NEW FINANCIAL
Rethinking capital markets

BREXIT & THE CITY: THE IMPACT SO FAR

AN UPDATED ANALYSIS OF HOW THE BANKING & FINANCE INDUSTRY HAS RESPONDED TO BREXIT – AND WHO IS MOVING WHAT TO WHERE

April 2021

by Eivind Friis Hamre and William Wright

>>> This report highlights the damage that Brexit has already done to the City of London. More than 440 firms in banking and finance have moved or are moving part of their business, staff, assets or legal entities from the UK to the EU. While this is higher than previous estimates, it underestimates the real picture - and the potential longer term impact.

Brexit means Brexit

For nearly five years, Brexit has loomed over the City of London and the European financial services industry. While politicians have been locked in a circular argument and rival financial centres in Europe have been jostling to win business from the UK, many firms in banking and finance have been quietly getting on with preparing for it.

Now that the UK has left the EU, Brexit means Brexit whether you like it or not. This report provides the most comprehensive picture yet of the impact of Brexit on the banking and finance industry in the UK and the emerging post-Brexit landscape of financial centres across the EU. It makes for sobering reading: the bad news (from the UK's perspective) is that we have identified more than 440 financial services firms in the UK that have responded to Brexit in some way by relocating part of their business, staff, or legal entities to the EU (a lot higher than our previous estimates). We have identified more than £900bn in bank assets (roughly 10% of the entire UK banking system) that have been or are being moved.

The worse news is that this analysis is almost certainly a significant underestimate of the real picture: many firms will have slipped below our radar (particularly banks and asset managers that are already headquartered in the EU). 'Getting Brexit done' is only the end of the beginning of the process: given the limited equivalence arrangements in place, over time we expect there to be a drip-feed of business and activity from the UK to the EU. As the EU takes a tougher line on the location of activity and individuals we expect these headline numbers to increase in future.

The 'good' news is that the extent of this relocation activity means that most firms in the UK that need continued access to clients and markets in the EU now have it. With that access in hand, this is perhaps an opportunity to draw a line in the sand, treat Brexit as a sunk cost, and move beyond the debate of the past few years of how closely the UK should remain aligned to the EU in exchange for more access to EU markets. That access is unlikely to be forthcoming, so it is perhaps better for the industry to take the damage from Brexit on the chin and focus instead on recalibrating the framework in the UK so that it is more tailored to the unique nature of the UK financial services industry. While the EU will remain a significant and addressable market on the UK's doorstep, Brexit can be the occasion for the UK to seek to develop closer partnerships in key sectors with other markets further afield.

The report addresses the following questions:

- How have firms in different sectors of the banking & finance industry in the UK and EU responded to Brexit?
- Which financial centres in the rest of the EU have benefited most from Brexit-related relocations?
- What is the scale of Brexit-related relocations in terms of staff, business, assets and funds?
- What does the post-Brexit EU landscape for financial services look like?
- What are the potential longer-term consequences of these moves?

Methodology & acknowledgements

This report focuses on the number of firms in the UK that have responded to Brexit by moving part of the their operations, staff, legal entities and assets to the EU. We chose this approach because in most cases the information is more accurate, consistent and comparable than the wildly differing estimates of job moves and assets. We used a combination of regulatory registers, media reports, other research reports on the impact of Brexit, and information from development agencies and government bodies, to build as comprehensive a picture as possible of the impact of Brexit. We apologise for any errors: please email any queries, additions or corrections to info@newfinancial.org

Thank you to Eivind Friis Hamre for conducting much of the heavy-lifting in this report; to the speakers and guests who have participated in our Brexit programme of more than 30 events over the past few years; and to our members for their support for our work in making the case for bigger and better capital markets in Europe.

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SUMMARY

Here is a short summary of this report:

1. **A big headline number:** we identified more than 440 firms in the banking and finance industry in the UK that have responded to Brexit by relocating part of their business, moving some staff, or setting up new entities in the EU. Over 420 of them are setting up new hubs for their EU business, and in all we identified over 500 separate moves across the EU. Banks have moved or are moving more than £900bn in assets from the UK to the EU, and insurance firms and asset managers have transferred more than £100bn in assets and funds.
2. **A big increase:** when we published our first report in March 2019 on the impact of Brexit we identified 269 firms that had relocated something. Since then, we have identified an additional 170 firms. While this is the most comprehensive analysis yet of the impact of Brexit on the City, we think it is an underestimate and we expect the numbers to increase over time: we are only at the end of the beginning of Brexit.
3. **And the winner is…:** Dublin has emerged as the clear winner in terms of attracting business from the UK, with 135 firms choosing the Irish capital as a post-Brexit location. This represents 25% of all the moves that we identified, ahead of Paris with 102 firms, Luxembourg with 93, Frankfurt on 62, and Amsterdam on 48. In the longer-term, we expect Frankfurt to be the 'winner' in terms of assets, and Paris in terms of jobs.
4. **A multipolar world:** no single financial centre has dominated these relocations. Many firms have deliberately split their business and chosen separate cities as hubs for different divisions, and we identified nearly 70 firms that are expanding in other EU cities in addition to whichever centre they have chosen as their main post-Brexit hub. This redistribution of activity across the EU has wound the clock back by about 20 years.
5. **Sector specialisation:** different financial centres have attracted different firms based on their sector of activity. For example, a third of all asset management firms that have moved something as a result of Brexit have chosen Dublin; 60% of the firms that have chosen Frankfurt as their main EU base are banks; and nearly two thirds of firms moving to Amsterdam are trading platforms, exchanges or broking firms.
6. **Jobs on the line:** we think the debate about how many staff have been moved so far and whether that is higher or lower than expected a few years ago is a red herring. That said, we have identified around 7,400 staff moves or local hires in response to Brexit, but this is derived from only a small minority of firms, and we expect this number to increase in the next few years. The bigger issue is not jobs leaving the UK but new jobs in the EU being created in future that might otherwise have been created in the UK.
7. **A shift in scale:** the scale of business, assets and funds being transferred from the UK is far more significant. Only a small number of firms have said what they are moving and already the numbers are very large: £900bn in bank assets is roughly 10% of the UK banking system. The final tally is likely to be higher, which will reduce the UK's tax base, supervisory influence, and ultimately have an impact on jobs.
8. **Two way traffic:** it is not just one way traffic, and in the next few years many EU firms are likely to open a new office in the UK. Our analysis of the EU firms using the current temporary permissions regime to access the UK market shows that over half of them already have a presence in the UK. Many of those that don't are smaller firms who may decide it is not worth it. We think a likely outcome is that around 300 to 500 mainly smaller firms may open an office in the UK, much lower than the prevailing forecasts of around 1,000.
9. **A loss of influence:** the shift in business, assets and legal entities will gradually chip away at the UK's influence in the banking and finance industry in Europe and around the world, as a greater proportion of business is authorised by and conducted in the EU. It could also significantly reduce the UK's £26bn trade surplus in financial services with the EU as services that were previously exported from the UK are provided locally.
10. **The impact on the City:** while the headline numbers are stark, there is no question that London will remain the dominant financial centre in Europe for the foreseeable future. Firms are keen to keep as much of their business in London as possible and even the biggest relocations represent a maximum of 10% (so far) of the headcount at individual firms. However, over time other European cities will chip away at London's lead.

CONTENTS

THE POST-BREXIT LANDSCAPE IN THE EU

Fig.1 Who is moving where?

A selection of firms relocating staff, assets or operations, expanding offices or setting up new entities in different financial centres. Firm names indicate that a firm has chosen a city as its main post-Brexit EU hub; * denotes firms adding staff in a city in addition to their main hub. We expect these numbers to increase significantly in the next few years.

Dublin

135 firms / 25% of all moves, including…

Asset / wealth management
Aberdeen Standard
Affiliated Managers Group
Ashmore
Baillie Gifford
Canaccord Genuity
Cohen & Steers
First State Investments
First Trust
Goldman Sachs Asset Mgmt
Hermes
LGIM
Legg Mason
MacKay Shields
Manulife Inv Management
Merian Global Investors
Morgan Stanley Inv Mgmt
PGIM
Principal Global Investors
State Street Global Advisors
Vanguard Asset Mgmt
Quilter Cheviot

Banks / investment banks
Bank of America
Bank of Montreal
Barclays
BNY Mellon
JP Morgan*
Macquarie Group
MiraeAsset Daewoo
TD Bank

Diversified financials
AMX
ClearBank
Coinbase
Duff & Phelps
DTCC
EquiLend
Euroclear
FNZ
Hudson
Liquidnet
Marex Financial
Moneycorp
Monzo
Pershing
Standard & Poor's
Thomson Reuters

Alternatives
Butler Corum
CapVest Irish Partners
HarbourVest
FundRock
Innocap
KKR Capital Markets
Man Group
Marshall Wace
Winton

Insurance
Aviva
Beazley
Berkshire Hathaway
BUPA Insurance
Equitable Life
Everest Re
Fidelis
North
Prudential
Royal London
Travelers
XL Group

Paris

102 firms / 19% of all moves

Asset / wealth management
Alvarium
BlackRock*
Boussard & Gavaudan
Clerville Investment Mgmt
Elava Capital
H20 Asset Management
Hellebore Capital
Polar Capital
Ruffer
Smart Lenders AM
Schroders*
Stanhope
Wilmington Trust

Banks / investment banks
Arab Bank
Banco do Brasil
Bank of America
BNP Paribas
Centreview
Citigroup Global Markets*
Commerzbank*
Credit Agricole CIB
Credit Suisse*
Goldman Sachs
HSBC
JP Morgan*
Morgan Stanley*
National Australia Bank
Natixis
Nomura*
Societe Generale
Standard Chartered*
Perella Weinberg
Wells Fargo

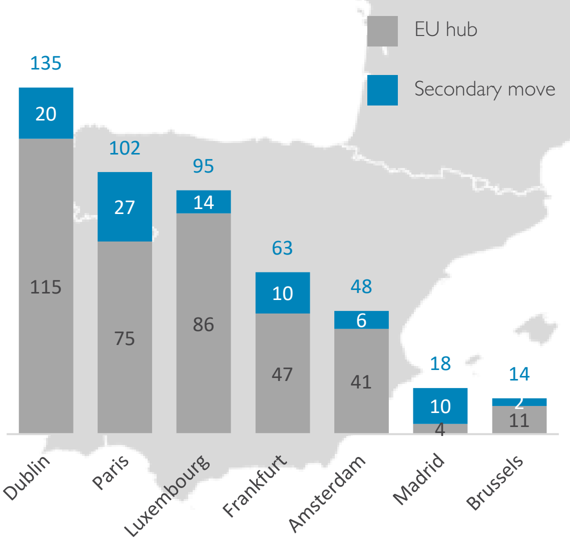
Diversified financials
Aurel
Aquis Exchange
Checkout.com
Ebury
European Banking Authority
GoCardless
Kyte Broking
LCH
Morningstar
Redburn
RJ O'Brien
TP ICAP
XTX Markets

Alternatives
Campbell Lutyens
Chenavari Financial
Eleva Capital
LGT Capital Partners
Millennium Global

Insurance
AXA
Chubb
Cooper Gay
Portman Insurance
Worldline

Fig.2 A Brexit at a glance (1)

The number of firms moving to different financial centres



Source: New Financial based on company announcements, regulatory registers, media reports

Luxembourg
95 firms / 17% of all moves

Asset / wealth management
Aberdeen Standard
AllianceBernstein
Aviva Investors
BlueBay
Columbia Threadneedle Investments
Crux
Franklin Templeton
GLP Management
Janus Henderson
JP Morgan Wealth Management
Julius Baer
Jupiter Asset Management
Lombard Odier
M&G
Nikko Asset Management
Rathbone
Schroders
T Rowe Price
Wells Fargo Asset Management

Banks / investment banks
Agricultural Bank of China
CIBC
China Everbright Bank
China Merchant Bank
Northern Trust
Shanghai Pudong
Swiss Re Capital Markets
Swissquote

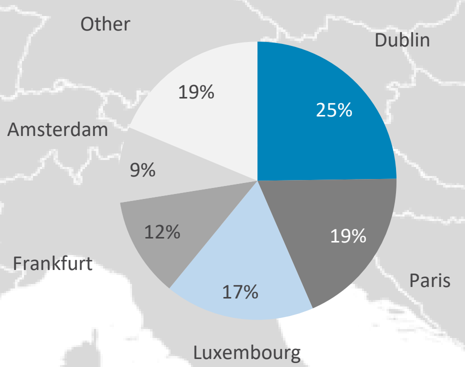
Diversified financials
Alipay
LendInvest
PPRO
SaxoPay
StoneX

Alternatives
3i
Advent International
Bain Capital
BC Partners
Blackstone
Carlyle Group
EQT Partners
Intermediate Capital Group
Montagu
Partners Group

Insurance
AIG
Aioi Nissay Dowa
Britannia
CNA Hardy
Hiscox
Liberty Speciality Markets
Lloyds Bank
RSA Group
Sompo
Tokio Marine Group
USAA

Fig.3 A Brexit at a glance (2)

Financial centres share of post-Brexit relocations
Sample = 441 firms / 546 moves



Madrid
18 firms / 3% of all moves

Banks / investment banks
Credit Suisse

Insurance
Admiral Insurance

Frankfurt
63 firms / 12% of all moves

Asset / wealth management
American Century
Arabesque
CBRE Capital Advisors
Invesco
PineBridge Investments
Robus Capital
Wellington Management

Banks / investment banks
Bank of America*
Bank of Taiwan
China International Capital Corp.
Citigroup Global Markets
Close Brothers
Commerzbank
Daiwa Capital Markets
Deutsche Bank
Evercore
First Commercial Bank
Goldman Sachs
Greenhill & Co
Jefferies
JP Morgan
Mizuho
Morgan Stanley
Nomura
Raymond James
RBC
Silicon Valley Bank
Standard Chartered
Sumitomo Mitsui
UBS
VTB Bank
Westpac
Woori Bank

Diversified financials
Atlantic Equities
CMC Markets
DBRS
Fitch
Instinet
Monese

Alternatives
AQR Capital Management
Hamilton Lane

Insurance
Domestic & General

Amsterdam
48 firms / 9% of all moves

Asset / wealth management
BlackRock
BMO Global Asset Management
DeVere Group
Greystar
Symbiotics

Banks / investment banks
Commonwealth Bank of Australia
CLSA
ING
Royal Bank of Scotland
MUFG Securities
Norinchukin

Diversified financials
Bloomberg Trading Facility
NEX Group / CME
Cboe Global Markets
Centtrip
CTC
Currency Cloud
DRW
Gelber Group
Global Reach
Hard Eight
Headlands Technologies
Hitachi Capital
Jane Street
Jump Trading
LSEG (Turquoise)
Mako Derivatives
MarketAxess
Maven Derivatives
Quantlab
Radix Trading LLC
Tower Research Capital
Tradeweb
Worldpay
XR Trading

Alternatives
Bedford Row Capital

Brussels
15 firms / 3% of all moves

Diversified financials
Euroclear
Euronext
MoneyGram
Transferwise

Insurance
Hiscox*
Lloyd's of London
MS Amlin
QBE

Stockholm
4 firms / 1% of all moves

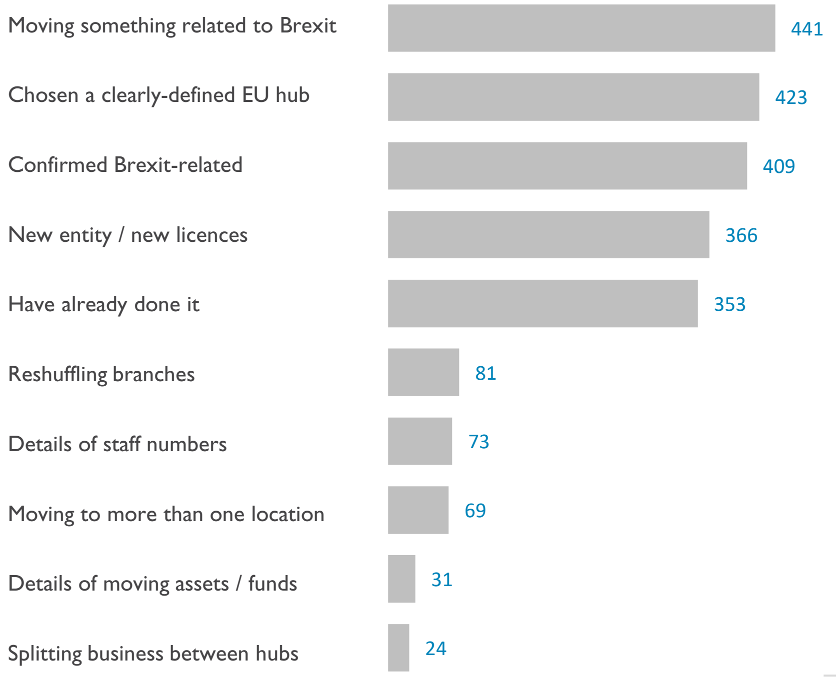
Banks / investment banks
Goldman Sachs*

Diversified financials
NEX Group / CME*
Fitch*
Moody's

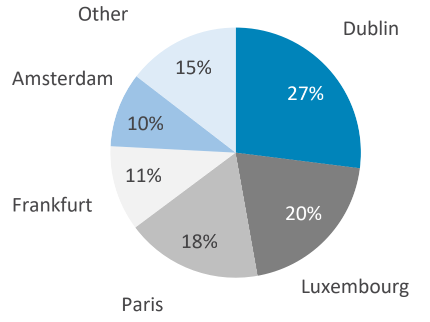
Source: New Financial based on company announcements, regulatory registers, media reports

Fig.4 Who is doing what?

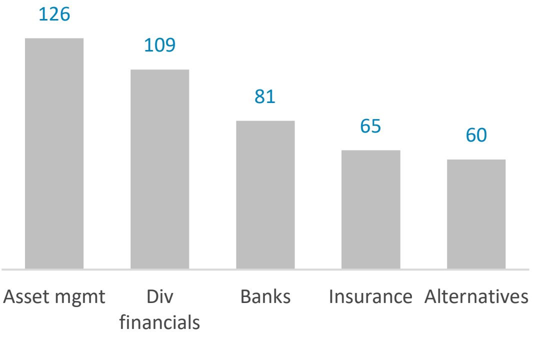
i) How different firms are responding to Brexit



ii) Financial centres share of new EU headquarters %
Sample = 423 firms



iii) Number of firms reacting to Brexit by sector



Source: New Financial based on company announcements, regulatory registers, media reports

A structural change

We identified more than 440 firms in the UK in banking and finance that have responded to Brexit in some way, although this covers a wide range of responses and a wide range of firms. At one end of the spectrum, Brexit has been a huge operational challenge for big banks that have set up new hubs in the EU, moved hundreds of staff, and transferred tens or hundreds of billions of pounds in assets. At the other, Brexit has been an administrative headache for smaller asset managers, hedge funds or private equity firms who have set up a new entity in Ireland or Luxembourg and perhaps hired or transferred a handful of staff to run it.

We think this is a significant underestimate. First, a lot of firms will have slipped under our radar screen, particularly EU headquartered firms that have not had to set up new entities or get new licences to continue their EU business, and we think the real number of firms is well over 500. We were unable to identify any confirmed Brexit relocation activity at more than 200 firms which we would expect to have moved something. For example, we identified 54 banks from outside the EU whose only authorised presence in the EU before Brexit was a subsidiary or branch in the UK and who - so far - appear not to have set up a new branch or subsidiary in the EU.

While 440 firms is a big number, it is a small proportion of the total number of financial services firms in the UK. However, our analysis shows that a very high proportion of the largest firms in each sector have moved part of their business to the EU in response to Brexit. Over 90% of the 30 largest investment banks in the UK have relocated something to the EU, and roughly 90% of the 50 largest asset managers and the 50 largest banks in the UK have also responded. Most of those firms that have not are EU headquartered firms where we have been unable to confirm any relocation activity independently. The only sector with a relative low penetration is private equity: we estimate that 'just' 70% of the 25 largest private firms in the UK have relocated part of their business in response to Brexit.

Fig.5 New moves by financial centre

Additional moves by finance centre since our previous report in October 2019

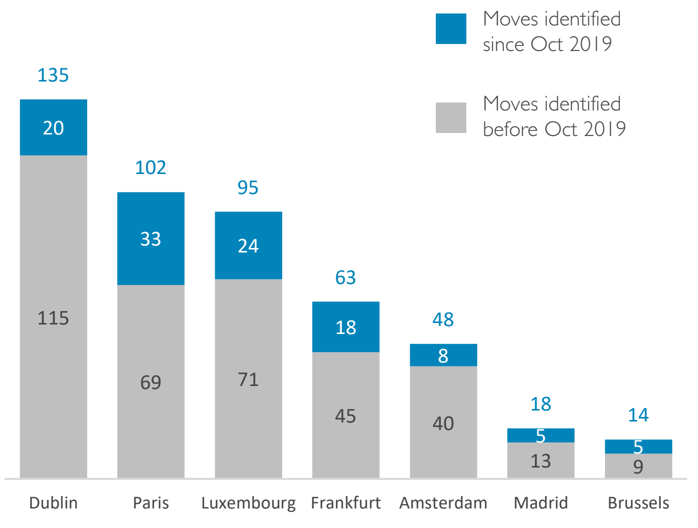
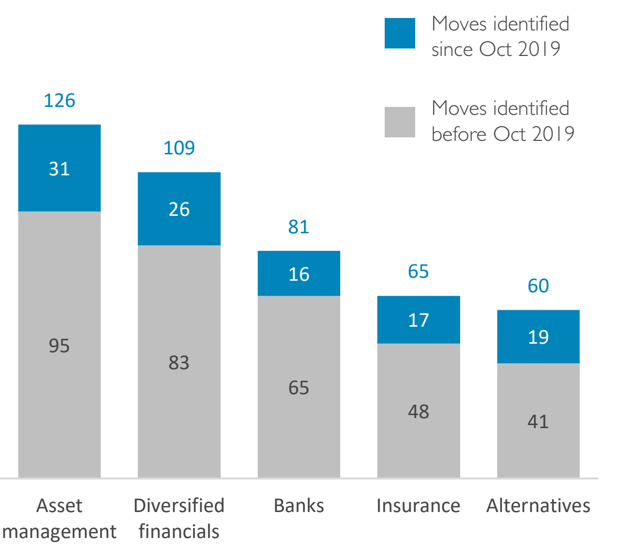


Fig.6 New moves by sector

Additional firms that have moved since our previous report in October 2019 by sector



Source: New Financial based on company announcements, regulatory registers, media reports

A large increase

Since our previous report was published in October 2019, we have identified an additional 109 firms that have moved something somewhere in response to Brexit, and a total of 141 additional moves (including some additional moves by firms that were in our earlier reports). Paris have seen the largest increase with 33 new moves (23% of all new moves since October 2019), which has increased the number of relocations to Paris by nearly half, while Luxembourg is not far behind with 24 of the new moves.

There are three main consequences of the new moves that we have identified. First, they have underlined the concentration of relocation activity in the big five financial centres, which account for 86% of EU hubs and over 80% of all moves. Second, the new moves mean that the top five financial centres for relocations in the EU are more tightly bunched than before: as of October 2019 the number of firms moving to Dublin was 60% higher than the next biggest city but that gap has now reduced to about 30%. And third, Paris has leapfrogged Luxembourg into second place in the past 18 months.

We have added an additional 170 firms (over a 60% increase) since our initial report in March 2019. While we think our research provides the most comprehensive picture yet of the impact of Brexit on the City and the dynamic of relocations across the EU, we would reiterate a point we stressed in our two previous reports: that we think these numbers are a significant underestimate. The real impact of Brexit is unlikely to fully emerge until the dust finally settles in a few years time, if ever.

Our analysis show that for most of the larger banks, asset managers and insurance firms, Brexit effectively happened in 2018 and these moves were reflected in our two reports in 2019. Since then it is striking that the majority of additional moves across the industry have been by smaller firms. had already planned and executed their Brexit contingency plans by the time of our initial report: the sector with the highest increase in relocation activity (alternatives, with an increase of nearly 50% since our last paper) is predominantly smaller firms.

A more even distribution

One of the most striking findings of our analysis is the extent to which Europe will become a much more 'multipolar' world as a result of Brexit.

Firms are migrating to or expanding in multiple financial centres as many firms have either split the location of their EU business by division, or have responded to Brexit by spreading their staff more evenly across the EU.

Much of the debate around Brexit has been focused on which firms are choosing which financial centre as the post-Brexit hub for their EU business. We have long thought this is misguided, as firms have adopted a more 'polycentric' model by either splitting different divisions into different hubs across the EU or by moving smaller chunks of business to secondary locations in the EU.

We identified nearly 25 large firms that have split their business, locating the post-Brexit hub for one division in Frankfurt or Paris, and another in Dublin or Luxembourg (see Fig.7 for a selection of these moves). The most obvious example is Bank of America, which has chosen Dublin as the EU hub for its banking business, and created a new entity in Paris as the hub for its markets business.

Other firms have relocated their main business to one hub and moved a subsidiary to another hub. For example, the insurance group AXA has, not surprisingly, moved some of its UK-based business to Paris, while its subsidiary XL Group have decided to relocate to Dublin.

The decision to move reflects the fact that while London used to be the *de facto* location as the EU hub of most firms regardless of business line, after Brexit the different skills, environment, ecosystem and legal framework of different financial centres means that it makes more sense to base different divisions in different cities. In the future, we are likely to see more spread out and create a more multipolar market in Europe.

Fig.7 Splitting the business

A selection of firms choosing different EU hubs for different business divisions

Group name	Hub A	Hub B
Aviva	Insurance > Dublin	Asset management > Luxembourg
AXA	Insurance & Alternatives > Paris	XL Group > Dublin
Aon	Investment advisory > Dublin	Insurance underwriting > Amsterdam Reinsurance > Brussels
Bank of America	Banking > Dublin	Markets > Paris
Bank of Montreal	Inv banking > Dublin	Asset management > Amsterdam
BlackRock	EU hub > Amsterdam	Alternatives hub > Paris
Citi	Inv banking & markets > Frankfurt	Private banking > Luxembourg
Euroclear	Holding company > Brussels	New entity > Ireland
Goldman Sachs	Inv banking & markets > Frankfurt	Private banking > Luxembourg
Interactive Brokers	New entity > Dublin	New entity > Luxembourg
Investec	Inv banking > Dublin	Asset management > Luxembourg
JP Morgan	Inv banking & markets > Frankfurt	Asset management > Dublin Wealth management > Luxembourg
Lloyds Bank	Banking > Berlin	Insurance > Luxembourg
LSEG	Turquoise > Amsterdam	EU government bond trading > Milan
Morgan Stanley	Inv banking & markets > Frankfurt	Asset management > Dublin
Prudential	Insurance > Dublin	Asset management > Luxembourg
Wells Fargo	Inv banking & markets > Paris	Asset management > Luxembourg

Source: New Financial based on company announcements, regulatory registers, media reports

A rebalancing act

This shift in the balance of locations across Europe is also reflected in the decision by many firms to expand their footprint in other cities in the EU in addition to their chosen hub.

Many firms are actively expanding their presence in financial centres across the EU regardless of which city they have chosen as their main hub. We identified nearly 70 firms that are expanding in multiple locations in what we have called 'secondary moves'.

This is a response to a number of factors: political risk, staff preference, cost, being closer to clients, and the specific nature and expertise of different financial centres. For example, while more banks have chosen Frankfurt as their main EU hub than any other city, many of them are also expanding their markets business in Paris or adding staff in Amsterdam, Madrid or Milan.

While the economic impact of each of these moves on its own might not be hugely significant for the local economy, the sum of the total can make a real impact, even in larger financial centres. Secondary moves plays a significant part of the moves to all of our top five destinations for Brexit related moves, but none more so than Paris.

Of the 102 firms that we identified as moving something to Paris, 27 are 'secondary moves'. This is the highest proportion of any of the big five financial centres, and represents over a quarter of all the secondary moves that we identified. It suggests that while many firms and their staff see Paris as an attractive global city in which to live and work, it is not seen as attractive as a location for the legal headquarters or hub for firms' EU business

Secondary moves are specially significant for some medium sized financial centres, like Milan and Madrid, as they make up a large majority of all moves to the city (about 80% of all moves to Milan and Madrid are secondary moves).

Fig.8 Hedging their bets

A selection of firms expanding in other financial centres in addition to their main hub

Group name	Main hub(s)	Additional cities
Aviva	Dublin / Luxembourg	Paris
Baillie Gifford	Dublin	Frankfurt
Bank of America	Dublin / Paris	Amsterdam, Brussels, Frankfurt, Madrid, Milan
Barclays	Dublin	Frankfurt, Paris
Berkshire Hathaway	Dublin	Paris
BlackRock	Amsterdam	Budapest, Paris
BNY Mellon	Dublin	Frankfurt, Paris
Citi	Frankfurt	Amsterdam, Dublin, Madrid, Milan, Paris
CME Group	Amsterdam	Stockholm
Fidelity	Luxembourg	Dublin, Paris
Goldman Sachs	Frankfurt / Paris	Madrid, Milan, Stockholm, Warsaw
Hiscox	Luxembourg	Brussels
HSBC	Paris	Amsterdam, Frankfurt, Dublin, Madrid, Milan
JP Morgan	Frankfurt / Luxembourg	Amsterdam, Dublin, Paris, Madrid and Milan
Jupiter	Luxembourg	Milan, Madrid, Paris
Macquarie	Dublin	Luxembourg, Paris
Morgan Stanley	Frankfurt	Amsterdam, Dublin, Madrid, Milan, Paris
MUFG	Amsterdam	Paris
NatWest	Amsterdam	Frankfurt
Nomura	Frankfurt	Madrid, Milan, Paris
Partners Group	Luxembourg	Paris, Munich
RBC	Frankfurt	Paris
Revolut	Dublin	Vilnius
Schroders	Luxembourg	Paris
Standard Chartered	Frankfurt	Paris
TP ICAP	Paris	Amsterdam, Frankfurt
UBS	Frankfurt	Amsterdam, Madrid, Milan, Paris
Vanguard	Dublin	Frankfurt
Wells Fargo	Paris	Dublin, Frankfurt

Source: New Financial based on company announcements, regulatory registers, media reports

Picking and choosing

The extent of this multipolar world is underlined when you look at the distribution of moves to different financial centres across different sectors. Instead of a mass migration to one particular location, firms have shown clear preferences for different cities based on their sector.

For example, 45 asset management firms have chosen Dublin as their EU hub post-Brexit, not least because it already has an established ecosystem for investment funds and asset services. But banks and investment banks have been less keen on the Irish capital, with only 10 firms choosing it as their main hub (see Fig.9).

Luxembourg demonstrates a similar split, while Frankfurt shows the same effect in reverse: it has attracted nearly twice as many banks as any other city (28), but just eight asset management firms have selected Frankfurt as their EU hub on the other side of Brexit.

When you drill down into specific sectors, the different dynamic between financial centres becomes clear. Fig.8 shows where firms have chosen to relocate or expand their presence by sector. While Dublin leads on asset management (34% of all moves), alternatives (35% of all moves), and to a lesser extent insurance (24% of all moves) and diversified financials (22% of all moves), other financial centres scored strongly in specific sectors.

Luxembourg has attracted more than a quarter of all asset management firms, hedge funds and private equity firms, as well as nearly a fifth of insurance firms. Frankfurt dominates the banking sector, with just under 30% of all moves (but has so far failed to attract many firms in other sectors). Amsterdam has hoovered up trading firms and market infrastructure providers with 21% of all moves.

And Paris has done reasonably well in attracting firms from across the industry, without having a clear sector strength: its strongest sectors are banks and alternatives, where it has attracted around one fifth of all moves.

Fig.9 A sector perspective

The number of asset management firms and banks setting up a new EU hub in different financial centres

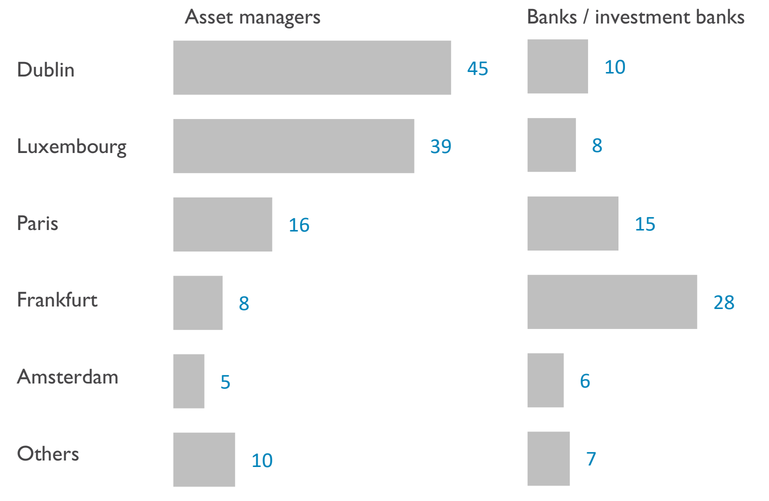
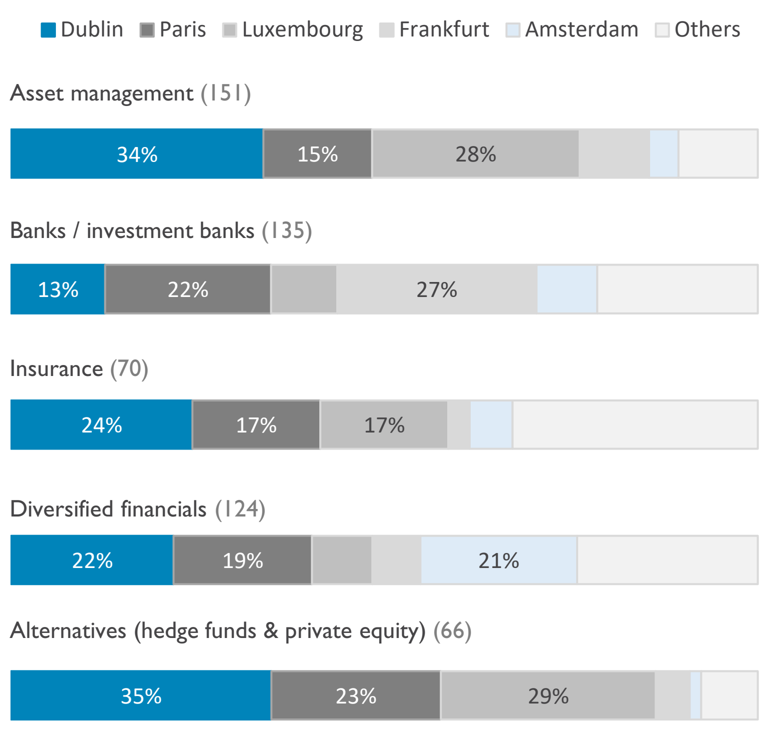


Fig.10 Local specialities

The % of firms in different sectors choosing cities as a post-Brexit location
Sample = 441 firms / 546 moves



Source: New Financial based on company announcements, regulatory registers, media reports

Relocation, relocation, relocation

Much of the debate around the impact of Brexit has focused on how many staff will be posted from London to the EU, and when. While the numbers make for good headlines, we think the focus on how many staff have moved so far and whether this is higher or lower than was forecast five years ago is a red herring. A better measure of the impact of Brexit is the scale of business being transferred in terms of bank assets (see page 14).

That said, we identified 70 firms that have given some details of how many staff they expect to move or hire locally. This ranges from big investment banks where Brexit will affect between 400 and 500 jobs in the near term to small asset management firms involving a handful of staff for their new entity in the EU. It adds up to around 7,400 jobs (an increase of 2,500 from our initial estimates in March 2019).

Fig.11 gives a selection of some of the main moves based on what some firms have said publicly and the often inconsistent media coverage. We have erred on the conservative side with these numbers, which roughly tally with estimates from EY of 7,600 job relocations and another 2,800 local hires so far. Contrary to the narrative that firms have moved fewer jobs than forecast, these numbers are in line with forecasts by UK regulators of around 10,000 jobs affected on day one of Brexit.

We think that the numbers will increase significantly in the next few years: so far, many local EU supervisors have been flexible in allowing firms to set up entities with minimal staff, firms are keen to move as few people as possible, and Covid has had some impact on relocations. Many large firms have already agreed with EU regulators how many staff they will move to the EU under their 'target operating models', and many of them have until the end of this year or beyond to meet those obligations. As EU authorities require more local business to be conducted locally, the numbers will increase further. The key issue is not so much jobs moving from the UK, but future new jobs in the EU that would otherwise have been created in the UK.

Fig.11 Staffing up

A selection of firms moving staff or hiring locally

Name	Estimated staff moves	Notes
Bank of America	500+	Has moved around 125 staff to Dublin and new markets hub in Paris now has around 400 staff
HSBC	500	Mainly to EU hub in Paris, potentially 'up to 1,000'
Goldman Sachs	400 to 500	Moving staff to Frankfurt, Paris, Dublin and expanding other EU offices; has opened new offices in Milan and Stockholm
JP Morgan	400 to 500	Mainly to Frankfurt, Luxembourg & Dublin but also expanding other EU offices
Morgan Stanley	400 to 500	Mainly to Frankfurt and Dublin, but also expanding other EU offices such as Paris
Barclays	250+	Mainly to new EU hub in Dublin but also expanding other EU offices
BNP Paribas	250+	Moving some staff to group HQ in Paris
Societe Generale	250+	Moving some staff to group HQ in Paris
Citi	250	Around 150 staff to Frankfurt but also expanding offices in Milan, Madrid, Paris, Dublin, Luxembourg and Amsterdam
Credit Suisse	250	Moving staff to Frankfurt, Madrid and other EU offices
Deutsche Bank	250	Moving 'low hundreds' of staff to group HQ in Frankfurt
UBS	200	Mainly to Frankfurt but also expanding other EU offices
European Banking Authority	160	Moving all staff from London to new HQ in Paris
RBS	150	Mainly to EU hub in Amsterdam
Nomura	100	Mainly to EU hub in Frankfurt and to new entity in Paris
Standard Chartered	100+	New EU hub in Germany has more than 200 staff compared with 90 before Brexit

Source: company announcements and reports, media reports, New Financial estimates

Undermining the foundations

While much of the debate on the impact of Brexit on the City has focused on staff numbers, a far more significant shift is quietly underway. Banks, investment banks and insurance companies have already transferred hundreds of billions of pounds in assets out of the UK to new entities in the EU, and asset managers have transferred tens of billions of pounds in funds to Dublin or Luxembourg.

Overall, we estimate that 10 large banks and investment banks are moving just over £900bn in assets away from the UK (see Fig.12). This is an increase of more than £125bn on our initial estimate in March 2019. A small selection of insurance firms have already shifted £35bn in assets, while a handful of asset managers have moved £65bn in funds between them.

To put this in perspective, the £900bn in bank assets represents just under 10% of the total assets in the UK banking system. This roughly tallies with the €1.2 trillion in banks assets (£1.05tn) that the ECB says banks have agreed to move. We think the final numbers will be larger. We only have details on the scale of assets or funds being moved for 30 of the 435 firms in our sample, and the final tally may never be known. For example, more than 35 insurance companies have transferred assets under a court procedure called a Part VII transfer according to the ABI, but very few of these schemes have disclosed the value of assets being moved.

In addition, the numbers don't include the future increase in assets in the EU markets businesses that many banks have set up. In future a much bigger proportion of trading in EU securities will take place in entities in Amsterdam, Frankfurt, and Paris than is the case today: that's business than would otherwise have been conducted in London. For example, the new EU markets business at Bank of America in Paris has already built up assets of over $50bn, compared with a balance sheet of just $400bn at the bank's markets entity in the UK before Brexit. This number will continue to grow, and will be repeated at other firms.

Fig.12 Shifting assets

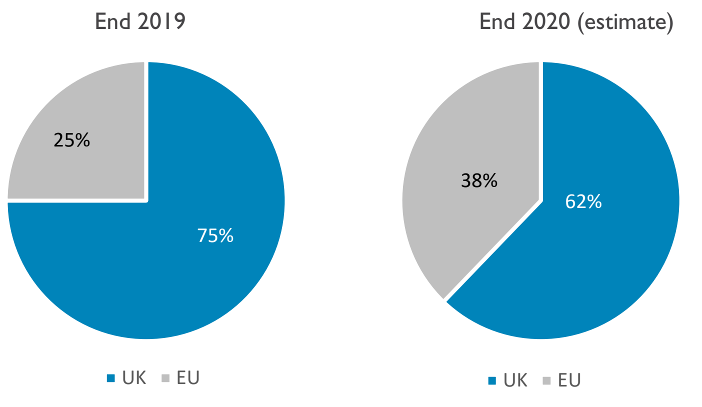
A selection of banks moving assets to other financial centres post-Brexit

Bank	Value of assets £bn	Location
Deutsche Bank	250	Frankfurt
JP Morgan	176	Frankfurt
Barclays	166	Dublin
Bank of America	95	Dublin / Paris
Morgan Stanley	90	Frankfurt
Goldman Sachs	50	Frankfurt
Citi	45	Frankfurt
UBS	28	Frankfurt
RBS	6	Amsterdam
Nomura	5	Frankfurt

Source: companies, media reports, New Financial estimates

Fig.13 The balance of power

The shift in the location of non-EU bank assets within the EU



Source: ECB, New Financial estimate

This shift in assets will affect the balance of power between the UK and EU. One of the purest measures of Brexit is where banks from outside the EU choose to locate their business and assets in the EU. Three quarters of these assets were based in the UK at the end of 2019 with just one quarter in the EU according to the ECB (see Fig.17). Once you adjust for the handful non-EU banks which we know are transferring roughly £500bn in assets, the EU's share of these assets increases by around half to 38% and the UK share falls to 62%. If the UK's share were to drop below 50% in future, it may create a vicious circle.

A smaller network

One of the less discussed implications of Brexit on the industry is its impact on branches. This is surprising given how fundamental branches are to the functioning of financial services in the single market.

Under EU regulation, a firm that is authorised in one member state can open an office in another member state as a branch without having to get separate local authorisation. We estimate that more 300 firms in the UK took advantage of this to operate more than 800 branches across the EU prior to Brexit.

The problem with Brexit is that as things stand the regulation behind these branches will fall away, forcing firms to either close their local branches, convert them into subsidiaries, negotiate access directly with local supervisors, or transfer them to another authorised entity in the EU.

We have identified more than 80 firms that have already started reshuffling their branch networks to prepare for Brexit (see Fig.14 for a selection of the main moves). Large insurance groups such as AIG, Hiscox and QBE have transferred all of their EEA branches from the UK to the EU (overall nearly 70 UK-authorised insurance companies operated more than 300 branches in the EU). Big banks have also been transferring their EU branch networks: Bank of America and Barclays are both moving eight EU branches from the UK to new entities in Dublin, while HSBC is moving eight branches to Paris.

This will have a number of effects: it's a big administrative headache; it will reduce the supervisory footprint of UK authorities across the EU; it will force more firms to set up separate local subsidiaries in the EU; and it could therefore accelerate the decline in UK financial services exports to the EU as more business is conducted by local subsidiaries. We expect more firms to reshuffle their branch networks as Brexit beds down and EU supervisors adopt a tougher line.

Fig.14 Branching out

A selection of firms switching branches from the UK to other cities

Name	Previous branches from UK	Moved / moving to
AIG	All EEA branches*	Luxembourg
Bank of America Merrill Lynch	Belgium, France, Germany, Ireland, Italy, Neth., Spain, Switz.	Ireland
Barclays	France, Germany, Italy, Ireland, Neth., Portugal, Spain, Sweden	Ireland
BlackRock	France and Italy	Netherlands
BMO Global AM	France and Italy	Netherlands
Capital International	Italy and Spain	Luxembourg
Citigroup Global Markets	France, Ireland, Italy, Spain	Frankfurt
CNA Hardy	All EEA branches*	Luxembourg
Hiscox	All EEA branches*	Luxembourg
HSBC	Belgium, Czech Rep, Luxembourg, Ireland, Italy, Neth., Poland, Spain	France
Greenhill & Co	France and Spain	Frankfurt
M&G	France, Italy, and Spain	Luxembourg
Mizuho	France and Spain	Frankfurt
RSA Group	Belgium, France, Germany, Netherlands and Spain	Luxembourg
Schroders	France and Spain	Luxembourg
State Street Global Advisors	Belgium, Italy and Netherlands	Ireland
Standard & Poor's	France, Germany, Italy, Spain et al.	Dublin
T Rowe Price	Denmark, Germany, Italy, Luxembourg, Neth., Spain, Sweden	Dublin

Source: New Financial based on company announcements, regulatory registers, media reports

Reverse Brexit

It's not all one way traffic. Before Brexit, roughly 8,000 firms in the EEA used passporting to access the UK market and hundreds of firms took advantage of the single market to operate branches in the UK without local supervision.

A handful of firms including ABN Amro, Citibank, and Handelsbanken have set up new subsidiaries in the UK to address this. But a far larger number of firms are using the Temporary Permissions Regime set up by the UK to allow EEA firms that were previously passporting into the UK to continue to operate here until the end of 2023. Between now and then, they will have to decide whether to apply for authorisation in the UK and formally apply for it.

As of mid-February, 1,467 different entities were operating in the UK under the TPR. This represents less than a fifth of the EU firms that use passporting and who could have applied. In the month during which we were finalising this report, 19 firms chose to cancel their use of the TPR, reducing it to 1,448 firms.

On one estimate, around 1,000 of these firms do not have an office in the UK and are therefore likely to open an office in future. We think that is unlikely (for reasons that we explore in more detail on the next on the next page). On our count, 22% of the firms using the TPR already have an office in the UK (see Fig.15), and a further 32% are part of a group with an office in the UK. This leaves 46% (663 firms) with no existing presence in the UK.

Some of the biggest firms in the UK use the TPR as their sole source of authorisation to operate in the UK, including the likes of BNP Paribas, Deutsche Bank and Societe Generale (see Fig.16i) and these large firms are probably going to have to become separately authorised in the UK, but will not have to open a new office. To make matters more confusing, many of the firms using the TPR are multiple entities from the same group (see Fig.16ii). We think it is highly unlikely that these multiple entities will need to open a separate office in the UK even if they do decide to apply for UK authorisation.

Fig.15 Breakdown of the TPR

Analysis of entities using the temporary permissions regime based on their existing presence in the UK
Sample = 1,448 entities

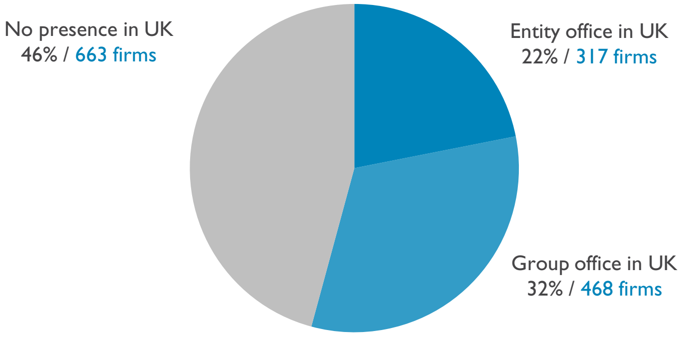


Fig.16 A temporary arrangement

i) A selection of firms using the TPR as their sole / main authorisation in the UK:

Allianz Global Investors	Deutsche Bank	KBC
Banco de Sabadell	DNB Bank	Mediobanca
BBVA	DZ Bank	Natixis
BNP Paribas	Exane	Nordea
Commerzbank	Generali	Raiffeisen
Crédit Agricole	ING Bank	Societe Generale
Danske Bank	Intesa Sanpaulo	UniCredit

ii) A selection of firms with multiple entities using the TPR to access the UK

Name	# entities	Coming from:
Axa	13	Bel, 6x Fra, 6x Ire
BPCE (inc Natixis)	13	12x Fra, 1x Lux
Crédit Agricole	10	10x France
Generali	9	Cz, 3x Fra, 5x Ita
Aon	8	Bel, Cze, Fra, Ger, Ire, Ita, Neth, Slv
Allianz	7	3x Ger, 2x Bel, Fra, Ire
Crédit Mutuel	6	6x Fra
Marsh	5	3x Bel, Ger, Ire
ABN Amro	4	2x Neth, Fra, Ger
BNP Paribas	4	4x Fra
Davy Group	4	4x Ire
Intesa Sanpaulo	4	2x Ire, Ita, Lux
Raiffeisen	4	4x Aut
Santander	4	4x Spa
Willis Towers Watson	4	2x Bel, 2x Ire

Source: New Financial analysis of FCA data on the TPR

A likely landing zone

A closer look at the firms using the TPR suggests that the eventual number that will open a new office in the UK is likely to be a lot lower than the prevailing narrative of 'about 1,000' firms. We think it is more likely to be around 300 to 500 (mainly smaller) firms.

The 300+ firms using the TPR with an existing office in the UK obviously won't have to open a new office. Many of the 470 firms that are part of a larger group with a presence in the UK will likely piggy back off that group office and perhaps hire or move some key staff - and some of them may decide that their existing group structure means they don't need to have a presence here after all.

That leaves 663 firms with no physical presence in the UK who would probably need to open a new office and set up a new branch or subsidiary in order to have continued access to the UK market (as a matter of course, the FCA would expect an authorised firm to have a local presence). Using the EU passports they were using as a proxy, we estimate that over 40% of these firms are from the insurance sector, 28% are in broking and trading, and around one fifth are payments firms (see Fig.17).

Many of these firms are small: for example, of the 30 banks in this sample, two thirds of them have assets of less than €5bn and the largest (Swedbank with €140bn in assets) closed its UK branch office in 2016. The decisions facing UK and EU firms are asymmetric: for a UK firm, setting up a new office in the EU provides access to 27 member states (and may require substantial relocations). For an EU firm, setting up a UK office provides access to just one.

It is striking that the biggest single group of firms using the TPR that don't have an office in the UK are broking firms based in Cyprus (see Fig.18): 105 firms mainly offering equities, FX and CFD trading. It is unclear how many of them will have the appetite for setting up a new legal entity in the UK, opening a new office, hiring additional managers, and being supervised locally by the FCA.

Fig.17 Remote access

Sector breakdown of entities using the TPR that have no presence in the UK
Sample = 663 entities

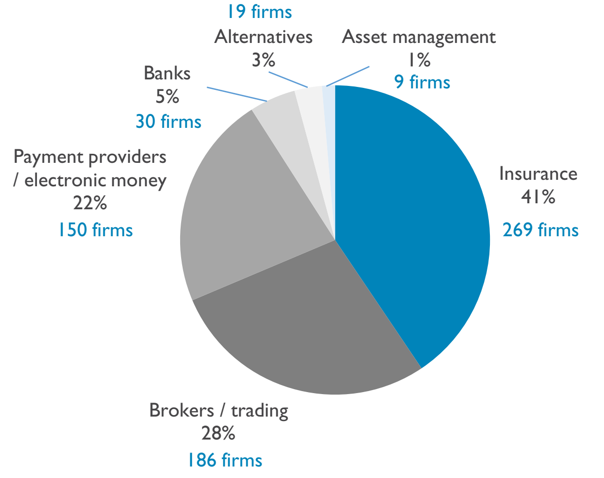
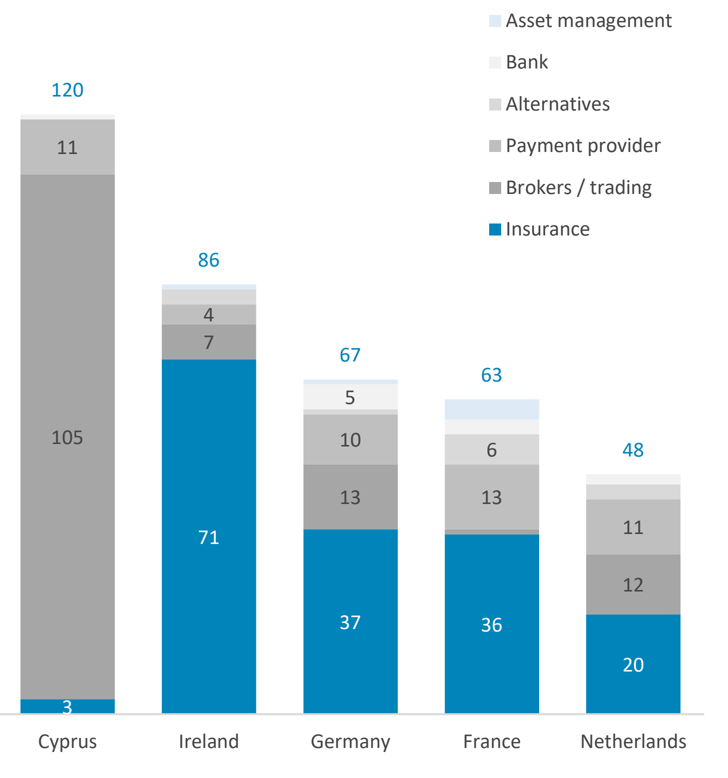


Fig.18 What can we expect

Breakdown of the sector of firms by country of entity.



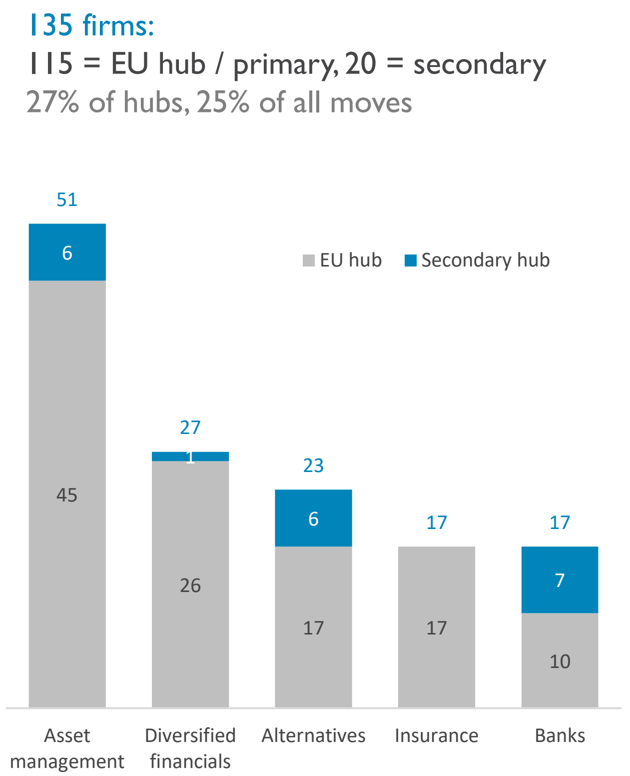
Source: New Financial based on company announcements, regulatory registers, media reports

A new European order

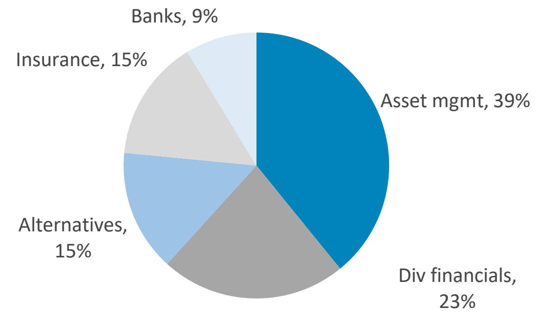
In this section we measure the relocation activity of firms in UK banking and finance in each of the top five financial centres in terms of destination of those moves. In each city we measure the total number of firms that have moved something to the city; the split by sector and by primary and secondary moves; and sector profile of firms setting up an EU hub; and the share of overall relocations by sector.

Fig.19 A focus on Dublin

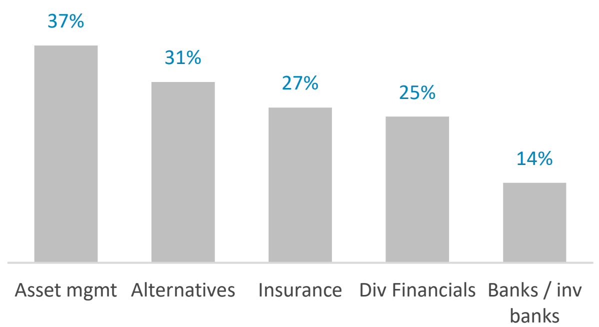
i) Number of firms by sector choosing Dublin as a post-Brexit location



ii) Sector breakdown of firms choosing Dublin as a post-Brexit hub



iii) % of firms in each sector choosing Dublin as a post-Brexit hub



Welcome to Dublin

Ireland has more to lose from Brexit than most EU countries, but on the plus side Dublin is in a league of its own when it comes to attracting business from the UK. We identified 135 firms that are relocating part of their business to or boosting their presence in the Irish capital, of which 115 have chosen Dublin as their main post-Brexit EU hub. This represents 25% of all Brexit-related moves, and 27% of firms that have a clearly-identified EU headquarters.

The main attraction of Dublin is its common language, single supervisory structure and expertise, close ties with the UK financial sector, the liveability of Dublin itself, and its role as an established financial centre, particularly for investment funds and services.

This is reflected in Dublin's dominant position in terms of attracting asset managers, hedge funds and private equity firms: over a third of the firms choosing Dublin as their main EU hub are asset managers, and this rises to just over half when you include hedge funds and private equity. Nearly 40% of the asset management firms in our sample have chosen Dublin as their main hub including big names like Aberdeen Standard, Baillie Gifford, Goldman Sachs, Insight, LGIM, Morgan Stanley, and Vanguard. About a third of hedge funds and private equity firms have also chosen Dublin as their hub, along with just over a quarter of the 65 insurance firms in our sample.

Dublin has also attracted two of the biggest moves in the banking sector, with Barclays and Bank of America choosing the city as their EU hub. Between them they have already transferred more than £200bn in assets from the UK to Ireland along with around 250 staff, and Barclays is now the biggest bank in Ireland. Big insurance firms like Aviva and Phoenix Life have transferred significant chunks of business to Dublin, moving £30bn in assets.

Bienvenue à Paris

Few cities have made as much effort to attract business from London as Paris - and it seems to have worked.

We identified 102 firms that have decided to relocate part of their business to Paris or increase their presence in the French capital. This is just ahead of Luxembourg and represents around 19% of all moves in our sample. That is more than double the number of firms (41) that we reported in our initial report, making Paris the financial centre that have added the most number of moves since our initial report in March 2019.

The main attractions of Paris are that it is arguably the only other 'global' city in the EU, it is just over two hours on the train from London, and has already has a big pool of expertise in banking, trading, insurance and asset management.

The French government has also been working hard to address the industry's main concerns over high levels of tax and inflexible French labour markets. President Macron has pushed hard for tax and labour market reforms, abolished the French wealth tax, and rolled out the red carpet for senior banking executives.

The most important sector for Paris has been banking, and it seems to have carved out a niche for itself on the markets and trading side of the business. Bank of America has chosen Dublin as its main banking hub but has set up a new entity in Paris for its markets business, and a number of big investment banks such as Citi, Credit Suisse, Goldman Sachs, JP Morgan and Morgan Stanley are also expanding their trading operations in Paris.

Half of the 30 banks that we identified as building up their presence in Paris are not using it as their main EU hub post-Brexit It has the highest proportion of secondary moves (34%) of any city in our sample. This suggests that large firms see Paris as a good place to relocate staff, but not the best choice for their EU headquarters.

Fig.20i A focus on Paris

Number of firms by sector choosing Paris as a post-Brexit location

102 firms: 75 hub / primary & 27 secondary
18% of hubs, 19% of all moves

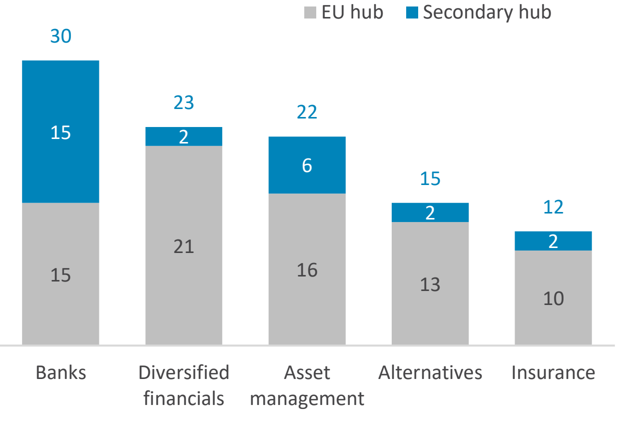


Fig.20ii A wide range

Sector breakdown of firms choosing Paris as a post-Brexit hub

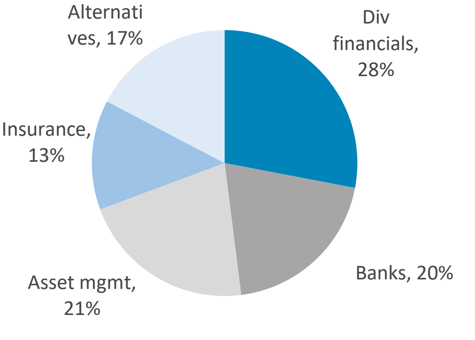


Fig.20iii Paris in the the spring

Firms in our sample in each sector choosing Paris as a post-Brexit hub %

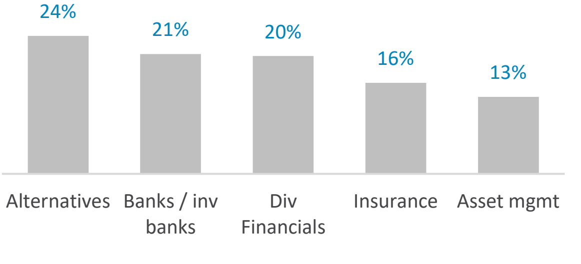
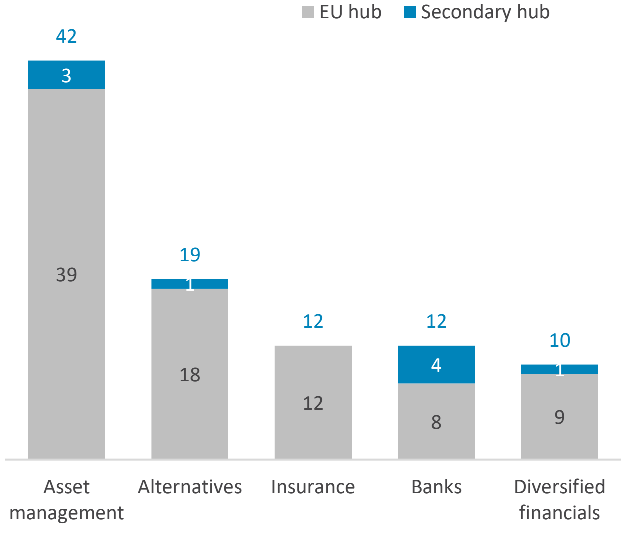


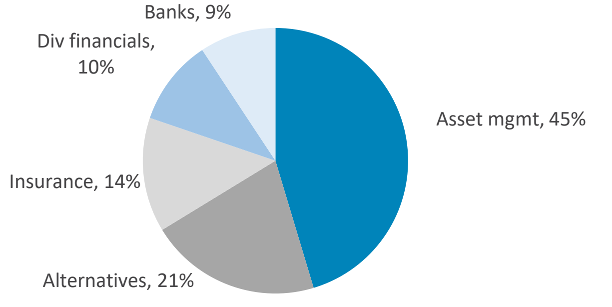
Fig.21 A focus on Luxembourg

i) Number of firms by sector choosing Luxembourg as a post-Brexit location

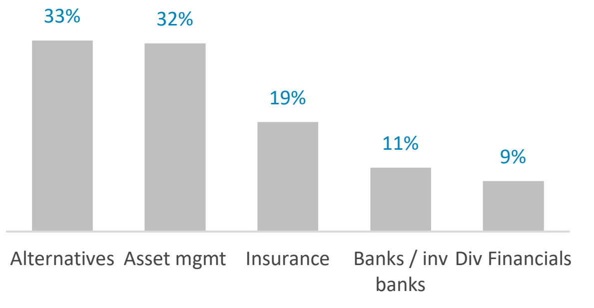
95 firms:
86 = EU hub / primary, 9 = secondary
20% of hubs, 17% of all moves



ii) Sector breakdown of firms choosing Luxembourg as a post-Brexit hub



iii) % of firms in each sector choosing Luxembourg as a post-Brexit hub



Begréissen zu Letzebuerg

Luxembourg has been the third biggest beneficiary from Brexit-related relocations, and like Dublin it has built on its existing strengths. We identified 95 firms that are relocating part of their business or expanding their existing presence in the Grand Duchy, which represents nearly a fifth of all Brexit-related moves. The main attraction has been Luxembourg's existing strength as the dominant centre for investment funds in Europe with a small but thriving ecosystem, a similar liberal market outlook to the UK, and its position at the heart of the EU. However, the attraction of Luxembourg seems to be based more on regulation and legal framework than lifestyle: we only identified nine firms that have chosen to expand in Luxembourg as a secondary location.

As such it is perhaps no surprise that nearly half of the firms that have chosen Luxembourg as their main post-Brexit hub are asset managers, which rises to over 65% once you include hedge funds and private equity. Nearly a third of the 186 asset managers, hedge funds and private equity firms in our sample have opted for Luxembourg as their main hub.

Big asset managers like Aviva Investors and Schroders have decided to expand their existing offices in Luxembourg, while the likes of Aberdeen Standard, Columbia Threadneedle and M&G have between them transferred around £60bn in funds from the UK to Luxembourg. Private equity firms (more so than hedge funds) have also set up new entities, including BC Partners, Blackstone, Carlyle and ICG.

Luxembourg has also attracted plenty of large insurance companies, with 12 firms representing a fifth of the insurance groups in our sample. This includes big insurance names likes AIG, CNA Hardy, Hiscox, and RSA, which have transferred their EU business to Luxembourg.

Willkommen in Frankfurt

Frankfurt has had such a poor reputation as a place to live for so long that there is a saying in finance that 'you cry twice when you get sent to Frankfurt: once when you arrive, and once when you leave'.

This (unfair) reputation doesn't seem to have put people off. We identified 63 firms that have decided to relocate part of their business to Frankfurt or increase their presence in the city, representing 12% of all the moves in our sample. Three quarters of these firms have chosen Frankfurt as their post-Brexit EU-hub.

It is not surprising that banking dominates the moves to Frankfurt: 28 banks or investment banks have located their EU base in Frankfurt, more than any other city, and another eight have chosen a hub elsewhere but have said they will expand in Frankfurt. Banks represent 60% of all the firms choosing Frankfurt as their hub, and the city has attracted nearly 40% of the banks and investment banks in our sample.

The main attraction for Frankfurt has been that it is in the heart of the largest economy in the EU and the largest banking system in the EU27, with the headquarters of the ECB and single supervisory mechanism based in the city.

Many banks told us that Frankfurt was their default option, although the headline number of firms choosing Frankfurt is perhaps lower than initially expected. The high concentration of big names like Citi, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley, Nomura and UBS, means that in the medium term Frankfurt is the financial centre most likely to benefit in terms of scale (in business and assets), and it may even emerge in time as a 'twin peaks' European banking centre with London.

Unlike the other countries covered in this report, there was a notable number of moves in Germany to secondary financial centres. Seven firms, primarily asset managers and private equity firms, have relocated something to Munich and a handful expanded in Berlin.

Fig.22i A focus on Frankfurt

Number of firms by sector choosing Frankfurt as a post-Brexit location

63 firms: 47 hub / primary & 16 secondary
11% of hubs, 12% of all moves

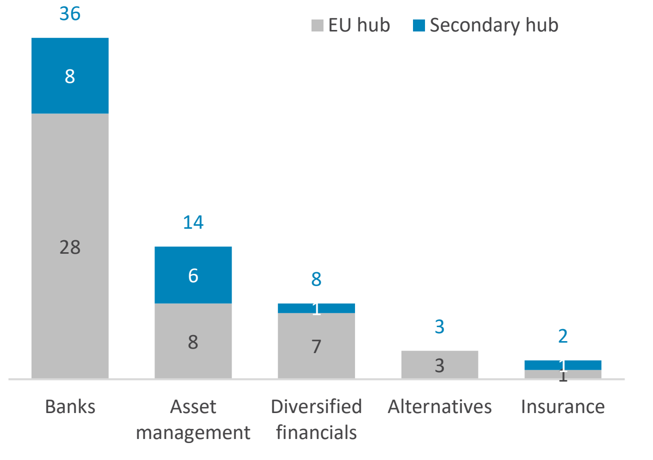


Fig.22ii The new banking centre?

Sector breakdown of firms choosing Frankfurt as a post-Brexit hub

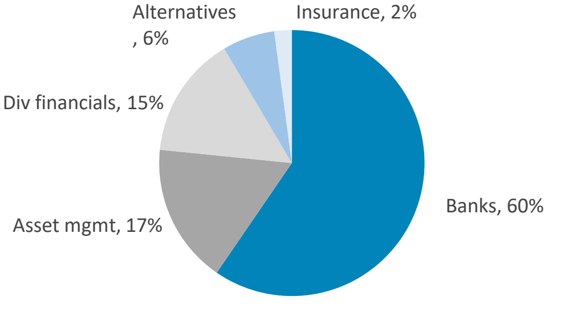


Fig.22iii Banking on Frankfurt

Firms in our sample in each sector choosing Frankfurt as a post-Brexit hub %

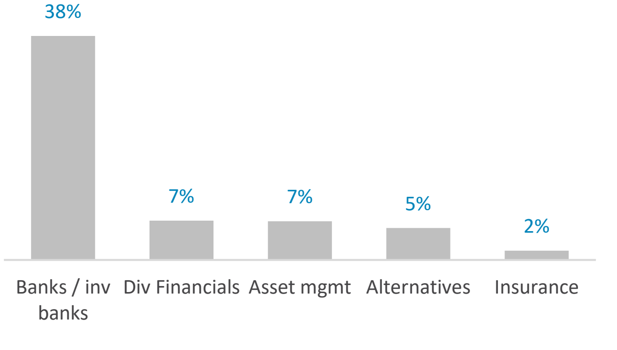


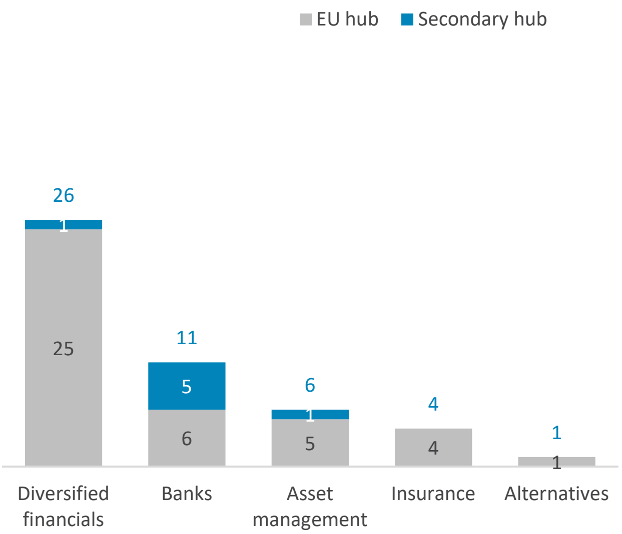
Fig.23 A focus on Amsterdam

i) Number of firms by sector choosing Amsterdam as a post-Brexit location

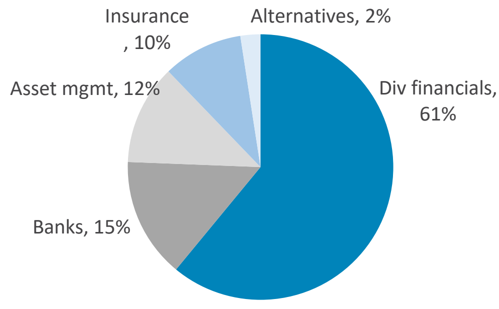
48 firms:

41 = EU hub / primary, 7 = secondary

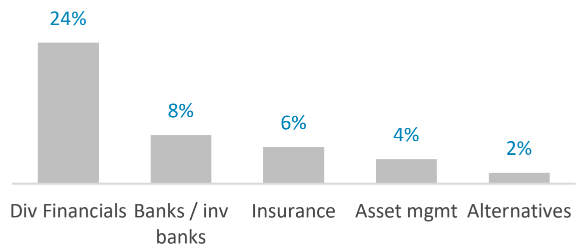
10% of hubs, 9% of all moves



ii) Sector breakdown of firms choosing Amsterdam as a post-Brexit hub



iii) % of firms in each sector choosing Amsterdam as a post-Brexit hub



Welkom in Amsterdam

So many firms have chosen Amsterdam as the main hub for their EU business on the other side of Brexit that the Dutch regulator, the AFM, is taking on more staff to deal with the influx. We identified 48 firms that are either relocating part of their business to the Netherlands or boosting existing local operations, of which 41 have specifically chosen it as their EU headquarters. This is very close to the 50 moves that the AFM said it expected see due to Brexit back in 2019.

The main attractions of Amsterdam have been its high quality of life (it came top in Europe of a 'ranking of rankings' on different aspects of quality of life by the *New York Times* in 2016); a similar liberal and market-orientated outlook to the UK, and effectively a common language; its close links to the UK; and recently improved travel links with Brussels and Paris. On the downside, it has the strictest bonus regulations of any country in the EU, with a bonus cap of 20%, which helps explain why less than 10% of all banks and asset managers have chosen Amsterdam as their post-Brexit hub. Despite that the biggest coup for Amsterdam is perhaps BlackRock deciding to use it as its main post-Brexit hub.

Amsterdam has built on its long tradition of trading to corner the market for trading firms and market infrastructure, which account for just under two thirds of the firms basing their future EU headquarters in the city. This includes six exchanges or trading platforms (such as Bloomberg, Cboe Europe, CME, Tradeweb and Turquoise) and fourteen specialist trading firms (such as Jane Street, Jump Trading, Mako Derivatives and Quantlab). Nearly a quarter of all firms in this sector have chosen Amsterdam. This has been reflected in the shift in trading in EU-listed stock from London on day one of Brexit, which overnight established Amsterdam as the biggest centre for European equity trading.

Here are five key themes that emerge from this report:

1. **The end of the beginning:** while the UK has 'got Brexit done', physically leaving the EU is only the end of the beginning of the process for the banking and finance industry. The relocations and shifts in business highlighted in this report are an inevitable consequence of the particular version of Brexit pursued by the UK, and the limited equivalence arrangements in place means that additional access to the EU is unlikely to be forthcoming. As we have highlighted in this report, the headline numbers in terms of firms, assets, staff and operations shifting from the UK to the EU are just the start and are likely to increase over time. The extraordinary amount of time, effort and money that has been spent on preparing for Brexit has been a huge missed opportunity for the industry and regulators to address other challenges, such as building bigger and better capital markets in Europe.

2. **A slow drip-feed:** much of the coverage of the impact of Brexit this year has focused on the small number of sectors where Brexit has an immediate binary effect such as trading EU-listed stocks (which has moved en masse from UK platforms to the EU) and some areas of derivatives trading. In most sectors, the impact of Brexit will be more nuanced and more gradual - but will grow over time. As Brexit beds down, EU regulators are likely to apply existing rules on the location of individuals and activity more stringently, and try to 'repatriate' more activity in more sectors such as asset management, clearing and trading. For many larger firms, the relocations so far are just a first wave: many firms have agreed a roadmap for their relocation with EU regulators called a 'target operating model' and have until the end of this year or beyond to execute it. The big issue in the longer term is not so much the number of jobs being moved from the UK (which we think could double or triple in the next few years) but the future creation of new jobs in the EU that might otherwise have been created in the UK.

3. **A line in the sand:** the 'good' news from this report is that it confirms that Brexit presents an occasion and perhaps an imperative to draw a line in the sand. Brexit has been (and will continue to be) a hugely complex, time-consuming, costly and distracting exercise for the industry and for regulators. But the relocation activity that we have identified means that most firms in the UK that need continued access to clients and markets in the EU now have it. With that access in hand (as we have argued for more than a year) the best way forward is perhaps to treat Brexit as a sunk cost, and move beyond the debate over how closely the UK should remain aligned to the EU in exchange for more access to EU markets. That access is unlikely to be forthcoming, so it is perhaps better for the industry to take the damage from Brexit on the chin and focus instead on recalibrating the framework in the UK so that it is more tailored to the unique nature of the UK financial services industry.

4. **A new direction:** while Brexit has a clear negative impact on the UK banking and finance industry, from the EU's perspective it has led to the repatriation of a significant chunk of local EU activity. This shift will also provide a boost to the EU's efforts to develop 'strategic autonomy' and increase its capacity in banking, finance and capital markets, and perhaps inject more urgency into initiatives like capital markets union. Brexit has also reshaped the landscape of financial centres in the EU: instead of one dominant hub (London), post-Brexit the EU has a series of hubs in different sectors with an injection of critical mass: Frankfurt for banking, Dublin for asset management, Amsterdam for broking and exchanges. Paris has less of a sector focus and will be the closest financial centre to a 'mini-London'. In the long-run, we expect Paris to be the biggest beneficiary in terms of jobs. Brexit opens the door to a change in the tone and direction of policy in the EU. France has replaced the UK as by far the biggest market for banking, finance and capital markets in the EU, and without the UK at the table the EU framework is likely to look very different in future.

5. **Gradual divergence:** Brexit inevitably means that the regulatory framework in the UK and EU will diverge over time. This process has already started, with the UK reviewing its listings rules, Solvency II, the UK funds regime and the regulatory framework. The UK is planning a wider review across the industry this summer. The EU is simultaneously reviewing Solvency II and aspects of Mifid II. This process will enable both sides to tailor their framework more closely to the nature of their financial services industry, and will inevitably lead to a degree of regulatory competition. Broadly speaking, the EU is seeking to boost business by requiring certain activities to be conducted in the EU, and the UK will seek to boost activity by making more firms want to do business in the UK. Inevitably, however, this will increase the complexity and cost of doing business across Europe.

About New Financial

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

We think this presents a huge opportunity for the industry and its customers to embrace change and rethink how capital markets work. We work with market participants and policymakers to help make a more positive and constructive case for capital markets around four main themes: unlocking capital markets; rebuilding trust; driving diversity; and the impact of Brexit.

We are a social enterprise funded by institutional membership from different sectors of the capital markets industry. For more information on our work, please contact us:

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