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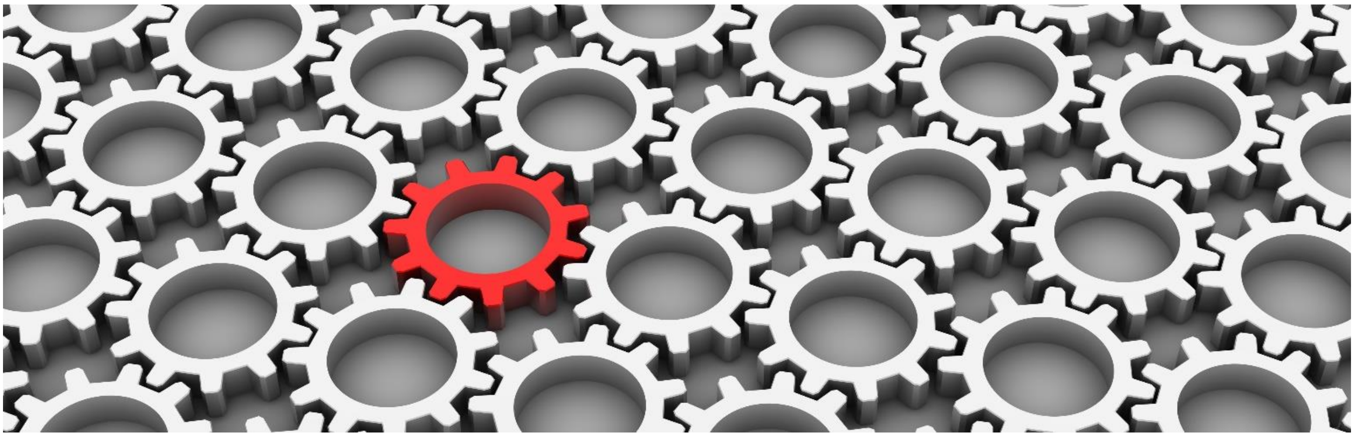
Rethinking capital markets



WHAT THE REST OF THE EU THINKS ABOUT BREXIT & THE CITY OF LONDON

Analysis of the main concerns, priorities and positions of policymakers in the 27 EU member states on the other side of the negotiating table

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What the rest of the EU thinks about Brexit and the City

Introduction

There are few issues more challenging for the City of London and the European financial services industry than the potential implications of Brexit. But the debate in the UK over the past year has inevitably been UK-centric, focusing on what different parts of the industry want, fear and expect from Brexit; what the impact of Brexit will be on different sectors and how they will react; and what the UK government should be asking for in the negotiations ahead.

Too little attention has been paid to what the other 27 member states of the EU will be thinking about the future of the City and of financial services in the EU when they take their seats on the other side of the negotiating table later this year - and why. Too often, their views are caricatured as attempts to 'punish' the UK, steal market share from the City, and to shoot themselves in the foot.

We thought it would be a useful counterweight to explore what the rest of the EU actually thinks about Brexit and the City. So over the past month we've read, sifted and summarised hundreds of speeches, articles and reports from the EU27 in an attempt to distil the main concerns, priorities and positions of policymakers and regulators in each member state on the future of financial services in the EU.

This report is broken down into four parts:

1. A 10-point summary of the main concerns and priorities of the EU27 member states ahead of the Brexit negotiations.
2. A country-by-country summary of each country's concerns, priorities and likely negotiating positions.
3. A brief summary of what's at stake in terms of financial services trade, and access and exposure to each other's markets.
4. A more detailed analysis of the views of policymakers and regulators in each member state, and those of EU officials and institutions.

The report is not an exhaustive analysis of what different member states think about Brexit more broadly. Instead it focuses on its likely impact on financial services and the City. One of the main themes that emerges from the report, however, is that when it comes to Brexit the separation of politics from economics is not as clear cut in the minds of most EU27 member states as it is in the UK.

Politics will trump economics, nothing will be agreed for financial services (or any other sector) until everything is agreed in all sectors, and many member states are prepared to put EU unity and the integrity of the single market ahead of short-term economic interests.

Inevitably, there is a wide range in the availability and quality of commentary on Brexit and financial services across the EU27: there was far more information available in large member states such as France or Germany, or smaller member states with high levels of financial integration with the UK, such as Ireland, Luxembourg and the Netherlands. We apologise if we have misrepresented the views of any individuals, organisations or countries in this report. Please send any queries (and any additional information) to Panagiotis Asimakopoulos at panagiotis@newfinancial.eu

At New Financial, our main interest in Brexit is 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 range of perspectives on Brexit in different EU27 countries, and will be publishing more research throughout the year.

NEW FINANCIAL
Rethinking capital markets

New Financial is a think tank and forum that believes Europe needs bigger and better capital markets to help drive its recovery and growth.

We think this presents a huge opportunity for the industry and its customers to embrace change and rethink how capital markets work.

We are a social enterprise that launched in September 2014. We are funded by institutional membership.

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1) Executive summary

Here is a 10-point summary of the main concerns, priorities and positions of policymakers in different EU27 member states on the potential impact of Brexit on financial services in Europe and on the City of London:

1. **Politics first** - maintaining the unity of the EU and the integrity of the single market is the overwhelming priority of the majority of EU27 countries. The UK will not be allowed to pick and choose between the four freedoms (movement of people, capital, goods and services) and many countries are prepared to put politics ahead of economics. Nothing will be agreed in any sector until everything has been agreed in all sectors.

2. **Tough talking** - the UK will face a tough negotiation process with the three most important groups (Germany, France and EU institutions). Many of the UK closest 'friends' are already adopting a relatively hard stance. While there is little appetite to 'punish' the UK, the stance of some countries has hardened in recent months in response to 'hard Brexit' and the talk in the UK of 'no deal is better than a bad deal'.

3. **An imperfect alternative** - there is an almost universal view in the EU27 that a deal based on equivalence (allowing firms based in the UK to continue to access EU markets based on broadly equivalent regulation) would not be appropriate, and very few policymakers in the EU have expressed public support for the sort of 'enhanced equivalence' regime that the UK has floated. Most (but not all) countries accept the need for a transitional deal, but only for a short period and on the condition that the UK falls under EU jurisdiction during that period.

4. **A focus on financial stability** - the main concern of most supervisors and regulators in the EU27 is financial stability and close cooperation with the UK authorities post-Brexit, given the high level of financial integration between the UK and EU27. Many supervisors are insisting on firms having a substantial local presence as part of any relocation, and any deal on financial services should include shared oversight of euro-denominated trading and clearing.

5. **The future of the City** - most countries accept that London will continue as the dominant financial centre in Europe post-Brexit, but that a range of financial centres in the rest of the EU will benefit from the relocation of some UK-based business. The UK will lose influence in financial policymaking: there is growing support in the rest of the EU to accelerate the integration of supervision, regulation and market infrastructure across the EU27.

6. **Competing for business** - the UK faces a wide range of competition for business in different sectors post-Brexit. Some countries (such as France, Ireland, Italy Luxembourg and Poland) are actively pitching for firms to relocate, offering tax breaks and other incentives. Others (such as Germany, the Netherland and Sweden) are taking a more passive approach to competition. Everyone agrees that some relocation of UK-based activity will be required.

7. **An expensive rebalancing act** - Brexit will lead to a potentially healthy rebalancing of financial markets activity across the EU as no single financial centre will be able to attract or accommodate all of the business that moves from the UK. This will be accompanied by an increase in the cost and complexity of financial activity due to duplication and relocation - but that is seen as an unfortunate but necessary political trade-off.

8. **A weaker hand** - the importance of the City to the EU economy is not as a strong a card as many in the UK might have hoped. EU27 member states recognise the asymmetric trade-off between the importance to the UK of financial services exports to the EU and the import of goods from the EU. An agreement on financial services will be the hardest part of trade talks, and getting a deal for the City is more important to the UK than to the rest of the EU. The EU27 knows that the UK needs a deal on financial services, and really wants one on trade in goods.

9. **A tortuous process** - negotiations will be more complex and more political than the UK media suggests, and will require a lot of give and take. While the EU27 is keen to arrange a trade deal, an agreement on services will be tougher because the jobs, control and value remain with the country that hosts the service providers. The formal negotiations period under Article 50 will be less than two years once you take the approval of EU institutions and members states into account, but few people in the EU27 expect a deal to be agreed in less than two years.

10. **A race to the bottom?** - any suggestion that the UK would aim to attract business post-Brexit through deregulation or a more aggressive tax policy would be seen as a direct threat to the EU27 and trigger a tough response. The UK cannot set lower taxes to attract business because it needs tax revenues for its budget deficit and will have to adhere to global norms such as OECD guidelines.

2) A country-by-country summary – i) the main economies in the EU27

Here is a country-by-country summary of the main concerns and priorities of individual countries around Brexit and financial services, as well as a summary of their level of financial integration with the UK and the hardness of their likely negotiating position:

Country	Main concerns and priorities	Financial integration with UK	Negotiating position on financial services	EIU 'hardness' ranking (1 hard–27 soft)[1]
Germany	EU unity / Single market integrity Financial stability Regulatory cooperation Substantive local presence Attract business from UK (passive)	Strong	Hard	5
France	EU unity / Single market integrity / limiting access Financial stability Substantive local presence Attract business from UK (active - particularly euro-clearing)	Strong	Hard	1
EU institutions	EU unity / Single market integrity Financial stability Regulatory cooperation Divorce bill settlement Citizens' rights	Strong	Hard	-
Italy	EU unity / Single market integrity Attract business from UK (active)	Weak	Hard	12
Spain	EU unity / Single market integrity Attract business from UK (passive) Close trade relationship with UK	Strong	Soft to neutral	14
The Netherlands	EU unity / Single market integrity Attract business from UK (passive)	Very strong	Neutral to Hard	18
Ireland	EU unity / Single market integrity Close trade relationship with UK Attract business from UK (active)	Very strong	Neutral to Hard	23
Luxembourg	EU unity / Single market integrity Attract business from UK (active) Close trade relationship with UK	Strong	Neutral to Hard	16
Belgium	EU unity / Single market integrity Close trade relationship with UK Attract business from UK (passive)	Medium	Hard	3
Sweden	EU unity / Single market integrity Close trade relationship with UK Attract business from UK (passive)	Medium	Neutral to Hard	26

[1] The Economist

2) A country-by-country summary – ii) the smaller economies in the EU27

Here is a country-by-country summary of the main concerns and priorities of individual countries around Brexit and financial services of the smaller EU27 economies with a lower level of financial integration with the UK:

Country	Main concerns and priorities	Financial integration with UK	Negotiating position on financial services	EIU 'hardness' ranking (1 hard–27 soft)
Austria	EU unity / Single market integrity Attract business from UK (passive)	Medium	Neutral to Hard	2
Bulgaria	EU unity / Single market integrity Citizens' rights	Weak	Neutral to Hard	4
Croatia	Close trade relationship with UK	Weak	Neutral	8
Cyprus	Close trade relationship with UK (particularly tourism)	Weak	Soft to Neutral	20
Czech Republic	EU unity / Single market integrity Citizens' rights	Weak	Neutral	15
Denmark	EU unity / Single market integrity	Weak	Neutral to Hard	21
Estonia	EU unity / Single market integrity	Weak	Neutral	22
Finland	Close trade relationship with UK	Weak	Neutral	9
Greece	Citizens' rights, Close trade relationship with UK (particularly tourism)	Weak	Neutral	10
Hungary	Close trade relationship with UK Citizens' rights	Weak	Soft to neutral	11
Latvia	Close trade relationship with UK EU unity / Single market integrity	Weak	Neutral	24
Lithuania	Close trade relationship with UK	Weak	Soft	25
Malta	EU unity / Single market integrity	Strong	Neutral to Hard	17
Poland	Citizens' rights Close trade relationship with UK Attract business from UK (active)	Weak	Soft	27
Portugal	Citizens' rights, Attract business from UK (active), Close trade relationship with UK (tourism)	Weak	Neutral	13
Romania	Citizens' rights	Weak	Soft to Neutral	6
Slovakia	EU unity / Single market integrity Citizens' rights	Weak	Neutral to Hard	7
Slovenia	EU unity / Single market integrity Citizens' rights	Weak	Neutral to Hard	19

3) What's at stake: the level of financial integration with the UK

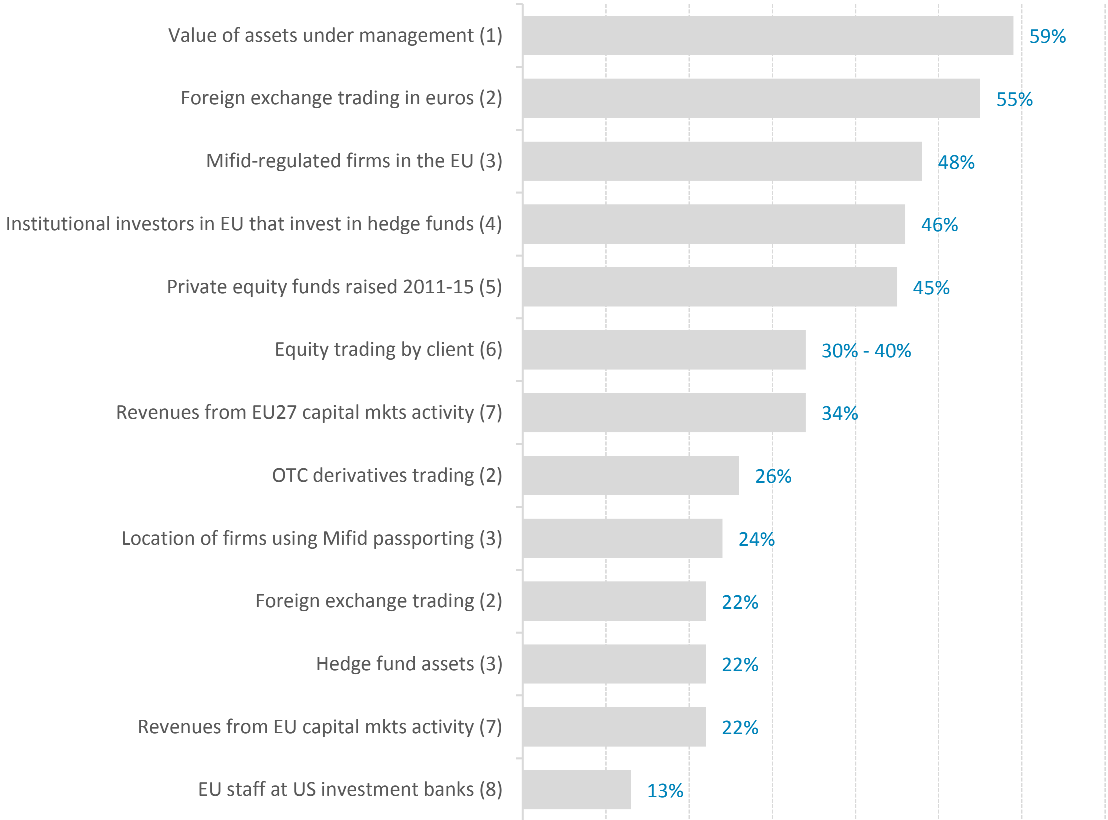
This section briefly examines the relationship in financial services between the UK and EU27. Financial services is a vital sector for the UK economy, and the City of London's dominant position as a financial centre in Europe means that the sector is closely integrated with the economies of EU27 member states. However, this creates an asymmetric relationship: while EU-based banks have close links to the UK economy, UK-based banks and the UK economy are more dependent on the EU in relative terms. This trade-off between UK financial services and EU27 goods will be a central and difficult part of the negotiations.

a) Capital markets

The City of London dominates capital markets activity in the EU, in large part as a result of the single market and the ability of market participants to concentrate their activities in one country and access the rest of the EU through passporting. On average, only one third of all capital markets activity in the EU is conducted in EU27 countries (see Fig.1). At its most extreme, just 13% of the total EU workforce at the big five US investment banks are based in the EU27 countries, with 87% of them based in the UK.

This high level of concentration is reflected in the proportion of business in some sectors that is conducted in the UK. For example, around three quarters of all investment banking, trading and capital markets activity in the EU is conducted in the UK, and two thirds of business in EU27 countries is also conducted from the UK. Three quarters of all firms in the EU that use cross-border passporting under Mifid are based in the UK. The big questions as a result of Brexit are how much of this activity will have to move from the UK to the EU27, and how firms will manage the mechanics of relocation. We estimate that around 10% of activity may move in the short-term, with a more gradual migration in the longer term. This rebalancing may be painful for UK-based firms and their customers, but it is seen by many in the EU27 as a healthy and inevitable consequence of Brexit.

Fig.1 The value and location of EU capital markets activity conducted in the EU27 %



Sources: 1) EFAMA / New Financial 2) BIS 3) EBA 4) Preqin 5) InvestEurope 6) New Financial 7) Oliver Wyman 8) Bruegel

b) Financial services exports

The UK exported £22.4bn of financial services to the EU in 2015 (see Fig.2). This represents 44% of all UK financial services exports, just over 10% of its total exports to the EU, and one quarter of its exports of services to the rest of the EU. This is nearly twice as much as UK exports of financial services to the US, and more than 50 times the value of financial services exports to China and India combined.

The UK runs a large trade surplus in financial services with the EU: it imported just £3.3bn of financial services from the EU in 2015, giving it a trade surplus of £19bn in financial services. This accounts for more than 90% of the UK's trade surplus in services with the EU, and without it the UK's trade deficit with the EU would be nearly one third bigger than the current level of £69bn. Nearly 26% of the EU27's total financial services imports come from the UK, with the UK representing more than half of all financial services imports in Denmark, France, the Netherlands and Spain.

Fig 2. UK and EU27 financial services trade

£bn	Fra	Ger	Ire	Ita	Lux	Neth	Spa	EU27	US	China	India	Global
Value of FS exports to:	5.2	4.3	1.1	1.5	1.2	3.7	1.5	22.4	12.2	0.2	0.2	50.8
Value of FS imports from:	0.7	0.6	0.3	0.2	0.2	0.6	0.2	3.3	2.8	0.0	0.1	8.7
FS trade surplus / deficit	4.4	3.6	0.8	1.3	1.0	3.1	1.3	19.1	9.4	0.2	0.1	42.1
FS exports as % of total UK exports to:	16%	10%	4%	9%	49%	12%	10%	10%	12%	2%	2%	10%
As a % of global FS exports	10%	8%	2%	3%	2%	7%	3%	44%	24%	1%	0%	100%

Source: Office for National Statistics, New Financial analysis and estimates

c) Bank claims and exposures

Banks in the UK and the EU27 are highly integrated with each other's economies, although UK banks are more exposed to the EU27 in relative terms. UK banks have a total exposure to EU counterparties of around $1.3 trillion, according to the Bank for International Settlements, equivalent to just under half of UK GDP. Banks in the EU27 have total exposures to UK counterparties of about €2.5tn, or roughly 17% of the combined GDP of EU27 economies. While UK bank exposures to EU27 counterparties represent about 9% of EU27 GDP, the exposure of banks in the EU27 to the UK adds up to roughly 90% of UK GDP. [2]

UK banks are most exposed in absolute terms to Germany ($330bn), France ($290bn), and the Netherlands ($200bn), which between them account for two thirds of all UK bank exposures to the EU. UK banks account for just under 4% of all bank exposures to all counterparties in the EU27, but they represent 15% of bank exposures in Ireland and 7% in the Netherlands.

On the flip side, banks in France ($318bn), Germany ($780bn), Italy ($350bn) and Spain ($520bn) have a disproportionate exposure to UK counterparties, mainly through the location of big investment banking operations in the UK and, in Spain's case, Santander and Sabadell's presence in the UK retail market. The combined exposure of EU27 banks to the UK represents just over half of all foreign banks' exposure to UK counterparties and 29% of all bank exposures to the UK.

Fig.3 Total exposure of UK and EU27 banks to each other's economies

	Fra	Ger	Ire	Ita	Lux	Spa	Neth	Swe	EU27	US
Total exposure of UK banks to counterparties in:										
Value $bn	293	331	111	88	44	62	197	32	1305	1414
As % of UK banks' total exposure to the EU27	22%	25%	9%	7%	3%	5%	15%	2%	100%	-
As % of all banks' exposure to local counterparties	4%	4%	15%	2%	3%	2%	7%	3%	4%	6%
As % of UK GDP	11%	12%	4%	3%	2%	2%	7%	1%	49%	53%
As % of local GDP	11%	9%	44%	5%	72%	5%	25%	6%	9%	8%
Total exposure of EU27 banks to UK counterparties:										
Value $bn	318	778	67	352	1	518	203	108	2600*	909
As % of total exposure of foreign banks to UK	7%	17%	2%	8%	0%	11%	4%	2%	55%*	20%
As % of all banks' total exposure to the UK	4%	10%	1%	4%	0%	7%	3%	1%	30.8%*	11%
As % of UK GDP	12%	29%	3%	13%	0%	19%	8%	4%	92%*	34%
As % of local GDP	12%	22%	27%	5%	0%	40%	26%	20%	17%*	5%

Source: Bank for International Settlements, New Financial analysis and estimates

[2] Bank for International Settlements, New Financial estimations and calculations.

d) Foreign direct investment in financial services

The EU27 is the destination of £116bn of outward foreign direct investments in financial services from the UK (as of 2015), representing 49% of all outward UK FDI in financial services, 26% of all outward FDI to the EU, and three times as much as UK financial services FDI in the US. The Netherlands, Luxembourg and Ireland together account for just over 80% of all outward financial services FDI from the UK to the EU, and 40% of global outward FDI in financial services from the UK. Financial services dominates UK FDI in the Netherlands (40% of total) and Ireland (49%).[3]

The EU27 share of inward FDI to the UK in financial services is 16%. Among EU countries Spain has the largest share with 39% of inward EU27 financial services FDI and 7% of global investment (representing half of all Spanish FDI in the UK). The Netherlands has an EU27 share of 26% and global share of around 4%, and Ireland accounts for 10% of EU27 financial services FDI in the UK, equivalent to 39% of all Irish FDI in the UK.

The US dominates inwards investment in UK financial services, with more than £151bn or 53% of global investment in the sector. This accounts for 60% of all US FDI in the UK, and a large chunk of it is based on US banks and asset managers using the UK as their base for accessing the EU. In the wake of Brexit, Ireland, the Netherlands and Luxembourg are seen by many in the EU27 as the most attractive potential alternative destinations for US financial services FDI.[4]

Fig.4 Financial services FDI in the UK and EU27

	Fra	Ger	Ire	Ita	Lux	Neth	Spa	Swe	EU27	US	Global
Stock of outward financial services FDI											
Value £bn	3.8	3.4	18.8	2.6	24.8	50.2	4.8	1.4	116.1	35.6	236.3
As % of all outbound FDI to:	6%	19%	49%	24%	27%	40%	11%	9%	26%	15%	22%
As % of all outbound FS FDI	2%	1%	8%	1%	11%	21%	2%	1%	49%	15%	100%
Stock of inward financial services FDI											
Value £bn	8.5	2.6	4.8	-0.4	1.9	12.3	18.4	0.3	46.9	151.2	285.5
As % of all inbound FDI from:	13%	5%	39%	-5%	2%	9%	50%	5%	11%	60%	30%
As % of all inbound FS FDI	3%	1%	2%	0%	1%	4%	7%	0%	16%	53%	100%

Source: ONS

e) Bank branches

The UK and EU27 banking sectors are closely interconnected because of passporting under the single market. UK-based banks operate a total of 132 branches in EU27 countries (according to thebanks.eu) that provide services to customers without being separately authorised by local supervisors. That is twice as many as the 65 branches of EU banks operating in the UK. Outside of the single market the decision as to whether to allow banks to continue operating as branches will be at the discretion of local supervisors - and one of the main themes that emerges from this analysis is that EU27 regulators are unlikely to allow existing arrangements to continue.

The most significant markets for branches of UK banks in terms of the number of branches are France, Germany, Italy and the Netherlands, which each have between 14 and 18 branches of UK-based banks. In France and Germany, UK-based banks represent roughly one fifth of all branches operated by overseas banks, while in Ireland, the Netherlands and Sweden, UK-based banks account for around one third of all foreign banks operating through branches.

Fig.5 UK and EU banks operating via branches

	Fra	Ger	Ire	Ita	Lux	Neth	Spa	Swe	EU27
UK banks operating as branches in:	18	18	11	16	5	14	10	9	132
As a % of foreign bank branches in:	20%	17%	32%	19%	11%	29%	11%	30%	15%
EU27 banks operating as branches in the UK	11	13	6	5	7	7	6	3	65
As a % of foreign bank branches in the UK	8%	9%	4%	4%	5%	5%	4%	2%	47%

Source: TheBanks.eu

EU-based banks account for just under half of all foreign banks operating as branches in the UK, and more than one third of EU-based banks operating in the UK as branches come from France and Germany. This includes large firms such as BNP Paribas, Commerzbank, Credit Agricole, Deutsche Bank, and Societe Generale, which all run their UK-based businesses as branches.

[3] UK Office for National Statistics, New Financial estimations and calculations.

[4] DIW Berlin

4) i) The positions, priorities and concerns of individual countries – main economies

This section looks in more detail at the positions, priorities and concerns of individual countries, based on our analysis of reports, public comments by senior policymakers, and private discussions from each country. It is not exhaustive and aims to capture only the main themes relating to the financial services industry. First, we look at the main economies in the EU27, and then we provide a shorter summary of the smaller member states.

Germany

Top priorities: EU unity, Single market integrity, Financial stability, Regulatory cooperation, Attract business from UK (passive)
Level of financial integration: medium to strong (relative to GDP), strong (in absolute terms)
Likely negotiating position: Hard

What the reports and papers say…[5]

- The UK's role as a major hub for European banks and as an entry point for non-European capital to the EU will be diminished, although London will remain a significant international financial centre. Nearly half of the UK's banking sector assets are held by foreign banks with Germany and France being the largest debtors from the EU27.

- The UK will be weakened in the negotiations by its over-reliance on financial services, which will be among the hardest sectors on which to agree a future deal with the EU27: the UK's surplus in services trade is due to financial services and other related business (legal, accounting).

- There is a trade-off between getting free trade in goods and getting free access to trade in services. The negotiations between the EU and Norway, Switzerland and Canada required a lot of give and take. It is in the best interest of the EU to be tough because the long-term economic gains outweigh the shorter-term benefits of compromising.

- The UK will need a tailor-made agreement for financial services because equivalence has major disadvantages and WTO rules do not cover financial services. However, as in the case of Switzerland and Canada, the EU will apply more restrictions in services compared to trade in goods because the jobs created and the value added remain with the host country.

- The level of financial integration between the UK and German economies is very high, but not out of line with GDP. UK banks have roughly $330bn in exposure to German counterparties (more than any other EU country), representing about 4% of total claims on German counterparties and 12% of UK GDP. German banks have more than double that exposure to the UK ($778bn) which amounts to about 10% of the total exposure of all banks to the UK and 22% of German GDP (New Financial analysis of BIS data).

- The EU will not change its hard line on access to EU27 financial markets post-Brexit because: 1) the UK exports financial services to the EU and not the opposite; 2) several countries want to grab market share from London; 3) EU officials insist that passporting or remote access to EU markets comes with free movement of people; and 4) the UK will have little to offer in exchange for a special agreement for financial services.

- London could remain Europe's financial centre despite relocation for a number of reasons: 1) the business and regulatory environment is better than France and Germany and will have some (limited) scope to deregulate; 2) other cities do not have the capacity to host large numbers of people and businesses (eg: Frankfurt's population is 730,000, roughly the same as the number of people working in financial and professional services in London); 3) the clusters, networks and depth of expertise that are so important in financial services cannot be just transferred to other centres; and 4) EU countries lack young finance graduates and English is not the main language in universities.

What the policymakers say:

[5] DIW Berlin Halle Institute for Economic Research Cologne Institute for Economic Research (1) Cologne Institute for Economic Research (2) Cologne Institute for Economic Research (3)

Angela Merkel, Chancellor[6]

- The UK cannot pick and choose the best parts of the EU. It's good to have a close relationship, but we have to preserve the internal market. Politicians and businesses must act together on this.

Wolfgang Schaeuble, Minister of finance[7]

- The position of the German government is to maintain EU unity; ultimately Brexit will hurt the UK in the long-term. The EU needs to find reasonable rules with the UK for financial services. London will remain an important financial centre and close to the EU economy, but negotiating a deal for financial services is sophisticated and will take a lot of time.

- The UK has agreed not to use corporate taxation as an instrument for competition. Breaking G20 agreements will impact the UK's credibility: a global Britain has to stick to global standards.

Federal Ministry of Finance[8]

- The EU and the UK might not reach an exit agreement, resulting in severe consequences for both sides' financial system and economy. The biggest impact will be felt in the financial services sector and the risks to financial market stability will be huge.

Jens Weidmann, head of the Deutsche Bundesbank[9]

- Banks will relocate to some extent but not to one single place, spreading risks to the whole Eurozone, which is not necessarily a bad thing. Germany will facilitate firms that want to relocate and allow them a transitional period of up to two years in which they will keep their current model.

Dr Andreas Dombret, Deutsche Bundesbank[10]

- Equivalence is not a good substitute for passporting: it only covers parts of wholesale banking and it is not a long-term solution as it can be revoked at short notice. A transitional period would address uncertainty and smooth the process of relocation both for firms and regulators and eliminate the first mover advantage.

- Negotiating a free trade agreement in goods and services is laborious and takes a long time. Financial services is a particularly tricky area: it has not been included in any deal between the EU and other third countries so far

- UK authorities will decide if they will grant access to EU27 banks operating in the UK via a branch [as many large firms such as Deutsche Bank and Commerzbank do today] and the decision to open a UK branch or a subsidiary is also a matter for a bank's clients and counterparties. The UK is the second most important market for German banks after the US.

- Financial institutions will probably have to operate in two different jurisdictions as politics will determine the final outcome rather than economics. This will increase the cost and complexity of providing financial services. London will remain a global financial centre, but many firms will have to move some of their business to retain continuity of access to EU markets and clients, and vice versa.

- We must avoid a race to the bottom in financial regulation. Any attempts from the UK to attract business by deregulation and weaker supervision will only have negative consequences and undermine financial stability. Now more than ever we need to focus on regulatory and supervisory cooperation and information sharing.

BaFin[11]

- No 'letter-box' operations will be allowed: if companies want to move to Germany they will need to put in place sufficient risk management operations and senior executives in their local operations. BaFin has organized workshops providing information on regulatory standards and what firms will need to do to move to Frankfurt.

Sigmar Gabriel, Vice Chancellor[12]

- We should resist the temptation to treat the UK too harshly.

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[6] The Independent Spiegel
[7] Reuters Politico The Guardian
[8] Handelsblatt
[9] Forbes Bloomberg City A.M.
[10] Bundesbank
[11] Reuters Finanzmarktwelt
[12] Business Insider

France

Top priorities: EU unity, Single market integrity, Financial stability, Attract business from UK (active - particularly euro-clearing).
Level of financial integration: Medium to Strong
Likely negotiating position: Hard

What the reports and papers say…[13]

- French authorities believe a more harmonised competition and regulatory framework are key for market integrity and financial stability so they will not accept a deal that gives the UK continued access to the single market under weaker regulatory standards. Continued access can be granted only with agreements on supervision and oversight, particularly around trading, risk and financial stability. France will look to repatriate trading and clearing in euro-denominated securities.

- The level of financial integration between the French and UK economies is high, but not out of proportion with GDP. French banks have the third largest exposure to the UK economy of any EU country (after Germany and Spain), and bank exposures to each other's economy represent about 4% of total banks exposures in both France and the UK and about 11% of each country's GDP (New Financial analysis of BIS data).

- France will act as a competitor to the UK, particularly in sectors such as asset management and insurance, in which France is the biggest financial centre in the EU27. French authorities have already taken measures to attract businesses, mainly due to the large number of French working in the UK financial services sector. France will also review its regulatory framework for the fintech industry. Paris Europlace has been very active in pitching to UK-based firms with the support of government.

What the policymakers say:

François Hollande, President of France[14]

- The UK cannot leave the European Union and keep the benefits of membership. Negotiating the terms of the UK exit at the same time with negotiations on a trade deal is not possible. After Brexit euro clearing will not take place in the City. This will serve as an example for those who want the end of the EU.

Michel Sapin, Minister of Finance[15]

- "This goes to the heart of the resilience of our [financial market] arrangements and of our sovereignty over our money. The strategic vision is that we must be masters, as the UK is the master when it comes to the rules that apply for the pound sterling, of the authorities that oversee the resilience of our arrangements…and we are going to have this sovereignty."

Francois Villeroy de Galhau, Governor of Central Bank[16]

- The impact on the UK will be far greater than on the EU.

AMF [17]

- The AMF will speed up the process of approving firms that wish to relocate to France. For fintech and firms providing start-up funding there is a framework in place enabling them to start within two weeks.

Christian Noyer, head of French special taskforce for Brexit financial services[18]

- The task force aims to boost Paris role as a financial centre. Brexit will bring more investment in the EU27 while euro-denominated business must return in the Eurozone for stability reasons.
- The transition to the new relationship must be well organized and no more than one or two years are needed.

Emmanuel Macron, Presidential candidate[19]

- The priority for France is to protect the single market in the upcoming negotiations. France will take measures to attract talent that is currently based in London from bankers to academics.

Corso Bavagnoli, head of financial affairs at the French Treasury[20]

- EU27 member states will face 'headwinds' in the depth and liquidity of their national markets that they will need to address.

[13] What to do with the UK? EU perspectives on Brexit, Book by VoxEU.org DIW Berlin
[14] The Guardian The Telegraph The Financial Times Bloomberg
[15] The Financial Times (1) Les Echos The Financial Times (2)
[16] CNBC
[17] cBanque
[18] Politico
[19] Sky News
[20] Comments at a conference in Brussels in April 2017

EU officials and institutions

Top priorities: EU unity, Single market integrity, UK's financial obligations, financial stability, Regulatory cooperation, Divorce bill settlement, Citizens' rights
Level of financial integration: Strong
Likely negotiating position: Hard

What the policymakers say:

Michel Barnier, EU chief negotiator[21]

- The EU would need 'special vigilance' on financial stability risk if it were to offer any form of equivalence or continued access.

- We cannot have parallel negotiations on the withdrawal and the future relationship: first of all, it is a matter of trust; and secondly, parallel negotiations will hinder any chances to conclude the negotiations within the two year period.

- An interim deal that gives the UK a special status between the exit and a new trade agreement will be difficult. The period of actual negotiations will be less than two years and talks should be concluded by October 2018 as the agreement needs to be approved by the European Council, the European Parliament and the UK.

- If there is no agreement on an orderly exit then the social and economic consequences for the UK and the EU will be significant. The impact on the UK will be bigger as two thirds of its trade depends on the single market and the trade agreements the EU has with a further 60 countries.

- Our top priorities are: EU27 Unity, citizen's rights and the UK's financial obligations to the EU. The new relationship will be nowhere close to EU membership.

Jean Claude Juncker, President of the European Commission[22]

- The UK will be treated as a third country and there will be no half-membership. The UK's example will make other member states realise that there is no benefit in leaving the EU. If there is no deal, everyone will lose.

European Parliament[23]

- The European Parliament has veto power over any deal. EU citizens in the UK and UK citizens in the EU should be allowed to stay and their future should be guaranteed, while EU institutions based in the UK must move at least some of their operations to the continent.

- Any transitional period should not last more than three years and during this transition the UK will still fall under the jurisdiction of the European Court of Justice. Moreover, the UK will have to pay an agreed divorce bill before it leaves.

- The UK will need to follow EU rules in several areas such as competition, tax and the environmental issues if it wants a trade deal. In addition, there will be no trade-off between trade and security.

Guy Verhofstadt, MEP and European Parliament chief for Brexit[24]

- In any transitional agreement the UK will remain under the jurisdiction of the European Court of Justice. The EU will not punish the UK, but Britain cannot leave the EU being better off than it was before.

- Those suggesting that it will be catastrophic for the EU to lose the City of London are just building up their muscles ahead of the negotiations.

Economic and Monetary Affairs Committee, European Parliament[25]

- In case of a transitional period European institutions will still have control. In addition, EU legislation needs to change so that the supervision of euro-derivatives clearing and trading is done inside the Euro area. Irrespective of what the final deal will look like, the UK will have to adhere to EU tax rules.

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[21] Deutsche Welle Luxemburger Wort Politico (1) Politico (2)
[22] Forbes The Independent
[23] BBC news
[24] The Guardian The Parliament Magazine
[25] The Financial Times

Markus Ferber MEP, Deputy chairman of the Economic and Monetary Affairs Committee, European Parliament[26]

- The UK has been a special member of the EU for many years: it is important that it does not become a special non-member. The UK financial services sector will 'notice' not being in the EU. It has to be clear that EU membership is better than any other option.

Manfred Weber, Chair of the European People's Party, European Parliament[27]

- Euro-denominated business cannot take place in London after Brexit. It must be done inside the EU with European supervision, defending jobs in the continent. Some European cities will win such as Amsterdam, Paris, Frankfurt and Dublin, and London will lose out in the end.

Daniele Nouy, ECB Supervision chief [28]

- Some London-based banks may choose to operate in the single supervisory mechanism due to the loss of passporting. If they choose to operate through branches, the ECB will need the power to oversee them and they will need to have appropriate levels of capital and governance.

Sabine Lautenschlaeger, Executive Board Member, ECB[29]

- EU regulators will not accept shell companies that book their exposures with an entity inside the Eurozone while their risk management and control systems remain based in London.

Pedro Lopez de Pablo, spokesman for the European People's Party (EPP)[30]

- The European Parliament will be the most vocal during the negotiations as it is the most pro-European institution and if the UK does not respect EU principles the parliament will veto any deal.

Steven Maijoor, chairman of ESMA[31]

- 'It is essential that national regulators do not compete on regulatory and supervisory treatment. Experience has shown the existing powers available to ESMA to forge common, rigorous supervisory standards are too weak. Now, it is high time to strengthen the instruments to support supervisory consistency across the EU'

Valdis Dombrovkis, vice president of the European Commission[32]

- 'In light of Brexit we need to accelerate the development of deeper capital markets in the EU27, particularly in the areas of derivatives, risk management and alternative investments where the UK represents more than 70% of all EU activity. We need to improve the supervisory and regulatory framework: capital markets cannot be built on shifting sands. Stronger and deeper capital markets in the EU are not a luxury but a necessity.'

Gianni Pittella, Chair of the Progressive Alliance of Socialists and Democrats[33]

- The negotiations on the future relationship will not start unless there is a deal on the citizens living in both sides of the channel.

Malta (Presidency of the Council of the EU until June 2017)

Top priorities: EU unity, Single market integrity
Level of financial integration: Weak
Likely negotiating position: Neutral to Hard ('as hard as the EU wants it to be')

What the policymakers say:

Joseph Muscat, Prime Minister[34]

- The EU will not punish the UK but it will treat it as a third country. The deal will be fair but inferior and the UK cannot pick and choose what it likes. London should seek a transitional deal especially for the financial services sector for some years after Brexit However, the EU will only agree to that if the European institutions maintain control for this transitional period.

[26] Markus Ferber webpage
[27] Bloomberg
[28] Bloomberg
[29] Bloomberg
[30] Politico
[31] The Financial Times
[32] Comments at a conference in Brussels in April 2017
[33] Politico
[34] Times of Malta Politico Reuters

Italy

Top priorities: EU unity, Attracting business from UK (active)
Level of financial integration: Weak
Likely negotiating position: Hard

What the reports and papers say…[35]

- The connection between the Italian economy and the UK is relatively weak in terms of trade, portfolio investment, and direct investment. UK bank exposures to Italian counterparties are less than $90bn, representing just 2% of total bank exposures to Italy and 3% of UK GDP. However, Italian banks have more than $350bn in exposure to UK counterparties, representing 4% of total bank exposures to the UK and 5% of Italian GDP (New Financial analysis of BIS data).

- Equivalence is not the answer to the loss of passporting and the experience from TTIP negotiations shows that equivalence is more about transparency and convergence of regulatory processes rather than identical regulations. Also, EU institutions grant or revoke equivalence and this would be an issue for UK politicians and their electorate.

What the policymakers say:

Pier Carlo Padoan, Minister of finance[36]
- It's up to the UK to decide what the implications will be for its economy, though a messy Brexit will hurt both sides. Only if the UK accepts all four freedoms can it have full access to the EU market.

- Italy is granting tax benefits to those who will move from London to Milan, including a 50% income tax reduction and a one-off fee of €100,000 for those who earn revenues outside Italy.

- The national government, the Municipality of Milan and the Central Bank have created a task force which aims to attract business from London. The taskforce will be the point of reference for those who want to relocate in Milan.

Angelino Alfano, Foreign Minister[37]
- We have to make Milan the capital of the EU after Brexit. There will be a campaign in New York and London.

Guiseppe Vegas, Head of CONSOB, financial regulator[38]
- Italy should avoid overregulation because investment flows and business may relocate to the US, especially in case the US administration proceeds to deregulation. Brexit is an opportunity for Italy's financial markets and Milan is a great place for UK based firms. We will make Italy's financial market more attractive and smart, not necessarily by deregulation but with more flexible regulation.

[35] What to do with the UK? EU perspectives on Brexit, Book by VoxEU.org
[36] La tribuna di Treviso Bloomberg
[37] Omni Milano Il Giornale
[38] Reuters Teleborsa

Spain

Top priorities: Close trade relationship with UK, EU unity, Single market integrity, Attract business from UK (passive)
Level of financial integration: Strong
Likely negotiating position: Soft (although Gibraltar may harden its position)

What the reports and papers say…[39]

- Both countries have a lot to lose with Brexit: Spain has invested the most in the UK's financial services sector compared to other EU countries and is second in the world after the US. One out of every five pounds of foreign direct investment to the UK's banking sector (17%) comes from Santander and Sabadell. The UK affiliates of these two banks account for a quarter of Santander's and Sabadell's assets and profits in 2015.

- Spanish banks have more than $500bn in exposure to UK counterparties (second only to German banks): this represents more than 6% of all bank exposure to the UK economy and is equivalent to 40% of Spanish GDP. On the other hand, UK banks have around $60bn in exposure to the Spanish economy, or just 2% of total exposures and only 5% of UK GDP (New Financial analysis of BIS data).

What the policymakers say:

Mariano Rajoy, Prime minister[40]
- The UK cannot pick and choose among the four freedoms.

Luis de Guindos, Economy Minister[41]
- Spain will be reasonable as the UK is very important in terms of trade and investments. However, the UK cannot pick and choose what it wants and the EU should be united and avoid other countries leaving the block.

- There will not be a massive exodus but there will be relocation and Spain will try to benefit from Brexit as Madrid is very attractive. It has set up a commission to come up with measures to attract London-based financial firms. (The tax system and the slow operation of CNMV and institutions such as the judiciary are the main disadvantages for relocating to Spain).

- Spain has established a task force with members from the financial regulator CNMV, Bank of Spain, and the Ministry of Economy that will seek to boost the operations and the efficiency of the regulator.

Alfonso Dastis, Foreign Minister[42]
- Spain is sympathetic to several UK demands such as to negotiate exit and the new relationship in parallel. It is possible to preserve EU unity and maintain a close relationship with the UK. While Spain wants to preserve the integrity of the internal market that does not mean weakening the City.

- The UK needs tax revenues so suggestions that the UK will try to remain competitive by setting lower taxes are unrealistic.

[39] CECA (Banking Association) What to do with the UK? EU perspectives on Brexit, Book by VoxEU.org
[40] The Olive Press
[41] CNBC The Local Diario de Noticias
[42] The Financial Times (1) The Financial Times (2)

The Netherlands

Top priorities: EU unity, Single market integrity, Attract business from UK (passive)
Level of financial integration: Strong
Likely negotiating position: Neutral to Hard

What the reports and papers say…[43]

- The Netherlands could either be accommodative as the financial services sector is disproportionally strongly integrated with the UK or try to get some business by exploiting further its advantages related to lower taxes and existing regulatory loopholes and its current position as a relatively large recipient of US investments in the financial sector.

- Because of its existing clustering and advantages, the UK will most likely keep its strong position as a financial centre. However, UK-based firms will face severe difficulties when providing services to European markets which would result to relocation within the EU. EU financial centres will benefit, but the cost to provide financial services will increase and there is a risk that firms decide to relocate both outside the EU and the UK.

- The UK will suffer higher costs than the EU as it is much more dependent on trade with the EU rather than the opposite.

- The level of financial integration between the UK and Dutch economies is very high: UK banks have nearly $200bn in exposure to Dutch counterparties (only their exposure to France and Germany is higher), representing about 7% of total Dutch exposures. The total exposure of Dutch banks to the UK of $200bn represents around 26% of Dutch GDP, and the Netherlands represents more than 40% of all outward FDI in financial services to the EU27. (New Financial analysis of BIS / ONS data).

What the policymakers say:

Mark Rutte, Prime Minister[44]

- The UK economy will suffer because it prioritises immigration controls over access to the single market and it cannot exit the EU with a better deal than it has now. Many US banks have already expressed interest to relocate to Amsterdam or Frankfurt.

Jeroen Dijsselbloem, Minister of Finance[45]

- The Dutch bonus legislation does not apply to international groups, only to Dutch companies. Some major financial institutions and fintech firms are considering Amsterdam for their headquarters.

Merel van Vroonhoven, Head of AFM, financial regulator[46]

- Brexit may have an impact on European regulatory cooperation

Klaas Knot, President of the central bank[47]

- The EU should not take a hard stance on the negotiations because the UK will be an important partner even after Brexit. Both sides need a deal that would guarantee free trade as much as possible and there is no need for unnecessary uncertainty.

- The Dutch economy is quite dependent on trade with the UK and British demand for products but at the same time Brexit offers opportunities.

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[43] CPB Netherlands Bureau of Economic Policy Analysis DIW Berlin
[44] The Guardian Inquirer
[45] Executive Finance
[46] AFM
[47] NRC Elsevier

Ireland

Top priorities: Single market integrity, Close trade relationship with UK, Attract business from UK (active)
Level of financial integration: Strong
Likely negotiating position: Neutral to Hard

What the reports and papers say…[48]

- Ireland could either be accommodative as the financial services sector is disproportionally strongly integrated with the UK or try to get some business by exploiting further its advantages and its current position as a relatively large recipient of US investments in the financial sector.

- The UK is as important to Ireland as the rest of world and EU for financial services exports: 33% of exports go to the UK while 32% to the rest of the EU. Ireland is also a major investor in the UK's financial sector relative to the size of the economy compared to the rest of the EU.

- The UK and Irish economies share a very high level of financial integration: UK banks have more than $110bn of exposure to Irish counterparties, representing 15% of total bank exposures to the Irish economy but only 4% of UK GDP. Irish banks have nearly $70bn in exposure to the UK, equivalent to 27% of Irish GDP (New Financial analysis of BIS data). If the UK exits the single market trade will decrease and the affected companies will relocate. Ireland will benefit due to location and language advantages.

- Ireland may need to set up or switch to a new central securities depositary after Brexit: Irish stocks and bonds are currently settled with the UK-based Crest system, operated by Euroclear UK. It is hard to see how this arrangement can continue.

What the policymakers say:

Michael Noonan, Minister of Finance[49]

- There will not be a special bilateral trade deal between Ireland and the UK. Ireland favours a free trade agreement between the EU and the UK that is similar to what we have today.
- The negotiations will last at least six years. The EU can use as leverage that the result of the referendum was nearly 50-50.
- The UK has limited capacity to lower taxes or use tax breaks to attract business because of international rules. Many financial firms are looking to move to Dublin and Ireland's 12.5% corporate tax rate will increase interest.

Philip Lane, Governor Central Bank of Ireland[50]

- The Irish economy is more diversified than it was in the past. Brexit is just one factor affecting the overall economy.
- There will not be a new 'City of London'. Different financial centres will be specialising in different financial services. Financial centres will be more fragmented geographically, but integrated as part of the European single market.
- There is a need for at least a five year transitional agreement before a complete separation takes place. If UK based financial firms are not deemed equivalent to EU firms then we will see migration to the EU. If firms decide to come to Ireland we have the capacity to regulate them.

Gerry Cross, Director of Policy and Risk, Central Bank of Ireland[51]

- Firms should have their board and management located in Ireland if they want to retain access to the EU market.

Sharon Donnery, Deputy Governor of the Central Bank of Ireland[52]

- The impact on Ireland will be negative and significant. Fragmentation of the financial services across several European cities is more likely than a new financial centre.

Eoghan Murphy, Minister for financial services[53]

- Many firms have already decided where to relocate but they will not announce it publicly or state that this is a Brexit decision

[48] What to do with the UK? EU perspectives on Brexit, Book by VoxEU.org DIW Berlin The Economic and Social Research Institute
[49] Bloomberg Limerick Leader JOE
[50] RTE The Irish Times
[51] Central Bank of Ireland
[52] Central Bank of Ireland
[53] The Independent

Luxembourg

Top priorities: Single market integrity, Attract business from UK (active), Close trade relationship with UK
Level of financial integration: Strong
Likely negotiating position: Neutral to Hard

What the reports and papers say…[54]

- Luxembourg could either be accommodative in the negotiations as the financial services sector is disproportionally strongly integrated with the UK or try to get some business by exploiting further its advantages related to lower taxes and existing regulatory loopholes.
- In 2015 Luxembourg exported services to the UK worth seven times the value of goods, half of which is financial sector's exports. Also, Luxembourg along with Ireland invests the most in the UK financial sector relative to the size of the economy compared to the other EU countries.
- Luxembourg has a deficit with the UK in financial services, but it is compensated by a surplus in non-financial services, the majority of which is due to trade with the UK. Seven out of a total 141 credit establishments in Luxembourg come from the UK, while in investment funds 17% (€600bn) of net assets come from the UK. Nearly 15% of total investments are of UK origin.
- In case of a hard Brexit Luxembourg's financial services sector will be smaller by 2.5% and 600 jobs will be lost by 2020, but this can be compensated by reinforcing its position as a host country of UK firm's subsidiaries and by attracting new business in investment funds and wealth management.

What the policymakers say:

Xavier Bettel, Prime Minister[55]

- Luxembourg will oppose any move by the EU to give the UK a transitional deal. Either a country is an EU member or not. Luxembourg is open for businesses that want to relocate.

Pierre Gramegna, Finance Minister[56]

- Although nobody wants to punish the UK, the final deal cannot be the same as the status quo and the UK cannot choose between the four freedoms. Luxembourg's banking sector is ready to attract business from London. Article 50 is not irreversible.
- The UK will probably have to look for a special deal: many Swiss firms use Luxembourg as their European hub to access the single market for wealth management and capital markets, while EEA countries have full access but not a say in the rules.
- Luxembourg wants to continue its cooperation with the City and remain its main partner: the UK and Luxembourg have shared the same concerns on many different EU regulatory initiatives, while in some sectors London and Luxembourg complement each other: many funds are managed in London while Luxembourg provides the infrastructure, risk management and accounting.
- Companies will not just leave London but they will enhance their presence in the EU. The CMU project will broaden and deepen the EU capital markets and it will be an incentive to maintain a close relationship with London.
- The strongest growth for Luxembourg will be in funds and fintech. Luxembourg is seeking to attract fintech businesses (for example, the government has launched the Luxembourg House of Financial Technology).

Claude Marx, Director General of the Commission de Surveillance du Secteur Financier[57]

- Firms will not wait for Article 50 to be triggered or for the negotiations to begin to make plans. In an ideal world we would talk with the UK regulator about future cooperation but European authorities remind us that it is 'business as usual' until there is a new system in place.
- It is not realistic to expect that Luxembourg can accommodate all the big UK-based institutions. Most likely firms will set up an entity in Luxembourg and delegate activities back to the UK. We will not accept small subsidiaries that appear to generate billions of transactions and profits. Firms will need to establish a solid management with accounting functions.
- We have already met with firms and will help them by following a staged approach: fewer requirements in the beginning and a clear timeframe for the business to be up and running.

[54] Luxembourg Statistics and economics Bureau (Statec) DIW Berlin
[55] The Guardian
[56] Luxemburger Wort
[57] Linklaters

Belgium

Top priorities: EU unity, Close trade relationship with UK, Attract business from UK (passive)
Level of financial integration: Weak
Likely negotiating position: Neutral

What the reports and papers say…[58]

- Belgium does not have a large exposure to the UK economy: for example, only 4% of bank assets are held by a British counterpart and since 2008 UK claims of Belgian banks have decreased significantly as well as claims of German, Irish, French and Netherlands banks.

- After Brexit some activities will move to the EU, but London's advantages such as the depth of infrastructure and skills might mitigate the negative effects. The UK could first try to make a deal on sectors that depend on the passport and where alternatives are limited, which would be a mix of bilateral agreements and equivalence. Firms can also set up branches or subsidiaries where necessary. However, such agreements require a lot of time and political will

- If UK banks lose their passports the financing of Belgian exporters will be affected as in the last few years Belgian exporters have started to rely more on UK banks for credit (UK banks provide roughly 4% of all credit to the Belgian economy).

- Wholesale banks will look to move as they are most affected by the loss of the passport: 20% of their income is passport-related while for US investment banks 15% of their revenue is due to passporting and they will have to set up an autonomous subsidiary in the EU. The impact on asset management and insurance sectors will be smaller: the most vulnerable companies will gradually move to the continent.

- Brexit can be an opportunity to attract business, especially technology-driven firms. Apart from inefficiencies in taxation and labour costs, Belgium has many advantages: 1) it is home to a lot of international organizations and EU institutions 2) a strong diversified and open financial ecosystem 3) expertise in market infrastructure, payment systems and cybersecurity 4) high quality of life and a huge expat community 5) available and cheap office space.

What the policymakers say:

National bank of Belgium[59]

- The UK is not Belgium's main trade partner and is not as important as the rest of the EU. For Belgium only 4% of bank assets are against a British counterpart. In financial services the UK is an important partner for the EU but the exposure of EU banks to the UK (excluding Ireland) is rather limited and it has decline since the financial crisis.
- The UK faces a trade-off between more intense trade relations to minimize cost of Brexit and greater independence on policy. Negotiations will be lengthy as the interests of all member states need to be taken into account and each of them must approve and ratify the agreement.
- The agreement with Canada does not include financial services, while under WTO UK based firms will have to follow EU legislation and standards in order to access EU markets. This means double regulation and the costs will get higher as regulations diverge overtime.
- After Brexit the UK will not benefit from EU agreements with third countries and will have to strike separate trade deals, being in a weaker negotiating position with no expertise and lack of resources.

Johan Van Overtveldt, Minister of Finance[60]

- London's financial ecosystem will not simply move elsewhere and its resilience should not be underestimated. Brexit is an opportunity to build a bridge between London and Brussels, making Brussels a gateway to Europe and a stronger financial centre. An example is B-Hive's (governments' partly owned platform) agreement with the UK's fintech association.

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[58] National Bank of Belgium (In Flamish) and Federation of Belgian Employers
[59] National Bank of Belgium
[60] Fortune

Sweden

Top priorities: EU unity, Single market integrity
Level of financial integration: Weak
Likely negotiating position: Hard

What the reports and papers say…[61]

- London could remain a global financial centre but its position will weaken. Equivalence is not a substitute for passporting and even with increased access to the single market some activity will move to Frankfurt, Paris and Dublin, especially that of US firms and related professional services. Madrid and Berlin are looking to grab a share in the fintech industry.

- US firms choose London because of its advantages including the flexible labour market and the pool of human capital. If Brexit leads to complicated visa rules or strict conditions on maintaining and recruiting staff, this advantage will decrease.

- While FX trading will not be affected, banking, investment banking, interest rate trading and EU equities will be. Some relocation is expected in OTC derivatives clearing. As for funds, some relocation is expected for UCITS fund as they need to be EU domiciled while hedge funds are not affected (unless they offer AIFs).

- Brexit is bad for Sweden and the UK even in the case of a free trade agreement. It will increase administration costs, trading costs and reduce trade flows even if an FTA is achieved. For trade in services only an EEA option is close to the status quo. The benefits of the single market are not replicated even if you take the most ambitious FTA out of EU's deals with Canada, Ukraine and South Korea. Brexit is an opportunity for Sweden to attract investments in financial services.

- GATS (WTO) rules do not cover substantially financial services. For example, a number of central government financial activities and core policies protecting investors and customers are excluded. Unlike other services sectors, for financial services trade it does not matter whether the UK government will keep part of EU rules. Once the UK leaves the single market financial firms will no longer be able to access the single market.

- Sweden's financial services exports to the UK account for 4% of total exports of services compared to a 7% to the EU and a 6% to the rest of the world. Swedish financial services imports from the UK account for 3% compared to a 3% from the EU and 4% from the rest of the world. However, this does not reflect the full extent to which Sweden relies on the UK financial sector as the sector is important to some UK-based Swedish companies.

What the policymakers say:

Magdalena Andersson, Finance Minister[62]

- The softer the Brexit the better, but the UK cannot pick and choose. Also, the UK cannot become a tax haven because this will turn against them: it will only lead to a worse trade deal for them.

Ann Linde, EU affairs and trade minister[63]

- While Sweden wants as close relations to the UK as possible, the main goal is to ensure the future of the EU27. If the UK's position is free access to the single market with no contribution to the budget and no compliance to the ECJ it will not help the negotiations, which will most likely take many years to conclude.
- Trade will be more difficult and more expensive after Brexit but Swedish companies can enter other markets if the UK leaves the single market.

Stefan Lofven, Prime Minister[64]

- It is unlikely that a deal will be struck within two years, while it will be difficult for the UK to get a good deal. If you want to leave the EU you cannot have the same benefits as if you stayed in. Also, we cannot negotiate a trade deal before agreeing on the terms of exit and the UK settling its obligations.

[61] State Secretary at the Swedish Ministry of Finance, Presentation at the London School of Economics Business Sweden National Board of Trade
[62] SvD Naringsliv Sveriges Radio The Telegraph
[63] Reuters The Big Story The Local
[64] The Big Story

4) ii) The positions, priorities and concerns of smaller EU countries:

Austria (Presidency of the Council of the EU - July to December 2018)

Top priorities: Single market integrity, Attract business from UK (passive)
Level of financial integration: Weak
Likely negotiating position: Neutral to Hard

What the reports and papers say…[65]

- Austria is not a competitor to London as a financial centre despite significant improvements in this area. Austria is expected to be accommodative and support giving the UK increased access to EU markets as Austrian business would benefit from maintaining access to the City. The UK and Austrian economies have a relatively weak level of financial integration.

What the policymakers say:

Hans Jörg Schelling, Finance minister[66]

- Only if the UK accepts all four freedoms can it stay in the single market. Negotiations will not be concluded by 2018 and the UK will probably exit the EU in five years' time, but a long period of uncertainty does not favour anyone. There could be a Brexit for England, while Scotland and Northern Ireland could remain in the EU.
- It is uncertain whether EU exit terms and future arrangements can be negotiated in parallel. The EU does not permit bilateral negotiations between the UK and member states and the majority of EU members prefer to negotiate the exit first and then the new relationship.
- Europe may lose importance in the financial sector globally. However, Brexit is also an opportunity for Austria. It will change its framework to attract financial firms and start-ups and will bid for the European Banking Authority. Also it can be a bridge for firms that focus on Central, Eastern and Southern Europe.

Edwald Nowotny, Chairman of the National Bank of Austria[67]

- The impact of Brexit will be relatively minor on the EU27. The impact on the UK will be bigger, but perhaps less than originally expected and it will be realised in the long-term. The impact on Austria will be small, estimated at a 0.3% to 0.5% loss of growth by 2018.
- Either a soft or a hard Brexit will be a hard hit for the UK and the EU financial services sector. There will be some relocation and London's role as a financial centre will deteriorate. The banking sector will be the most affected and the relocation of individuals has already begun.
- There are different interests inside the EU. One would expect Germany to be more opportunistic as it loses a large partner. For the ECB it is important to move euro-clearing into the Eurozone or at least to have share supervision of those activities.
- The British are not well prepared and there is chaos surrounding the Brexit process. However, UK banks and EU banks will not face a shortage in liquidity as there are agreements between the ECB and the Bank of England for mutual assistance.

Bulgaria (Presidency of the Council of the EU – January to June 2018)

Top priorities: EU unity, Single market integrity, Citizens' rights
Level of financial integration: Weak
Likely negotiating position: Neutral to Hard

What the policymakers say:

Boyko Borisov, most recent Prime Minister before the upcoming elections[68]

- The EU should not give the UK special status as it will break the union apart.

Vladislav Goranov, most recent Finance Minister before the upcoming elections[69]

- Bulgaria's trade turnover with the UK is relatively small so there will be no serious effect on the country's economy.

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[65] The Vienna Institute for International Economic Studies
[66] Kurier Wiener Zeitung TT Heute
[67] Die Presse Advantage Austria Handelsblatt OEBRG (Austro-British Society) media Kleine Zeitung
[68] Novinite
[69] Novinite

Croatia

Top priorities: Close trade relationship with UK
Level of financial integration: Weak
Likely negotiating position: Neutral

What the policymakers say:
Croatian National Bank [70]

- Trade is very low with the UK and also UK direct investments in Croatia are very low.

Kolinda Grabar-Kitarovic, President of Croatia[71]

- Negotiations with the UK will be long and difficult and will require a tailor-made deal: it is not only about the single market but also about sharing the same values and culture.

Andrej Plenkovic, Prime Minister[72]

- Croatia wants to build strong relations with the UK in business and tourism sectors.

Cyprus

Top priorities: Close trade relationship with UK
Level of financial integration: Weak
Likely negotiating position: Soft to Neutral

What the reports and papers say…[73]

- The impact to Cyprus will be minimal. The financial sector is not as integrated with the UK as other sectors (such as tourism). A big chunk of business will be transferred inside the Eurozone, but the extent of the relocation depends on the future arrangements and whether there will be a smooth transition to this new relationship.

What the policymakers say:
Harris Georgiades, Finance Minister[74]

- The UK will be hit harder than the EU. Cyprus wants a strong EU-UK relationship after Brexit.

Czech Republic

Top priorities: EU unity, Single market integrity, Citizens' rights
Level of financial integration: Weak
Likely negotiating position: Neutral

What the policymakers say:
Bohuslav Sobotka, Prime Minister[75]

- Free access to the single market comes with accepting all four freedoms.

Andrej Babis, Minister of Finance[76]

- The Czech Republic may veto any deal that does not respect the free movement of people. Negotiations will last more than two years.

Tomas Prouza, EU Minister[77]

- The UK's plan is excessively ambitious: You cannot have free trade and full control on immigration.

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[70] EBL news
[71] Reuters
[72] EBL news
[73] Central Bank of Cyprus
[74] Bloomberg Philenews
[75] Ceskenoviny
[76] Bloomberg
[77] City A.M.

Denmark

Top priorities: EU unity, Single market integrity
Level of financial integration: Weak
Likely negotiating position: Hard

What the policymakers say:
Kristian Jensen, Minister of Finance[78]

- The EU cannot give UK businesses preferential treatment because it will impede European unity with other countries thinking that they can also leave and be better off. This is a priority for Denmark. There will be no access to single market if the UK doesn't give concessions.
- Although we should not punish the UK, when you look at the various issues it is in Denmark's advantage not to facilitate a soft deal for the UK. In case of a bad trade deal, Danish businesses will enter other markets as they did when sanctions were applied to Russia.

Ulrik Federspiel, diplomat [79]

- Securing current trade with the UK is not the priority for Denmark.

Lars Rohde, Central Bank Governor[80]

- The impact of Brexit will be harder for the UK economy than for the EU or Denmark.

Estonia (Presidency of the Council of the EU - July to December 2017)

Top priorities: EU unity, Single market integrity
Level of financial integration: Weak
Likely negotiating position: Hard

What the policymakers say:
Juri Ratas, Estonian Prime Minister, Sven Sester, finance minister[81]

- The four freedoms are not up for negotiation and Estonia will put European unity first. The relationship between Estonia and the UK comes second.

Finland

Top priorities: Close trade relationship with UK
Level of financial integration: Weak
Likely negotiating position: Neutral

What the reports and papers say…[82]

- The impact of Brexit on Finland's financial system will be limited. There could be an indirect impact due to the particularly high exposure to UK central clearing counterparties.

What the policymakers say:
Juha Sipilä, Prime Minister

- While the UK chose to be outside of the single market, it is an important trade partner and it is important to maintain close economic relations.

[78] The Financial Times
[79] The Financial Times
[80] Bloomberg
[81] http://news.err.ee/120112/european-commission-s-chief-brexit-negotiator-meets-with-estonian-officials Xinhuanet
[82] International Monetary Fund (IMF)

Greece

Top priorities: Citizens' rights, tourism and trade.
Level of financial integration: Weak
Likely negotiating position: Neutral

What the policymakers say:

Dimitris Papadimitriou, Minister of Economy[83]

- A trade agreement that will secure the access of Greek products and services to the UK market is necessary.
- The direct cost for the Greek economy is estimated to range from 0.3% to 1% of GDP. The Greek business community is particularly worried as the UK is the fourth biggest trade partner. Greece's total imports from the UK amount to €1.3bn whereas total exports to the UK amount to nearly €1.1bn.
- The impact on trade will come from the weaker pound and the restricted access to the UK markets for Greek exports. In addition, the devaluation of the pound will make Greece a more expensive destination for holidays. Finally, there might be an indirect effect from potential financial market instability.

Yannis Stournaras, Central Bank Governor[84]

- The impact of Brexit on Eurozone countries will be smaller than expected and the UK will suffer more as it relies more on the EU for its exports than the other way around, while Greece will barely feel an impact from Brexit.

Hungary

Top priorities: Close trade relationship with UK, Citizens' rights
Level of financial integration: Weak
Likely negotiating position: Soft

What the reports and papers say…[85]

- Hungary relies on credit from abroad, but mostly from Eurozone countries rather than the UK. However, a general unstable European financial environment will not benefit the country. Thus, Hungary will support a quick and flexible agreement on financial services.

What the policymakers say:

Victor Orban, PM and Mihaly Varga, Finance Minister [86]

- There needs to be a fast and fair deal that will preserve the common market between the UK and the EU.

Peter Szijjarto, Foreign Minister[87]

- The EU should reach an agreement with the UK and maintain its strong economic relationship and if the EU goes for a hard Brexit, it will make Britain better off by trading with other countries rather than the EU. Hungary wants a free trade deal in goods, but if the UK does not accept all four freedoms, most EU countries will not agree.

Laszlo Szab, Parliamentary State Secretary of Foreign Affairs and Trade[88]

- Hungary wants the negotiation process to be fair and transparent and securing the rights of Hungarians living in the UK is the government's priority. We can't see how the UK could keep operating without EU workers.
- Hungary is not actively encouraging financial firms to leave the UK but if firms decide to come in Hungary, the country has a great environment and an ideal location.

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[83] in.gr
[84] The Big Story
[85] LSE blogs, Dr Zoltán Gálik
[86] Hungary Today (1) Hungary Today (2)
[87] Bloomberg
[88] Oreanda

Latvia

Top priorities: Close trade relationship with UK, EU unity
Level of financial integration: Weak **Likely negotiating position:** Neutral

What the policymakers say:
Dana Reizniece-Ozola, Finance Minister [89]
- The EU should avoid more "Brexits"

Maris Kucinskis, Prime Minister [90]
- Latvia does not want to complicate the negotiations and its position is pragmatic and rational.

Lithuania

Top priorities: Close trade relationship with UK
Level of financial integration: Weak **Likely negotiating position:** Soft

What the policymakers say:
Linas Linkevicius, Foreign Minister[91]
- We need to save what has been created so far and maintain a strong relationship with the UK, similar to the current.

Lithuanian Central Bank
- The only channel through which Brexit will have a negative impact to Lithuanian business is through decreased EU funding in construction activities.

Poland

Top priorities: Citizens' rights, Close trade relationship with UK, Attract business from UK (active – particularly back office & IT)
Level of financial integration: Weak **Likely negotiating position:** Soft

What the reports and papers say…[92]
- In financial services the connection is very weak so the impact on Poland will be minor. For example, financial services imports from the UK are very small, under €400m.

What the policymakers say:
Marek Chrzanowski, head of the Polish Financial Supervision Authority[93]
- Poland wants to attract financial institutions and will make a bid for the EBA.

Beata Szydlo, Prime Minister[94]
- Poland will conduct negotiations in a down to earth manner and help the UK to get a good deal. The biggest priority is Polish citizens in the UK.

Portugal

Top priorities: Citizens' rights, Attract business from UK (active – particularly back office & IT), + tourism
Level of financial integration: Weak **Likely negotiating position:** Neutral

What the reports and papers say…[95]
- The importance of financial services to the UK increases EU's power in the negotiations

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[89] NRA
[90] Finance Net
[91] TV 3
[92] What to do with the UK? EU perspectives on Brexit, Book by VoxEU.org
[93] CNBC
[94] Polish Express The Independent
[95] What to do with the UK? EU perspectives on Brexit, Book by VoxEU.org

Romania (Presidency of the Council of the EU – January to June 2019)

Top priorities: Citizens' rights
Level of financial integration: Weak **Likely negotiating position:** Soft to neutral

What the policymakers say:
Ana Birchall, Minister Delegate for European Affairs[96]

- Romania's interest is to put a decisive mark on the forthcoming negotiations by managing the process in a fair and pragmatic way. Romania's attention will focus to protect its citizens in the UK.

Slovakia

Top priorities: Single market integrity
Level of financial integration: Weak **Likely negotiating position:** Neutral to Hard

What the reports and papers say…[97]

- Financial services will be irrelevant to Slovakia when negotiations begin as the country's banking sector is mainly owned by Italian and Austrian banks, and no major UK banks operate in the country.

- Outsourcing of financial services or other related services to the sector is limited and there is no opportunity for Slovakia to attract any business from the City of London. However, Slovakia will support any push made by European Institutions or other EU member states for relocating business into the Eurozone.

Slovenia

Top priorities: EU unity, Single market integrity, Citizens' right
Level of financial integration: Weak **Likely negotiating position:** Neutral to Hard

What the policymakers say:
Miro Cerar, Prime Minister[98]

- The four freedoms are indivisible and EU unity should be preserved, while the EU can benefit from Brexit by keeping its doors open to new members or even for the UK to come back. Slovenia's goal is to preserve the single currency, the free movement of people and the common market.

And….Switzerland

Top priorities: ensuring the UK doesn't get a better deal on financial services than Switzerland, maintaining close financial ties with the UK, and potential collaboration with the UK
Level of financial integration: Medium to high

What the reports and papers say…[99]

- The most likely scenario is that the UK will leave the EU without a trade agreement in place and this will mean that the City will completely lose its access to the single market.
- Negotiating an FTA for financial services is not easy: under current arrangements Swiss financial services firms have very restricted access to the single market.
- However, Brexit could be an opportunity for the UK and Switzerland to join forces and negotiate a financial services sector deal with the EU. This could result to a true pan-European financial market.
- Also, another option for Switzerland and the UK would be to join forces with other financial centres such as Hong Kong and Singapore to strike a deal with the EU.
- Finally, the UK can also implement reforms to increase its competitiveness, which would increase competition for capital, ideas and talent and challenge Swiss firms at the international level.

[96] Romanian Ministry of Foreign Affairs
[97] What to do with the UK? EU perspectives on Brexit, Book by VoxEU.org
[98] Bloomberg
[99] What to do with the UK? EU perspectives on Brexit, Book by VoxEU.org