



BCCG BREXIT EXPERT GROUP **BANKING & FINANCIAL SERVICES**

BCCG BUILDING UP "THE BRIDGE". BREXIT AS AN OPPORTUNITY TO STRENGTHEN THE RELATIONSHIP BETWEEN THE FINANCIAL CENTRES OF FRANKFURT AND LONDON

Almost two years have passed since the 23 June 2016 referendum that led to the British government declaring its withdrawal from the European Union. Since then, political and economic events have been shaped by one thing in particular: uncertainty.

The third important Brexit speech by PM May entitled "Our future partnership" and the publication of the negotiation guidelines by Brussels once again confirmed that the Brexit negotiations will be characterised by steady ups and downs. PM May made clear that it has to be assumed that not everything that is wished for can be achieved in the end, and that the EU Guidelines are fine-tuned to protect the integrity of the single market in particular concerning financial services.

The clear commitment to leave the Customs Union and the European Single Market will determine the framework conditions for further negotiations. Hence, the desired goal of maintaining a close relationship between the UK and the EU in the future is thus moving further away.

For the financial services industry, the decision to leave the European Single Market is of special importance as this means a loss of the so-called "passporting rights" that allow financial market participants who are authorised to conduct certain financial activities in one EU member state to also conduct those activities in any other EU member state. The current debate is about mutual recognition, whereby the EU has in the past only offered equivalence that can be revoked unilaterally on very short notice.

Although the UK government would regard a trade agreement excluding financial services as "not fair and balanced", the EU has made clear that this will be possible only under certain conditions. This in turn means that the UK has to be subject to a single rule book over which they would have no say – this PM May has dismissed in her recent speech as unacceptable to the UK. There is still a lot of work to be done in the negotiations. Further

guidance on how to navigate through those uncharted waters will also be required.

Furthermore, on-going discussions regarding a possible transition phase, which – as outlined in our last 2018 BCCG Bulletin article – are indispensable to ensuring the undisrupted functioning of the financial markets, does not help to lift the current uncertainty.

In these uncertain times, the work of our BCCG Expert Group on Banking & Financial Services is of particular importance. It is in the interest of the expert group to preserve German-British economic relations and to help to underline the necessity to resolve existing uncertainties amongst the parties affected by the Brexit negotiations.

The BCCG has a special position in the negotiations themselves: Being German business partners in a British organisation makes us as neutral as one can be in such uncertain times. Thus, politicians and business leaders on both sides are looking to the BCCG as a discussion partner. The BCCG stands for transnational interests, and as an expert group it is our aim to strengthen German-British cooperation and to build a bridge between the very important financial centres of London and Frankfurt.

It is commonly understood that London will remain an important global financial centre even after Brexit. The current size of the London financial centre, the superior legal framework and its talent pool alone – all valuable assets that took many years to establish –, preclude any other conclusion. In the past, both sides have benefitted significantly from the close links between the London financial centre and the continental European economy, and over the years we have created a mutual dependency between mainland Europe and the City to the benefit of both sides. The question of future access to the London financial centre is of particular importance to both parties, as a short-term shift of business activities from UK business partners

to new partners and institutions in the EU would presumably result in significant losses in efficiency.

The EU continues its move towards a single integrated capital market. Taking the UK financial market out removes significant market depth and capabilities, which may harm both, the way in which financing needs of companies can be serviced, and how stable and robust the market is functioning itself. Therefore, we are fortifying and building up the “bridge” that maintains relations between the German and British financial markets, as these relations are of enormous importance not only for the financial services industry but for the entire economy.

Our objective is to act as an independent link between politicians and business in order to sustainably strengthen the European financial market post-Brexit. In this context, we want to encourage politicians to strengthen their arguments and to be the voice of the financial services industry, which creates transparency with regard to industry's concerns relating to the negotiations ahead.

Our expert group is very active in terms of events, publications and bilateral discussions and thus would like to contribute to transparency, thereby helping to lift the current uncertainty.

THE KEY TOPICS ADDRESSED BY THE GROUP CAN BE SUMMARISED AS FOLLOWS:

1. Supervision & regulatory requirements

As the foundation of continued access to services and to each other's financial markets, one of the financial sector's demands must be for the continued maintenance of a level playing field, in particular with regard to the supervisory requirements on both sides. We can see several routes leading to this outcome,

and we are entering into discussions on how to achieve this.

2. Contractual and data management

What does Brexit mean for future contracts with customers in EU countries, but also for existing contracts that extend beyond the Brexit date? What will data exchange with companies in the UK look like in the future?

3. Euro clearing

How should future euro clearing be organised, and how will it be ensured that a solution is derived that balances operational risks, transaction costs and supervisory control requirements, while limiting the impact on banks' profitability and customers' transaction costs with banks in the UK and the EU27, while ultimately maintaining a choice of options for market participants?

4. Transition period

Depending on the Brexit scenario, what could transitional arrangements to prevent or mitigate the negative consequences of Brexit look like? The BCCG Expert Group on Banking & Financial Services unanimously supports a general transitional arrangement of at least 2 years to allow for the undisrupted functioning of the financial markets, in order to ensure continued support of the economy and its market participants.

PM May stated that the Brexit negotiations will be characterised by steady ups and downs. Together with the other expert groups of the BCCG, we aim to contribute in a positive way to these negotiations. We are convinced that the best result for both parties can be achieved with continued co-operation, which is why we are doing our utmost to ensure that, even after Brexit, there is a sturdy “bridge” between the United Kingdom and the EU on which we can build economically and politically.

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