grants limited access but is not available across all regulations and is subject to repeal at short notice, while other bespoke agreements would take years and may need approval from all member states.

- Much of London’s success is due to the single market. The UK has much to lose and little to gain from leaving the EU.
- There is no full access to the single market for third countries outside the EU. For UK-based financial institutions, future access to the EU’s single market will be very limited compared to what is available today.
- Large integrated financial institutions using multiple passports under one roof and specialised investment firms and asset managers with a single passport will be the most affected as they will need to disentangle their operations, split up their capital base, and create separately capitalised and licensed operations within the EU.
- As with Switzerland in insurance, the UK could strive to negotiate a bilateral agreement for market access with the EU on financial services.
- The UK will face a long and difficult process of persuading the EU that it is important to the European economy that London be allowed to remain a global financial centre.

### Written evidence for the House of Lords EU sub-committee on financial affairs

Bruegel - September 2016

The City of London may seek to attract extra global business with light-touch regulation and supervision, but in doing so would lose access to EU markets that was based on equivalence: a more likely option would be to remain equivalent to EU legislation retaining most of the City’s EU-related business and the bulk of its existing global business.

- Deep and liquid wholesale markets are important for both the UK and EU. Fragmentation may raise the cost of finance and thus harm corporates in both the UK and the EU.
- Two arrangements are very important for UK market infrastructure providers to provide services to EU clients: passporting and clearing and settlement in euro. Free movement of people is important but not key. Transitional arrangements could provide certainty; grandfathering is crucial: a licence received under the old regime will be valid post-Brexit.
- The UK faces a fundamental choice. On the one hand, London can position itself as an international financial centre with light-touch regulation and supervision to try to gain extra global business. This mean equivalence of UK regulation and supervision will be under pressure, making access to the EU more difficult.
- On the other hand, the UK can choose to remain equivalent to EU legislation and favour its regional business in the EU. Under this model, London can still attract global business, as it does currently.

### The economics of Brexit: it’s not about the internal market

Centre for European Policy Studies - September 2016

The City of London can survive Brexit due to its many other advantages an international financial centre, but it is unlikely to maintain its previous vigour.

- Financial services account for about one-third of Britain’s total services exports and two-thirds of the overall services surplus that the UK needs to pay for its deficit on goods.
- The industry’s success has been partly a result of the UK’s EU membership. Other factors have been the tendency of the financial sector to form clusters along with London’s advantages such as the language, the efficient legal system, the flexible labour markets, and the streamlined regulatory regime.
- Most of these advantages will remain post-Brexit and the loss of passporting might be offset by the creation of subsidiaries or bridgeheads within the EU. Thus, London financial services industry could survive Brexit. However, it is unlikely that the City will maintain its previous vigour outside the EU.
What do EU capital markets look like post-Brexit?
New Financial - September 2016

Brexit will cause significant disruption to market participants and their clients because of the high concentration of EU activity conducted in the UK, but at the same time it presents a nudge and an opportunity for EU27 to develop their own capital markets further.

- The UK accounts for a disproportionate share of capital markets activity in the EU: depending on the sector, activity by UK companies or investors represents between 20% and 40% of all activity in the EU.
- This concentration is even more pronounced when it comes to where that activity takes place: more than 40% of all assets under management in the EU are managed in the UK, and in sectors such as FX, derivatives trading, and hedge funds more than three quarters of all activity takes place in the UK.
- Brexit puts the smooth cross-border operation of capital markets at risk and is likely to lead to a difficult trade-off: on the one hand, the rest of the EU will not be happy allowing so much capital markets activity to take place beyond their jurisdiction and oversight; and on the other, the EU will need to be careful that it does not cut off access to London for EU companies and investors. In order to guarantee access to EU clients in future, UK-based firms may need to relocate at least some of their activities to the EU.
- Brexit could also lead to a more balanced development of capital markets in the rest of the EU, and closer integration of regulatory structures from which the UK could be increasingly excluded.

Brexit: impact across policy areas: Brexit & financial services
House of Commons Library - August 2016

Equivalence is a burdensome process, but the UK has more bargaining power than Switzerland in negotiating a deal and it will remain attractive due to its infrastructure, location, depth of skills, size and liquidity of its markets.

- Given its attractive location, the size and liquidity of its markets, the depth of skills and infrastructure, London will remain an attractive place to set up headquarters.
- However, overseas firms might need to choose between a centre with natural and historic advantages and one with a regulatory advantage. Authorisation of a big organisation is complex and costly and there is no certainty that firms would be able to carry on as before with a main operation in London.
- MiFid II rules make the provision of financial services to the EU from outside the EEA increasingly difficult as it sets stricter rules and requirements.
- Obtaining equivalence is burdensome: 1) Equivalence means that authorities have to demonstrate not only that they are they able to supervise their own but also EU-based businesses. 2) There are at least 20 different equivalence requirements in place across EU law. The industry will have to choose between full adaptation to EU standards or no access to the EU market.
- But Brexit might be an opportunity for the UK to negotiate rules and given London’s position as a financial centre, the UK might have more bargaining power than Switzerland.

The EU Single Market: the value of membership versus access to the UK
Institute for Fiscal Studies - August 2016

All options other than EEA membership, in which the UK would have very limited influence on regulations, will mean limited single market access and result in a smaller financial sector, while the global nature of most regulation will limit the scope for wholesale deregulation.

- The financial services sector accounts for nearly 8% of the UK economy and around 7% of total tax receipts from earnings and corporate profits.
- Financial and insurance services exports are equivalent to some 4% of total UK economic output. Financial services make up 65% of the UK’s service trade surplus. The EU accounts for a third of financial, insurance and pension services exports.
- An EEA-based deal will be similar to the status quo but decisions would be taken in the EU without UK influence, while EFTA does not offer access for services.
- UK insurance and pensions have only limited exports to the EU compared to 46% going to the US. However, 41% of ‘banking and investment’ services exports go to the EU compared to only 25% to the US.
- A substantial portion of EU-related activity – either from UK firms or from non-EU firms with subsidiaries in the UK – will consider moving activity elsewhere. PwC estimates the gross value added of the sector would be up to 9.5% lower in 2020. The industry could be 7% smaller than otherwise in 2030.
**Economic implications of a United Kingdom exit from the European Union**
Congressional Research Service - July 2016

All options other than the EEA membership would be difficult to achieve and result to higher costs for the sector with some business moving to continental Europe.

- The single market has facilitated the growth of a complex web of economic and financial ties between the UK and the EU. This has benefited the services sector in the UK, which accounts for about 80% of UK GDP.
- UK will lose access to the single market and preferential access to non-EU markets, and access to talent.
- The Swiss model is tricky because it consists of many bilateral agreements. Switzerland and the EU do not have a comprehensive agreement in financial services.
- The UK’s access to the single market is a significant reason why many US firms are based in London. Financial services is the top US services export to the UK, worth $14 billion.

**Brexit and financial services: 10 things you should know**
University of Oxford and Norton Rose Fulbright - July 2016

Under a total exit model, firms should consider whether the EU legislation they are subject to has extraterritorial provisions, and they should also put their commercial and outsourcing agreements under the spotlight.

- The three main options that have been touted are the ‘Norwegian model’, the ‘Swiss model’ and the ‘total exit model’.
- Under the Norwegian model the UK would be bound by EU legislation and contribute to the EU budget, but would have no seat in EU institutions. The EEA Agreement has been slow to incorporate EU financial services legislation following the financial crisis and does not cover the work of the European Supervisory Authorities.
- The Swiss model requires a series of bilateral agreements to retain access to the single market. However, the large number of agreements between does not give the Swiss access to the EU internal market for financial services.
- Under a total exit model, unless the UK were able to negotiate a free trade agreement offering access to the single market, it would be treated as a third country on no more favourable terms than any other non-EU country.

**Financial services, the EU and Brexit: an uncertain future for the city?**
London School of Economics – July 2016

The industry will lose full access to the single market and may not be able to retain euro-denominated business, while deregulation is not possible as financial regulation is largely set at the international level, at which the UK will lose influence.

- The consequences of the UK’s extraction from EU financial governance are likely to be disruptive and long term.
- Brexit is unlikely to bring any significant change to the nature of UK financial regulation, because such regulation is often global in nature, but the UK’s ability to influence international standards will be severely diminished.
- The financial services ‘passport’ will not be available in its current form. International banks and financial institutions have established subsidiaries in the UK so that, as UK home-regulated firms, they can access the single market and avoid the complexities and uncertainties of third-country access arrangements.
- Under EEA the UK will not have a say on existing or future regulation. Beyond EEA, the equivalence regime is a political process, and the UK may be under pressure to impose even stricter rules.
- The UK will lose its legal protections against discrimination and the consequences for the euro-denominated trade and financial services will be severe.

**Lost passports: a guide to the Brexit fallout for the City of London**
Bruegel – June 2016

Losing passporting will mean some business moving to the rest of the EU, while the City will most likely lose its dominant position in the clearing and trading of euro-denominated derivatives.

- UK firms will have to operate through branches within the EEA or subsidiaries with their own governance and risk management. This will make banking more expensive and London will lose its attractiveness to non-EEA banks.
- One third of the total assets of the major UK banks relate to their trading and derivatives books in London, amounting to £1.2 trillion. International (non-EU) investment banks that use their UK passports for business in the EEA, hold £1.7 trillion in assets in London.
- Access to the infrastructure for wholesale payments (Target2) will be lost and the euro-clearing business could easily move to Paris or Frankfurt. London will lose its prominent position in euro-denominated derivatives (London’s share is one third of the total global interest rate derivatives market) as well as EU corporate and government bonds.
- Up to 69% ($928 billion) of the UK’s interest rate derivatives market could move to continental Europe after Brexit.
**Brexit: the impact on the UK and the EU**
Global Counsel – June 2016

The impact of Brexit will be severe; the UK will retain its strong competitive edge in global financial markets, but it will lose significant amounts of business such as euro-denominated clearing and trading, while a future agreement based on equivalence will be costly and incomplete.

- Most large European banks have major operations in London which would be costly to relocate, while only a small number of financial centres elsewhere may benefit from Brexit as they cannot replicate overnight the advantages of the London ecosystem including skilled staff, legal services and market infrastructure. Competition between financial centres would be disruptive and costly.
- London’s international position could be damaged if large amounts of European business migrate following Brexit.
- There is a risk that some business, particularly more mobile activity such as derivatives, may leave Europe altogether.
- Brexit may impact on the location, liquidity and cost of financial services in Europe if it undermines London’s competitive position. This would be costly for businesses and households across Europe.

**Beyond Brexit: what happens next for European capital markets?**

The most likely outcome is a complete separation between the UK and EU markets with some business and talent moving away from London (although perhaps not as much as some of the more dire warnings) – but whatever the outcome, the UK will lose influence over the future tone and direction of EU regulation that in many cases it will have to adopt.

- In order to future proof their business, banks, asset managers and other market participants will probably need to have a separately authorised and capitalised subsidiary with a sufficient management presence inside the EU. Dublin, Frankfurt, Paris and other cities will all be vying for that business.
- While the Norwegian / EEA model is widely seen as the least damaging option, it is hard to see how UK voters would accept something that looks similar to what they have just rejected. EEA minus (some access to the single market with some freedom of movement) could be the next best option.
- In order to retain access to the single market from outside the single market, the UK would have to retain an equivalent regulatory framework and manage regulatory divergence in future.
- Brexit could trigger a concerted regulatory backlash in the rest of the EU against elements of legislation that are seen to play for the UK’s advantage such as the location of euro-denominated clearing.
- Whatever the outcome, the UK will most likely lose influence over the future direction and nature of EU regulation that it may have to implement in whole or in part.

**Brexit 2016: Policy analysis from the Centre for Economic Performance**
Centre for Economic Performance, LSE – June 2016

The loss of passporting will have a negative impact and the UK will lose the euro-denominated clearing business because the EU will be unlikely to grant special bilateral terms so that Frankfurt and Paris can grab part of London’s share.

- The financial services sector represents the largest stock of inward foreign direct investment in the UK (45% of all FDI). Restrictions on ‘single passport’ privileges would lead to big cuts in FDI.
- EEA members such as Norway enjoy passporting privileges, but also have to contribute substantially to the EU budget, and accept free movement and the jurisdiction of the ECJ.
- Swiss financial institutions mostly get access to the EU via special bilateral treaties, which still require permissions to set up branches in EU members. This is one of the reasons that Swiss banks often set up subsidiaries in the UK.
- Brexit will not result to deregulation as UK firms will still need to comply to EU regulations for all their EU transactions.
- EU regulations are not a burden for the UK when conducting business outside the EU. The EU is the largest exporter of financial services, a quarter of the world financial services exports and half of the cross-border lending in the world. There is little evidence that the single market has raised the costs of transactions with non-EU countries.
**Leaving the EU: Implications for the UK financial services sector**  
PwC - April 2016

Without single market membership via the EEA or equivalence, the value added to the economy will decline by between 5.7% and 9.5% by 2020, the sector’s growth will be 3% to 6% lower and it will lose 70,000 to 100,000 jobs, and by 2030 more companies will relocate activities.

- The financial services sector is more sensitive to Brexit than the UK economy as a whole.
- In the short-term the gross value added will decline by 5.7% and 9.5% in 2020 under the different exit scenarios. In 2030 gross value added will be 2% to 4% lower.
- In addition, although financial institutions may be able to adapt to the lost access to the single market in the short-term, over the medium term, it is most likely that activities will move to other EU financial hubs, reducing also the incentives for foreign firms to both retain and locate new activities in the UK.
- The sector will grow more slowly outside of the EU (38% larger under an FTA and 35% under WTO in 2030) than if the UK stayed in the EU (41% larger).
- There will be a reduction of 70,000-100,000 in jobs in 2020, while it will recover in the longer term (2030) when jobs will be 1Q000-30,000 less.

**The economic consequences of Brexit: a taxing decision**  
OECD - April 2016

Foreign direct investment in the UK will decrease, financial services trade costs will increase by as much as 20% (even under conservative assumptions) while regulatory and compliance costs will rise — and by the time a free trade agreement is agreed, overall trade volumes could be 6% lower.

- Financial services accounted for 7% of UK output and 4% of employment in 2015. Exports of financial services amount to slightly more than 2.5% of GDP for the UK, against about 0.5% of GDP in EU peers The EU is the destination of some 40% of UK financial exports, down from around 50% in 2000.
- However, the UK financial industry remains dependent on the EU market, as the absolute size of UK exports has risen sharply over the past 20 years.
- The EU absorbs around 45% of Swiss exports of financial services, despite the absence of passporting rights for its banks, but Switzerland negotiated a favourable agreement when it was planning to join the EU in the early 1990s and not leave it.
- The end of passporting will mean that firms would seek to relocate activities. A new FTA with the EU will not entirely reduce barriers. Trade costs are estimated to increase by 20% even under conservative assumptions, while exports of financial services to the EU can fall by half. In the short-term estimates show an overall 6% decrease.
- Negative effects will grow over time and there will be gradual loss of FDI.

**The impact of Brexit on the financial services sector**  
Grant Thornton - April 2016

London’s position as a dominant financial centre will not be challenged immediately due to its many competitive advantages, but over the long-term, euro-related activities may move and the loss of passporting may lead to a loss of around £10 billion in financial services exports.

- London is unlikely to be challenged in the short term as it enjoys considerable competitive advantages and a highly-developed ecosystem of capabilities and support services that would be hard to replicate elsewhere.
- However, competing European financial centres may renew attempts to attract key euro-related activities and infrastructure, and the UK will find it harder to resist after losing the protection of the European Court of Justice.
- An immediate impact could be a slowdown in EU talent coming to work in UK financial services. Visas and work permits may create a barrier that could weaken the UK, and strengthen more welcoming centres.
- One of the largest identifiable risks is the potential loss of passporting rights, which could lead to a significant reduction in exports of financial services into the EU.
- Over the longer term, there could be an opportunity for bilateral trade agreements with emerging financial centres, such as Hong Kong and Singapore, with which the UK has considerable historical and cultural ties.
### The economic consequences of leaving the EU
Centre for European Reform - April 2016

The City of London will not collapse, but some activity will be lost and the costs will likely outweigh the benefits of more sovereignty over regulation, while London will lose its formal legal mechanisms (the ECJ) to defend itself against attempts by the ECB to repatriate euro-related activity.

- The City of London will not collapse in the event of Brexit. Its central role in foreign exchange and securities trading, insurance and asset management, financial law and accountancy will continue. It will remain the location of choice for leading private equity and hedge funds.
- London’s position as a financial centre did not erode as it was feared when Britain did not join the eurozone, and has thrived outside the currency union.
- But some activity would be lost and the costs of an EU exit would outweigh the (largely illusory) benefits of sovereignty over financial regulation. Non-members must match EU standards or lose access to the single market.
- In addition, Britain will no longer have recourse to the European Court of Justice to defend itself against eurozone attempts to repatriate financial activity from London. And it won’t be able to influence EU financial regulation.

### The UK referendum-challenges for Europe’s capital markets
AFME (with Clifford Chance): March 2016

It will be difficult to sustain the single market as it operates today with any future arrangement: equivalence is a political decision, costly and static, and not available across all EU laws, while the UK would have significantly less influence on shaping future regulation.

- Equivalence is political, costly and static and the UK will have no influence on regulation same as in an EEA-EFTA model, EU law has sometimes stronger standards than international standards and the UK will not be willing to accept those. Third country regimes do not cover all activities and services such as market infrastructure, lending, deposit-taking, and FX.
- Treaty protections such as no discrimination on basis of location and currency will no longer apply to the UK.
- Investment banking services, corporate banking, private wealth management and financial market infrastructure are most likely to be affected by restrictions on cross-border activity. In addition, there are substantial costs and inefficiencies in maintaining separately capitalised subsidiaries with their own governance and regulatory requirements.
- The impact on asset managers will depend on their particular business model.
- Access to the passports is often a critical factor for non-EU financial firms when deciding how to operate in the EU.

### What impact will Brexit have on regulated firms established in the UK, Europe & third country jurisdictions?
Allen & Overy - February 2016

The size of the Brexit effect depends on whether there will be a transitional agreement, the precise details of the future relationship with the EU, and how much access will UK firms will have to EU clients.

- The loss of passporting is likely to trigger the migration of global firms’ EU headquarters from the UK. The scale and speed of migration depends on third-country access rules.
- On market infrastructure, it is crucial that access to EU facilities continues and UK infrastructure providers are permitted to offer their services to EU institutions.
- Given the UK’s historic role in formulating the EU’s financial services laws, the regulatory frameworks are similar and likely to remain so. But the UK may ‘switch off’ burdensome rules to maximise its flexibility as a financial centre.
- An inability to exercise influence on EU measures and initiatives may have a detrimental impact on financial services firms’ ability to do business in the EU. The UK (or UK based clients) will lose recourse to the European Court of Justice.
- The UK will not be able to deviate much from EU regulation as most of it comes from the Basel Committee on Banking Supervision and the FSB. Any UK deviation would exacerbate the regulatory compliance burden on financial services institutions and could be a key consideration for firms when deciding whether to conduct business in the UK.
Briefing: the impact of Brexit on financial services
FTI Consulting – August 2015

The size of the negative effect will depend on the precise nature of the new relationship, but it is worth considering that in a bilateral deal the negotiation dynamics will be different than in the Swiss case since Switzerland was looking to access EU markets rather than withdraw from them.

- Most probably there is no risk regarding clearing services as third country regime will apply and the recognition process is usually fast (see Hong Kong, Singapore etc). However, the euro-denominated business will be challenged.
- In banking and investment the loss of passport will mean that some business will move to the EU and this concerns in particular non EU banks. In addition, the impact for UCITS will be severe as they can only be established in the EU.
- Some EU laws set stricter rules for third countries such as MiFID. On the other hand, when it comes to AIFMD, the UK will be able to get rid of some burdensome regulation.
- The CMU would have benefited the UK as the City is the deepest financial market in the EU. Post-Brexit this will not be possible.
- The effect of Brexit on UK financial services will depend largely on the kind of arrangements the UK will be able to negotiate to replace EU membership. The negative impact of Brexit could be decreased by alternative arrangements, but if these are not negotiated successfully, a more adverse outcome is not unthinkable.