

WHAT FUTURE FOR UK FINANCIAL SERVICES AFTER BREXIT?

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UNPICKING THE VALUE OF THE PASSPORT

- Not one single passport, but several sector-specific ones
- Importance of passport depends on industry
- Exaggerated to claim UK's success as global financial hub is entirely reliant on passport

OVERVIEW OF THE MAIN INDUSTRIES

Industry	Main EU law	Importance of EU passport	Is EU equivalence available?	Does equivalence grant passport-like rights?	Other alternatives and recommendations														
Banking	MiFID (MiFID II/MiFIR in 2018)	High Long established, few barriers (<i>CRD IV</i> : deposit-taking, lending, payment services, etc. <i>MiFID II</i> : portfolio management, investment advice, etc.)	Yes	Yes	<ul style="list-style-type: none"> • Bespoke UK-EU deal covering main elements of CRD IV passport • Push for equivalence in CRD V • Set up subsidiaries in EU countries (access to passport) • Operate branches in EU countries (no access to passport) 														
	CRD IV		No	No		Asset management	AIFMD (professional clients)	Medium Distribute funds across bloc, manage from single location (marketing and management of funds across borders)	No	Potentially (via MiFIR)	<ul style="list-style-type: none"> • Push for swift implementation of third-country AIFMD passport • Push for third-country passport in UCITS VI • Delegation of portfolio management • Private placement • Passive marketing 	UCITS V (retail clients)	No	No	Insurance	Solvency II	Low Globally diversified, use subsidiaries (direct insurance and re-insurance, cross-border and via branches)	Yes (re-insurance)	Yes
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BANKING

- Around a fifth of UK banking sector's annual revenue tied to passport
- No alternative to passport for a number of services (deposit-taking, lending, payment services, etc.)
- Two-way street: Deutsche Bank, Société Générale and others run large UK operations
- Large US investment banks book vast majority of EMEA revenues in London

ASSET MANAGEMENT

- National barriers (e.g. supervisory fees) mean passport works less well for asset managers
- Many UK-based managers already run two ranges (one from London and one usually from Dublin or Luxembourg)
- Widespread use of portfolio management 'delegation' can theoretically continue after Brexit

INSURANCE

- Globally diversified industry
- Widespread use of local subsidiaries (not reliant on passport)
- No real single market, local presence and knowledge remain key
- Lloyd's of London is an important exception

WHAT IS EQUIVALENCE?

- Outcome-based, widely cited as main fall-back option
- Bestows passport-like rights in some sectors (e.g. investment banking and re-insurance)
- Does not cover full spectrum of EU financial services regulation (e.g. no equivalence for wholesale banking)

WHAT DEAL SHOULD THE UK SEEK WITH EU-27?

- Mixed approach
- Focus negotiating efforts on sectors where passport is most valuable
- 'Pre-emptive equivalence' where available
- Bespoke deals in areas where equivalence is not on offer (CRD IV is top priority)

WHAT'S IN IT FOR THE EU-27?

- Keeping financial markets open across the Channel is a matter of mutual interest
- Fragmenting the UK's financial ecosystem would push costs up for everyone
- Not a zero-sum game, business leaving the UK could relocate outside the EU (New York, Hong Kong, Singapore, etc.)



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