



THE NEW FINANCIAL BREXITOMETER

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

March 2019

by William Wright, Christian Benson and Eivind Friis Hamre

> This report highlights the damage that Brexit has already done to the City of London. More than 250 firms in banking and finance have moved or are moving business, staff, assets or legal entities away from the UK to the EU. While this is far higher than previous estimates, it significantly underestimates the real picture.

Preparing for the worst

For nearly three years, Brexit has loomed over the City of London and the UK 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 preparing since 24th June 2016 for the worst case scenario of a 'no deal' Brexit. For many of them, Brexit effectively happened sometime last year.

With just a few weeks to go until Brexit - and the possibility of no deal - 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 is that we have identified nearly 270 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 much higher number than previous reports.

The worse news is that this is almost certainly a significant underestimate of the real picture: some firms will have slipped below our radar; some will have decided that the recent temporary agreements between UK and EU regulators to ensure continuity in the event of no deal provide enough comfort for them to hold off on any relocation decisions for the timebeing; others (more worryingly) may simply not yet be ready. Over time, we expect these headline numbers to increase significantly.

The report addresses the following questions:

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

Methodology & acknowledgements

We used a combination of media reports, regulatory registers, other research reports on the impact of Brexit, and information from development agencies and government bodies across Europe, to build as comprehensive a picture as possible of the impact of Brexit on the banking and finance industry. Much of the publicly-available information was incomplete and often inconsistent. We apologise for any errors and would be grateful if you could email any queries, additions or corrections to info@newfinancial.org

Thank you to Christian Benson and 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 20 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.

New Financial is a think tank 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.

Our work on Brexit is apolitical: we are focused on the potential disruption it will have on the vital process of integration and convergence of banking, finance and capital markets in Europe.

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

For more information on New Financial, contact us on:

www.newfinancial.org

william.wright@newfinancial.org

+44 20 3743 8269

New Financial is registered on the EU Transparency Register, number 435008814959-36

© New Financial LLP 2019.
All rights reserved.

Here is a short summary of this report:

1. **A big headline number:** we identified 269 firms in the banking and finance industry that have responded to Brexit by relocating part of their business, moving some staff, or setting up new entities in the EU. Nearly 250 of them are setting up new hubs for their EU business, and over 210 have set up new entities or applied for new licences. Banks have moved or are moving around £800bn in assets from the UK to the EU, insurance firms are moving tens of billions of assets, and asset managers have transferred more than £65bn in funds.
2. **A significant underestimate:** we think our analysis is the most comprehensive yet of the impact of Brexit, but we know that the numbers significantly understate the real picture. Over time, we expect the headline numbers of firms, staff, and business to increase significantly as the dust settles on Brexit and local regulators require firms to increase the substance of their local operations.
3. **The damage is done:** for many firms in banking and finance, Brexit effectively happened some time last year. The political uncertainty since the referendum has forced firms to assume the worst case scenario of a 'no deal' Brexit with no transition period, and to prepare accordingly. Many large firms have had their new entities in the EU up and running for months, and having spent tens or hundreds of millions of dollars on their contingency plans are not going to relocate business back to the UK anytime soon.
4. **And the winner is...:** Dublin has emerged as the clear winner in terms of attracting business from the UK, with 100 firms choosing the Irish capital as a post-Brexit location. This represents 30% of all the moves that we identified, well ahead of Luxembourg with 60 firms, Paris with 41, Frankfurt on 40, and Amsterdam on 32. We expect these numbers to increase significantly in the near future.
5. **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 more than 40 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.
6. **Sector specialisation:** different financial centres have attracted different firms based on their sector of activity. For example, roughly half of all asset management firms that have moved something as a result of Brexit have chosen Dublin. Nearly 90% of the firms that have chosen Frankfurt as their main EU base are banks, while two thirds of firms moving to Amsterdam are trading platforms, exchanges or broking firms.
7. **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. Firms are keen to move as few staff as possible and so far at least regulators have been flexible. This will change in the next few years. We have identified nearly 5,000 expected staff moves or local hires in response to Brexit, but this is from only a small minority of firms and we expect this number to increase significantly in the next few years.
8. **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: £800bn in bank assets is nearly 10% of the UK banking system. The final tally is likely to be much higher, which will reduce the UK's tax base, supervisory influence and ultimately have an impact on jobs.
9. **A loss of influence:** the shift in staff, business, assets and legal entities will gradually chip away at the UK's influence in the banking and finance industry not just in Europe but 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.
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% of the headcount at individual firms. However, over time other European cities will chip away at London's lead.

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 months. For a detailed analysis of individual financial centres, see pages 14 to 18.

Dublin

100 firms / 30% of all moves, including...

Asset / wealth management	BNY Mellon	Alternatives
Aberdeen Standard	CIBC	Butler Corum
Affiliated Managers Group	Macquarie Group	CapVest Irish Partners
Ashmore	MiraeAsset Daewoo	Dalmore Capital
Baillie Gifford	Sanford Bernstein	FundRock
Baring Asset Management	Starling Bank	Innocap
Brandes	TD Bank	KKR Capital Markets
Canaccord Genuity		Marshall Wace
First State Investment	Diversified financials	Pantheon
Goldman Sachs Asset Mgmt	Azimo	Winton
Guggenheim Partners	Circle	
Hermes Investment Management	ClearBank	Insurance
Impax Asset Management	Coinbase	Aspen
Insight Investment	DTCC	Aviva
LGIM	EquiLend	Beazley
Legg Mason	Euroclear	Berkshire Hathaway
Merian Global Investors	First Derivatives	BUPA Insurance
Morgan Stanley Inv Mgmt	Kroll Bond Rating Agency	Chaucer
Principal Global Investors	Liquidnet	Everest Re
State Street Global Advisors	Marex Financial	Fidelis
Vanguard Asset Management	Monzo	North
	Optal	Phoenix Life
	Pershing	Prudential
Banks / investment banks	Standard & Poor's	Royal London
Bank of America	Thomson Reuters	Travelers
Barclays		XL Group

Paris

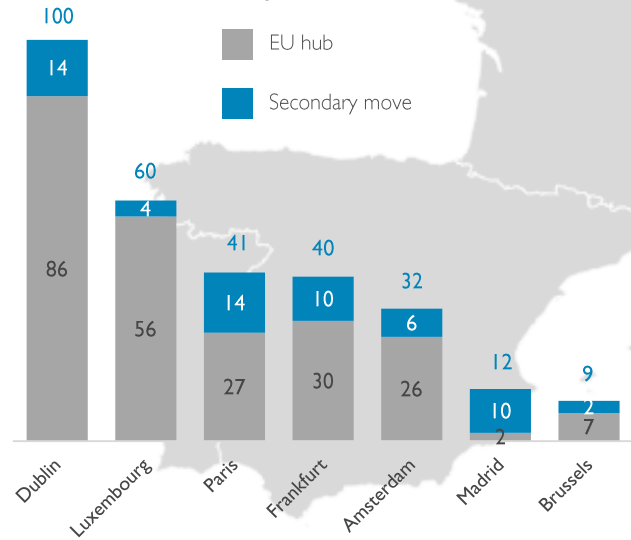
41 firms / 12% of all moves

Asset / wealth management	Societe Generale
BlackRock*	Standard Chartered*
H2O Asset Management	Wells Fargo
Polar Capital	
Smart Lenders AM	Diversified financials
Schroders*	Aquis Exchange
	Ebury
Banks / investment banks	European Banking Authority
Arab Bank	GoCardless
Bank ABC	LCH
Bank of America	SETL
BNP Paribas	TP ICAP
Citigroup Global Markets*	
Commerzbank*	Alternatives
Credit Agricole CIB	Eleva Capital
Credit Suisse*	
Goldman Sachs	Insurance
HSBC	AXA
JP Morgan*	Chubb
Morgan Stanley*	Global Aerospace
National Bank of Kuwait	Portman Insurance
Nomura*	



Fig.2 Brexit at a glance (I)

The number of firms moving to different financial centres



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

Luxembourg

60 firms / 18% of all moves

Asset / wealth management

Artemis
Aviva Investors
Columbia Threadneedle Investments
IPES / Apex
Janus Henderson
JP Morgan Wealth Management
Julius Baer
Jupiter Asset Management
M&G
MFS Investment Management
Newton Investment Management
Schroders
SCM Direct
T Rowe Price
Wells Fargo Asset Management

Alternatives

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

Insurance

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

Banks / investment banks

Agricultural Bank of China
China Everbright Bank
Northern Trust
Swiss Re Capital Markets
Swissquote

Diversified financials

LendInvest
PPRO
Revolut

Frankfurt

40 firms / 12% of all moves

Banks / investment banks

Bank of America*
Bank of Taiwan
China International Capital Corporation
Citigroup Global Markets
Close Brothers
Commerzbank
Credit Suisse
Daiva Capital Markets
Deutsche Bank
Essence Securities
First Commercial Bank
Goldman Sachs
Jefferies
JP Morgan
Mizuho

Morgan Stanley
Nomura
Raymond James
RBC
Silicon Valley Bank
Standard Chartered
Sumitomo Mitsui Banking Corp.
UBS
VTB Bank
Westpac
Woori Bank

Diversified financials

DBRS
Fitch

Amsterdam

32 firms / 10% of all moves

Asset / wealth management

BlackRock
BMO Global Asset Management
DeVere Group

Banks / investment banks

Commonwealth Bank of Australia
Royal Bank of Scotland
MUFG Securities
Norinchukin

Diversified financials

Bloomberg Trading Facility
NEX Group/CME
Cboe Global Markets
Gelber Group
Hard Eight Trading

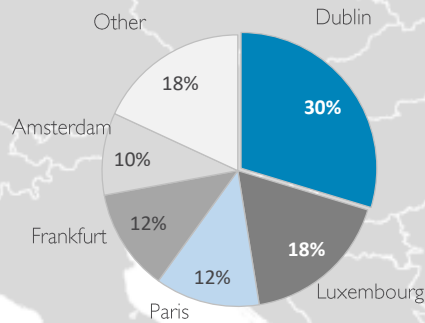
Hitachi Capital
Jane Street
Jump Trading
LSEG (Turquoise)
Mako Derivatives
MarketAxess
Maven Derivatives
Quantlab
Radix Trading LLC
Tower Research Capital
Tradeweb
Wordlypay

Alternatives

Bedford Row Capital

Fig.3 A Brexit at a glance (2)

Financial centres share of post-Brexit relocations
Sample = 269 firms / 331 moves



Madrid

12 firms / 4% of all moves

Banks / investment banks
Credit Suisse

Insurance

Admiral Insurance

Brussels

9 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

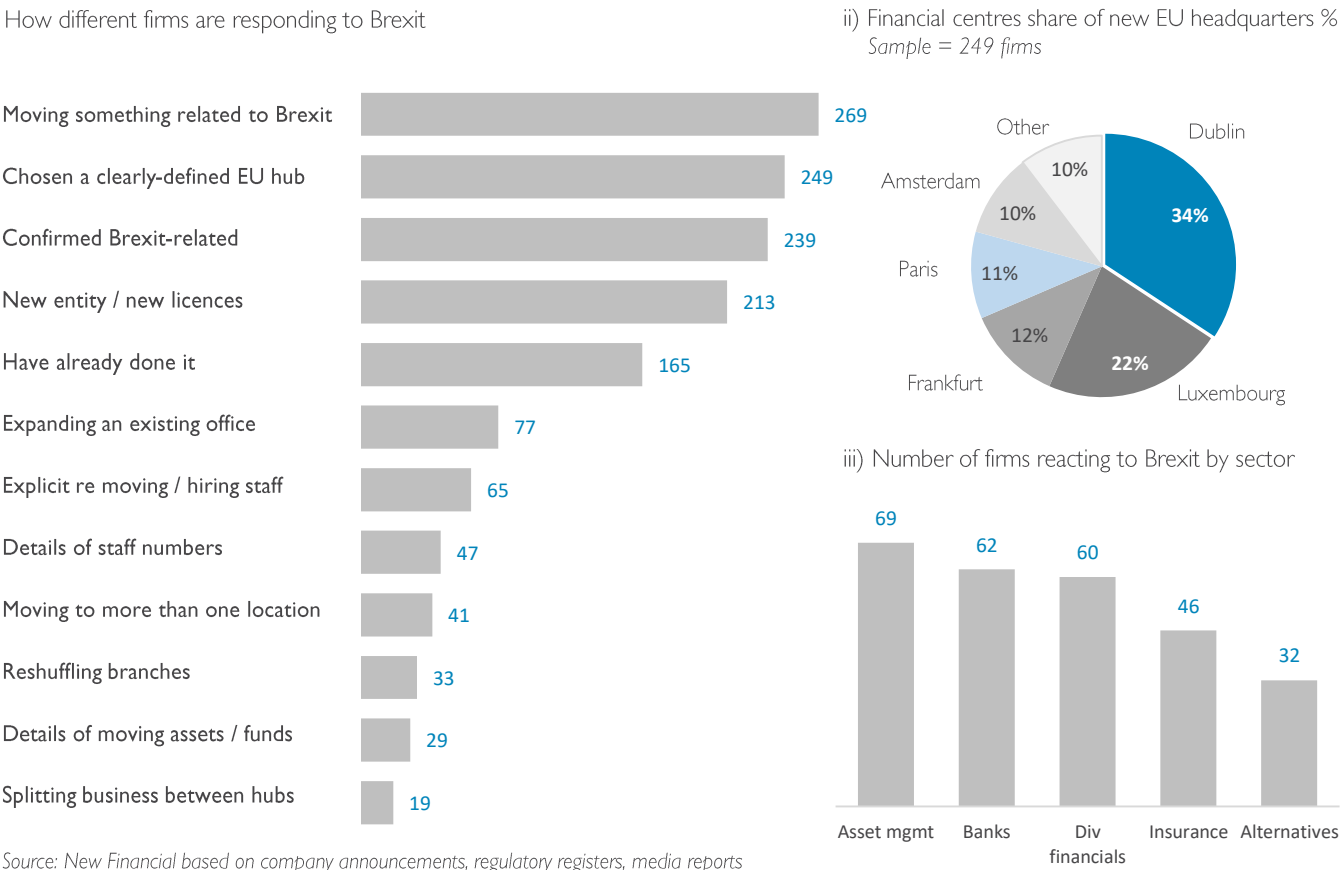
Banks / investment banks
Goldman Sachs*

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?



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

A structural change

We identified 269 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, big banks like Barclays and Bank of America Merrill Lynch have set up new entities in the EU, moved hundreds of staff, and transferred hundreds of billions of pounds in assets. At the other, much smaller hedge funds or private equity firms have set up a new entity in Ireland or a fund in Luxembourg and perhaps hired or transferred a handful of staff to run it.

One of the dangers in this analysis is confusing the usual course of business of opening new offices with Brexit-related moves. This is particularly acute given that different financial centres are competing furiously to claim Brexit-related relocations or new offices. We think that 239 of the moves in our total sample are specifically related to Brexit, and we apologise to any firms where we have wrongly tagged a new office or local hiring spree as 'Brexit'.

Just under 250 firms have chosen a clearly-defined hub for their post-Brexit business in the EU, and 213 of them have set up or are setting up new entities in the EU. The days of 'contingency planning' are long gone: as far as we can tell, more than 160 of the firms in our sample have already got their licence, opened their office, or moved part of their staff, business, or assets in preparation for Brexit.

Our analysis does not include around 20 firms which have said that their existing structure and network of authorised entities in the EU means that they don't have to make any significant changes to their business in response to Brexit. These firms are mainly already headquartered in the EU. We also identified nearly 100 firms who we think will have to move something or set up a new entity at some point but who so far have not done so.

A MULTIPOLAR WORLD (I)

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 in at least two ways.

First, we identified nearly 20 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.5 for a selection of these moves). The most obvious example is Bank of America Merrill Lynch, 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.

This 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.

And second, 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 more than 40 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 close to clients, and the specific nature 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.

Fig.5 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
Bank of America	Banking > Dublin	Markets > Paris
BlackRock	EU hub > Amsterdam	Alternatives hub > Paris
Citi	Inv banking & markets > Frankfurt	Private banking > Luxembourg
Credit Suisse	Inv banking > Frankfurt	Markets > Madrid
Euroclear	Holding company > Brussels	New entity > Ireland
Goldman Sachs	Inv banking & markets > Frankfurt & Paris	Asset management > Dublin
JP Morgan	Inv banking & markets > Frankfurt	Asset management > Dublin Wealth management > 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

Fig.6 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
Bank of America	Dublin / Paris	Amsterdam, Brussels, Frankfurt, Madrid, Milan
Barclays	Dublin	Frankfurt, Paris
BlackRock	Amsterdam	Budapest, Paris
BNY Mellon	Dublin	Frankfurt, Paris
Citi	Frankfurt	Amsterdam, Dublin, Madrid, Milan, Paris
Credit Suisse	Frankfurt / Madrid	Luxembourg, Milan, Paris, Dublin
Goldman Sachs	Frankfurt / Paris	Madrid, Milan, Stockholm, Warsaw
JP Morgan	Frankfurt / Luxembourg	Amsterdam, Dublin, Paris, Madrid and Milan
Morgan Stanley	Frankfurt	Amsterdam, Dublin, Madrid, Milan, Paris
Nomura	Frankfurt	Madrid, Milan, Paris
Schroders	Luxembourg	Paris
Stan. Chartered	Frankfurt	Paris
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

A MULTIPOLAR WORLD (2)

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, 30 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.7).

Luxembourg demonstrates a similar shift, while Frankfurt shows the same effect in reverse: it has attracted more than twice as many banks as any other city (26), but just two 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 dominates asset management (43% of all moves), alternatives (59% of all moves), and to a lesser extent insurance (36% of all moves), other financial centres scored strongly in specific sectors.

Luxembourg has attracted roughly a third of all asset management firms, hedge funds and private equity firms, as well as more than a quarter 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 28% of all moves.

And Paris has done reasonably well in attracting firms from across the industry, without having a clear sector strength: its strongest sector is banks, where it attracted 20% of all moves, ahead of diversified financials on 13%.

Fig.7 A sector perspective

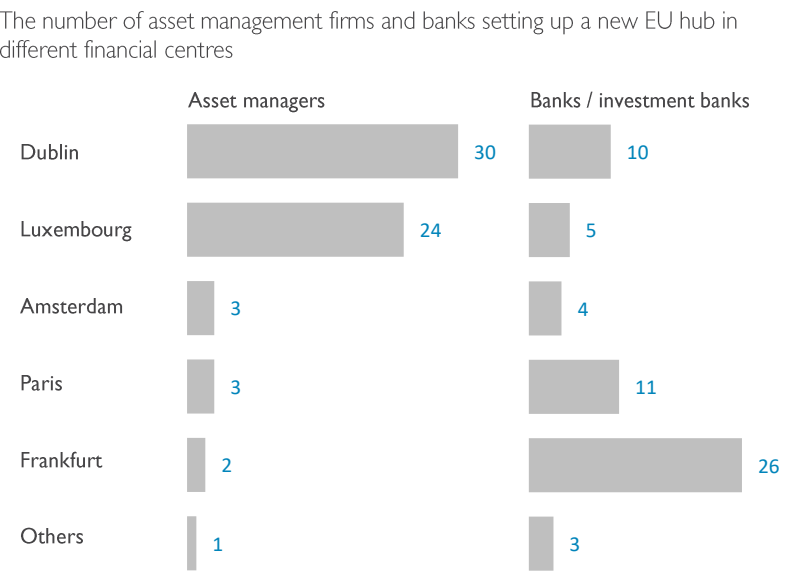
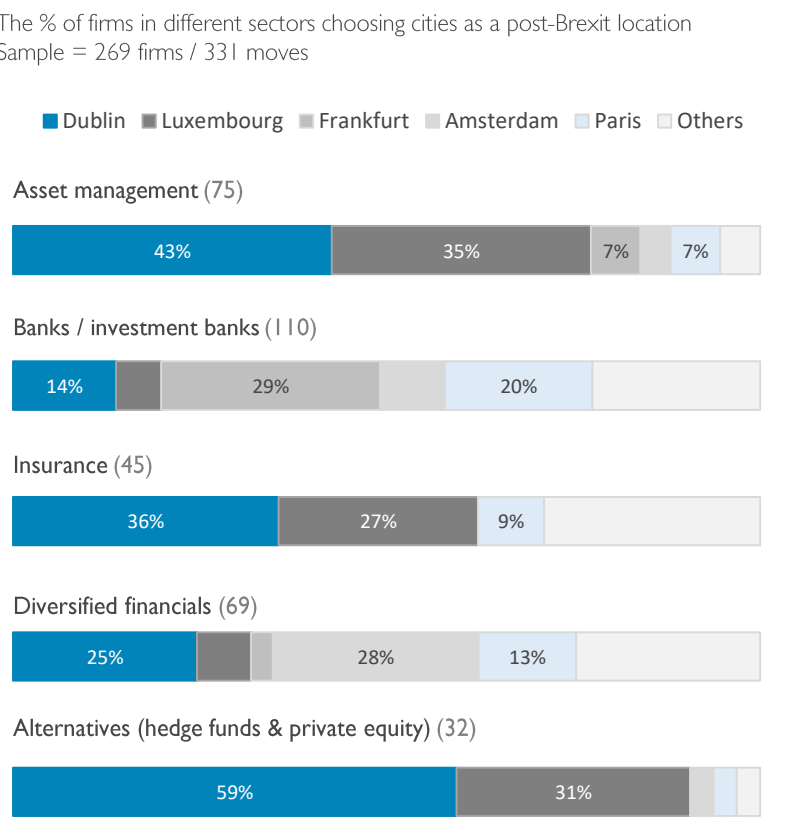


Fig.8 Local specialities



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

UNDERESTIMATING THE IMPACT OF BREXIT

Trouble ahead?

While we think our analysis is the most comprehensive yet on the impact of Brexit we think it understates the real picture of the shift in business and relocations. Not least, there is a significant gap between the number of firms that we have identified as moving something somewhere in response to Brexit and the number of firms in the UK that currently take advantage of passporting into the EU market.

A lot of Brexit-related moves will not come up on our radar screen. Many firms have chosen not to publicly disclose how they have responded to Brexit. Many firms won't need an extra licence if they are moving business or operations to the EU so wouldn't come up on regulators' registers. And some firms will have put any moves on hold because of the various temporary agreements that have been signed between EU and UK regulators to ensure continuity in the event of 'no deal' Brexit.

However, this still leaves some big holes. More than 5,000 firms in the UK use passporting to access the EU, and without a deal (or at least when the temporary MOUs fall away), they will lose this access unless they set up a new entity in the EU (see Fig. 9). There are hundreds of firms - particularly smaller asset managers, hedge funds, private equity firms and the UK offices of banks from outside the EU - whose only authorised presence in the EU is in the UK and who will in theory lose access to the rest of the EU unless they relocate something soon.

There is a similar picture with branches: more than 300 firms in the UK operate more than 800 branches in the EU (Fig.10) and absent a deal these branches will lose their authorisation to operate. While the larger firms have been up and running with their new entities in the EU for months - Morgan Stanley's main new entity in Frankfurt was authorised in May last year and LGIM's new hub in Dublin was approved last summer - this suggests that many smaller firms do not yet have the necessary entities and authorisations in place to avoid disruption in the event of a no deal Brexit.

Fig.9 A passport to nowhere

The use of passports to and from the UK under different directives

Directive	No. of firms using passports	
	Inward to UK	Outward from UK
AIFMD	48	219
CRD4	553	99
Electronic Money	27	65
Insurance Mediation	3,138	2,661
Mifid	988	2,254
Payment Services	118	288
Solvency II	726	214
UCITS IV	92	29
UCITS Management	9	5
Total (after duplication)	c. 4,900	c. 5,400

Source: New Financial analysis of FCA data in 2017

Fig.10 Branching out

The number of firms in the UK operating branches in the EU

Branching out from the UK

Mifid (Securities & investment)

- 187 UK-based firms operate a total of 377 branches in the EEA under Mifid
- 73 have branches in more than one country and 17 firms have branches in more than five countries
- UK firms have branches in 17 / 30 countries in the EEA

CRD4 (Banking)

- 33 UK-based banks operate 128 branches across the EEA under CRD4, and of these 20 operate branches in more than one country and 11 in more than five countries
- UK firms have branches in 17 EEA countries

Solvency II (Insurance)

- 69 UK-based insurance companies operate 329 branches across the EEA
- 44 operate branches in more than one country and 24 in more than five countries
- Largest number of branches: ACE (26), AIG (25) and AXA (23).
- UK firms have branches in 26 countries in the EEA

AIFMD (hedge funds & private equity)

- There are over 700 firms authorised under AIFMD in the UK but they operate just 13 branches in the EU.

Source: New Financial analysis of FCA, ESMA, EBA & EIOPA registers in 2017

Relocation, relocation, relocation

Much of the debate around the impact of Brexit has focused on the number of staff who will be posted to Paris, Frankfurt or Wrocław, and when. While the numbers make for good headlines, we think the debate around how many staff have moved so far and whether this is higher or lower than was expected two years ago is a red herring. Instead, a far better measure of the impact of Brexit is the scale of business being transferred in terms of bank assets or funds (see page 11).

That said, we identified 47 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 to small asset management firms involving a handful of staff for their new entity in the EU, and adds up to around 4,900 jobs.

Fig.11 gives a selection of some of the main moves based on what firms have said publicly and the often inconsistent media coverage. We have erred on the conservative side with these numbers, and overall we expect the headline numbers to increase over time. For example, we know of two large investment banks that in recent weeks have issued new contracts to hundreds of staff who are being relocated to the EU, and another that has been moving staff every weekend to the EU since early February.

The most recent estimate from Reuters is that firms have moved fewer than 2,000 staff so far, while EY estimates that around 2,000 new jobs have been created locally across the EU. 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, and firms are keen to move as few people as possible.

This will change once the dynamics of Brexit become clearer and regulators expect firms to have more local substance: more senior managers will relocate; more sales and coverage staff will move, along with more risk management, compliance, and support staff.

Fig.11 Staffing up

A selection of firms moving staff or hiring locally

Name	Estimated staff moves	Notes
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
Bank of America	400 to 500	Has moved around 125 staff to Dublin and is moving several hundred more to 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
Fidelity	250	Plans to hire an extra 250 staff in Dublin this year
Societe Generale	200	Moving staff to group HQ in Paris
UBS	200	Mainly to Frankfurt but also expanding other EU offices
Barclays	175	Mainly to new EU hub in Dublin 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
BNP Paribas	100	Moving staff to group HQ in Paris
Nomura	100	Mainly to EU hub in Frankfurt and to new entity in Paris

Source: company announcements, media reports

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 are transferring tens of billions of pounds in funds to Dublin or Luxembourg.

Overall, we estimate that 10 large banks and investment banks are moving just under £800bn in assets away from the UK (see Fig.12). 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 £800bn in bank assets represents about 9% of the total assets in the UK banking system.

We think the final numbers will be much larger. We only have details on the scale of assets or funds being moved for 29 of the 269 firms in our sample, and the final tally may never be known. For example, more than 35 insurance companies have applied to transfer assets under a formal court procedure called a Part VII transfer according to the ABI, but so far less than a third of these have been completed.

And while some of the numbers for the banks are estimates based on media coverage and may be inflated, they exclude what are likely to be some big numbers. In just one example, the markets business at Bank of America Merrill Lynch has a balance sheet of just under \$400bn in London and we have not included any of this moving to its new EU hub in Paris in our numbers.

The erosion of the asset base in the City will have far bigger longer-term consequences than the short-term relocation of staff: it will reduce the tax base, reduce the influence of UK supervisors and regulators, shift where revenues and profits are booked, and ultimately lead to a longer term shift in staffing and operations.

Fig.12 Shifting assets

A selection of firms moving assets or funds to other financial centres post-Brexit

Firm name	Value of assets £bn	Location
Banks / investment banks		
Deutsche Bank*	250	Frankfurt
JP Morgan*	175	Frankfurt
Barclays	166	Dublin
Goldman Sachs*	50	Frankfurt
Citi*	45	Frankfurt
BAML	35	Dublin
Morgan Stanley*	35	Frankfurt
UBS	28	Frankfurt
RBS	6	Amsterdam
Nomura*	5	Frankfurt
Insurance		
Phoenix Life	18	Dublin
Aviva	10	Dublin
AIG	6	Luxembourg
Axa	1	Paris
Royal London	1	Dublin
QBE	1	Brussels
Asset management (Value of funds £bn)		
M&G	34	Luxembourg
Aberdeen Standard	19	Dublin / Luxembourg
Columbia Threadneedle	7	Luxembourg
First State Investment	4	Dublin

* Denotes estimated value of assets being transferred
Source: companies, media reports, Bloomberg

This shift in assets and funds is being reflected in other areas of the financial markets as a result of Brexit. A number of firms including Deutsche Bank have said they have starting moving part of their euro-denominated derivatives clearing from London to Frankfurt, and in future a much bigger proportion of trading in EU securities will take place on trading floors and platforms in Amsterdam, Frankfurt, Milan and Paris than is the case today. .

THE IMPACT ON BRANCHES

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 take advantage of this to operate more than 800 branches across the EU.

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 30 firms that have already started reshuffling their branch networks to prepare for Brexit (see Fig.13 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 operate more than 300 branches in the EU). Big banks have also been transferring their EU branch networks: Bank of America Merrill Lynch 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 many more firms to reshuffle their branch networks once the temporary 'no deal' agreements between the UK and EU fall away.

Fig.13 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, Netherlands, 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
M&G	France, Italy and Spain	Luxembourg
Morgan Stanley	Italy	Frankfurt (banking) Dublin (asset mgmt)
QBE	All EEA branches*	Belgium
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

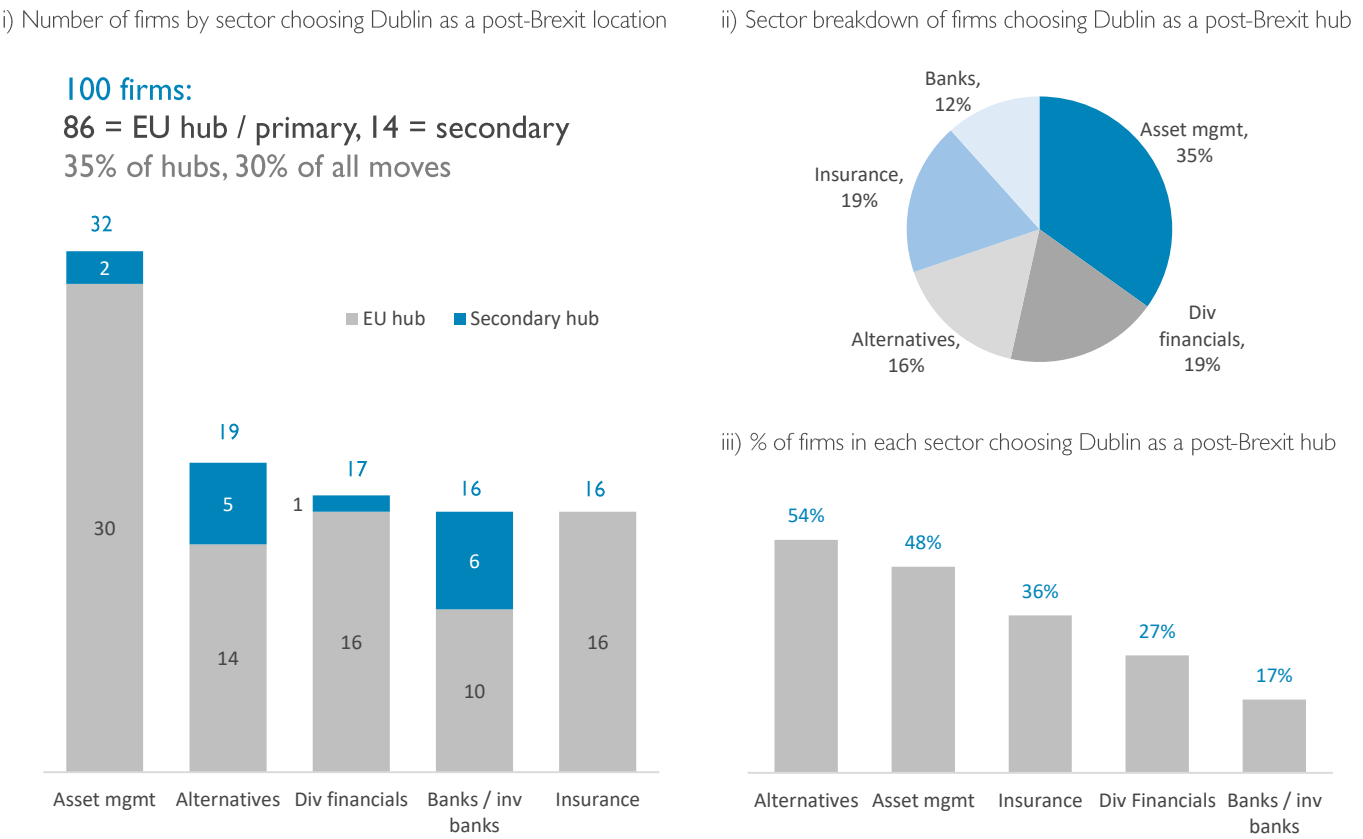
Source: New Financial based on company announcements, regulatory registers, media reports

Fig. I4 A different light on Brexit

A selection of some of the less noticed aspects of Brexit and its impact on the City of London

Category	Description
One way traffic?	<ul style="list-style-type: none">It's not all one way traffic: a number of firms from outside the EU have opted to open new entities in the UK despite Brexit, and some EU firms that previously used branches or passporting to access the UK have already applied for authorisation in the UK to ensure they retain that access. Singapore-based hedge fund Orchard has moved its global HQ to London, while ABN Amro, Citi, Munich Re, and trade repository Regis TR have all applied for new authorisation in the UKIn addition, many EU firms have applied for temporary authorisation under the UK's 'temporary permission regime' (the FCA recently authorised Deutsche Boerse, Eurex and ICE) and without a deal at some stage all firms that use branches or passports to operate in the UK will have to review their arrangements. However, for every firm applying for authorisation in the UK, there are currently nearly 20 going the other way.
Buying into Brexit	<ul style="list-style-type: none">Directly or indirectly, a number of firms are using M&A activity to secure their access to the EU market post-Brexit. Insurance company Chesnara has increased its footprint in the Dutch market by buying L&G Netherlands; JLT has acquired the Belgian broker Belgibo; Stifel is building scale in its German and Swiss equity research business through buying Germany's Mainfirst Bank; and Swiss bank Swissquote bought the Luxembourg-based online broker Internaxx.
Waving goodbye	<ul style="list-style-type: none">The flipside of so many firms setting up new entities in the rest of the EU is that some of them are saying goodbye to the UK altogether, at least when it comes to supervision. According to the register of firms authorised by the Prudential Regulation Authority, a number of banks have applied to cancel their licence with the UK supervisor, including Agricultural Bank of China (which already has a subsidiary in Luxembourg), the European arm of ANZ, as well as Bank of America Merrill Lynch (which has split its business between Dublin and Paris) and the UK subsidiary of UBS (which is off to Frankfurt).
A missed opportunity	<ul style="list-style-type: none">One of the longer-term concerns over the impact of Brexit on the City is the opportunity cost of firms and businesses that may in future choose to bypass London altogether. While this is hard to measure, there are already some examples where it looks like London has lost out to other financial centres with firms opening their first European office in the EU27 instead of in the UK and explicitly citing Brexit as a decisive factor.Canadian firm Innocap Global Investment Management opened its first EU office in Dublin last year; Kroll Bond Rating Agency decided to establish their first office outside the US in Dublin; Japanese bank Norinchukin has opened its first EU subsidiary in the Netherlands; and two US algorithmic trading firms, Radix Trading and Hard Eight Trading, have picked Amsterdam over London as their first EU outpost.
And finally...	<ul style="list-style-type: none">Brexit has affected some firms in curious ways. For example, Irish bank AIB has complained that more than 15% of its senior executives have been poached by rival firms expanding in Dublin because of Brexit. In Frankfurt, Commerzbank has reacted to incoming firms poaching so many of its support staff by moving some back office functions to Poland to keep them away from competitors.On a personal level, Johannes Huth, the European head of private group KKR has moved from London to Paris citing 'Brexit and personal reasons' for his departure, though the business remains headquartered in London and the firm has opened a new subsidiary in Dublin.For all the talk of 'Brexodus' we were only able to find one firm (apart from the European Banking Authority) that has packed up and left the UK altogether: asset management firm Smart Lenders has closed down in the UK and transferred its whole business to France.And finally, it's good to see that arch political foes Jacob Rees-Mogg, chairman of the European Research Group of Conservative MPs, and Gina Miller, an asset manager and anti-Brexit campaigner, have gone their separate ways: Rees-Mogg's firm Somerset Capital has set up two funds in Dublin, while Miller's firm SCM has opted for Luxembourg.

Fig.15 A focus on Dublin



Fáilte go Bhaile Ácha Cliath (Welcome to Dublin)

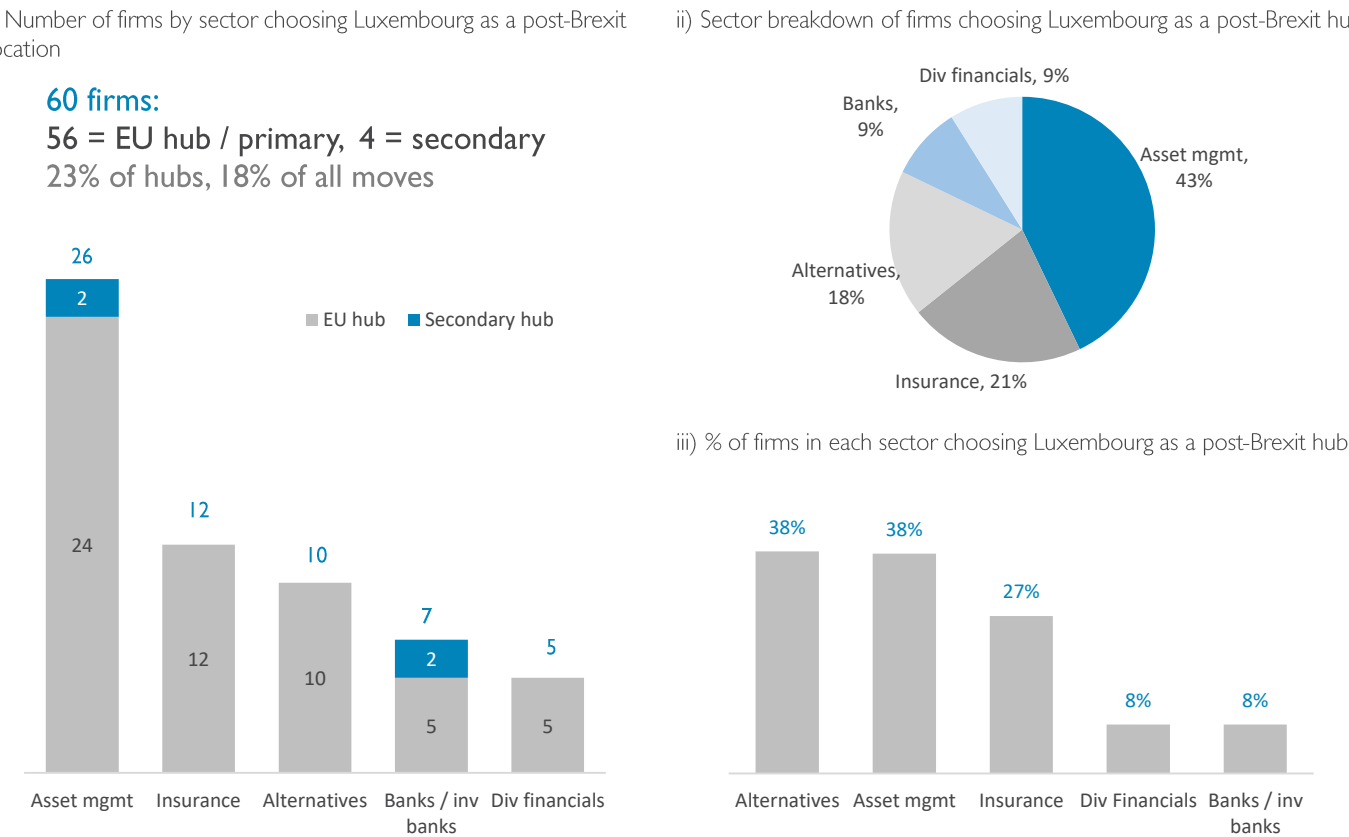
Ireland has more to lose from Brexit than most EU countries, but on the plus side Dublin is in a league of its own when it comes to attracting business from the UK. We identified 100 firms that are relocating part of their business to or boosting their presence in the Irish capital, of which 86 have chosen Dublin as their main post-Brexit EU hub. This represents 30% of all Brexit-related moves, and 35% of firms that have a clearly-identified EU headquarters.

We think there are more to come: the Central Bank of Ireland has said that it has received ‘well over’ 100 applications as a result of Brexit, and a sensible short-term estimate might be closer to 150. 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 half 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. Over half of hedge funds and private equity firms have also chosen Dublin as their hub, along with just over a third of the 45 insurance firms in our sample.

Dublin has also attracted two of the biggest moves in the banking sector, with Barclays and Bank of America Merrill Lynch choosing the city as their EU hub. Between them they have already transferred £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.

Fig.16 A focus on Luxembourg



Begréissen zu Letzebuerg

Luxembourg has been the second biggest beneficiary from Brexit-related relocations, and like Dublin it has built on its existing strengths. We identified 60 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 four firms that have chosen to expand in Luxembourg as a secondary location.

As such it is perhaps no surprise that over 40% of the firms that have chosen Luxembourg as their main post-Brexit hub are asset managers, which rises to over 60% once you include hedge funds and private equity. Nearly 40% of the 101 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 Schrodgers 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 insurance companies, with 12 firms representing more than a quarter 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.

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 41 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 Frankfurt and represents around 12% of all moves in our sample. We think this is an underestimate: officials in Paris have talked confidently about attracting around 80 firms in banking and finance.

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 Merrill Lynch 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.

More than half of the 22 banks that we identified as building up their presence in Paris are not using it as their main EU hub post-Brexit (what we have called a 'secondary move'). 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. I7i A focus on Paris

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

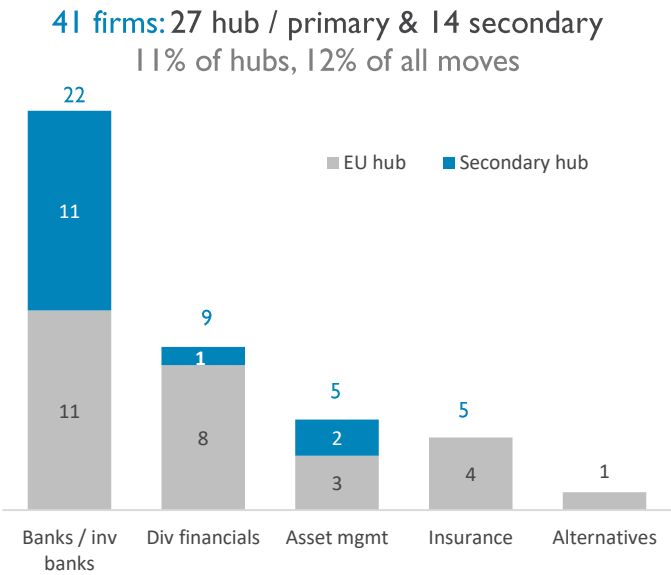


Fig. I7ii A wide range

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

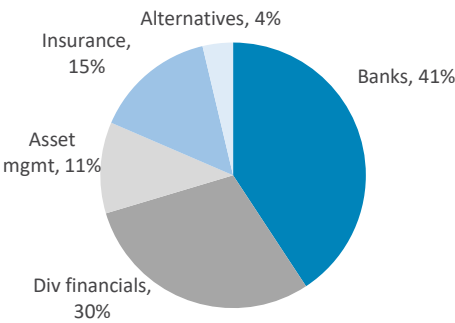
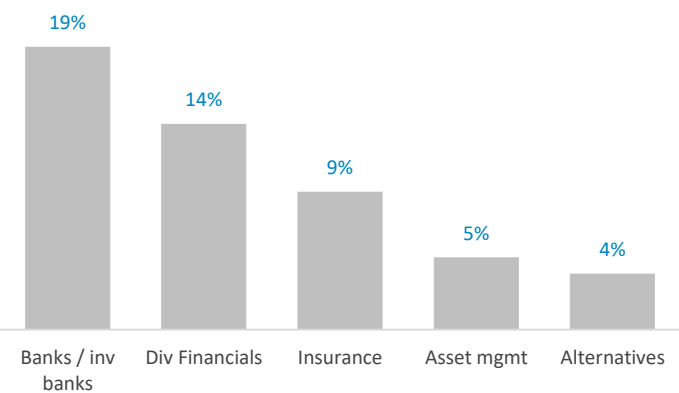


Fig. I7iii Paris in the the spring

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



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 40 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: 26 banks or investment banks have located their EU base in Frankfurt, more than any other city, and another seven have chosen a hub elsewhere but have said they will expand in Frankfurt. Banks represent nearly 90% of all the firms choosing Frankfurt as their hub, and the city has attracted nearly half 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 numbers are perhaps lower than expected. While the headline number of firms choosing Frankfurt is perhaps lower than expected, the high concentration of big names like Citi, Credit Suisse, 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, assets and staff), and it may even emerge in time as a ‘twin peaks’ European banking centre with London.

It’s interesting to note that outside of banking, Frankfurt has not been a popular choice, with just four firms choosing its as their HQ.

Fig.18i A focus on Frankfurt

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

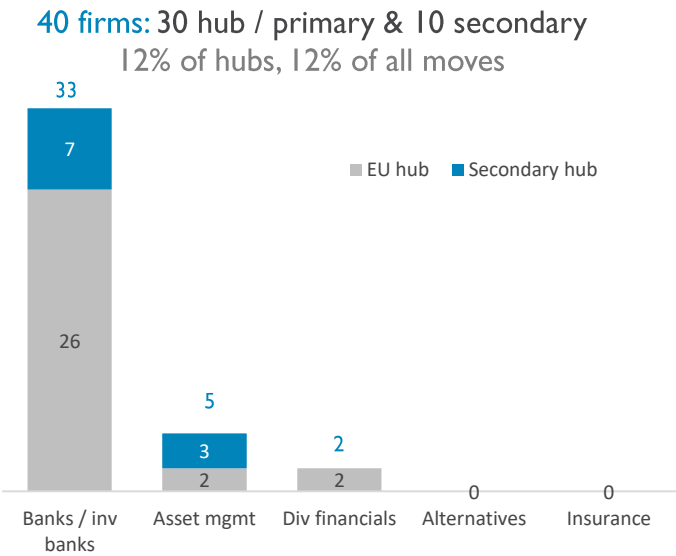


Fig.18ii The new banking centre?

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

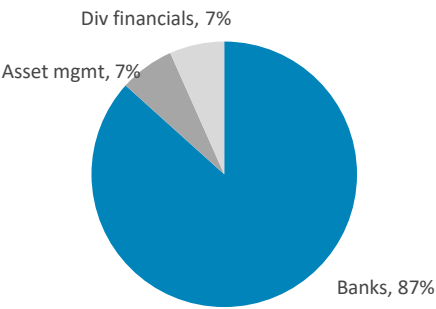


Fig.18iii Banking on Frankfurt

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

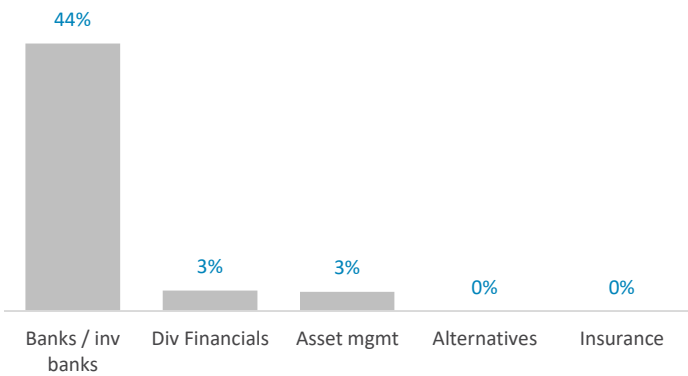
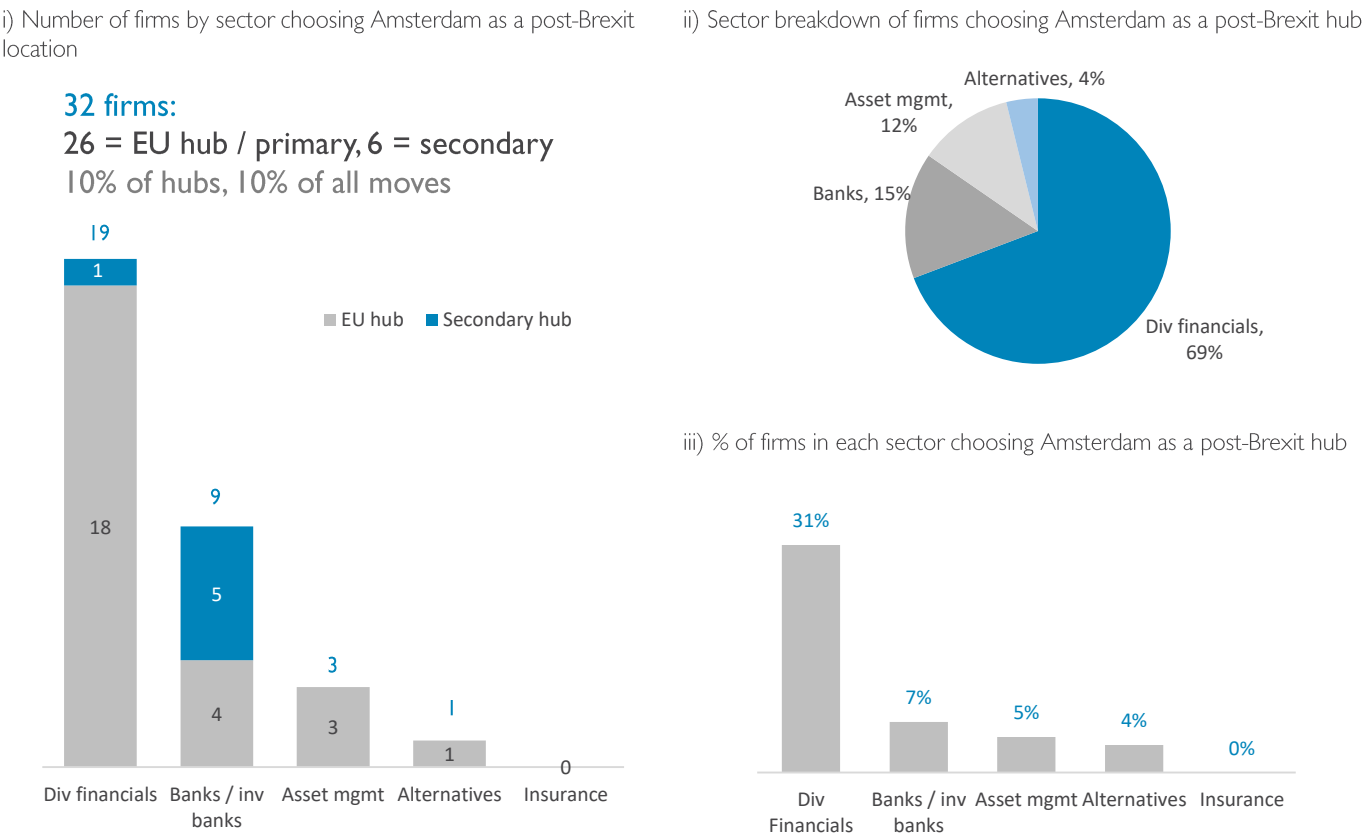


Fig.19 A focus on Amsterdam



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 32 firms that are either relocating part of their business to the Netherlands or boosting existing local operations, of which 26 have specifically chosen it as their EU headquarters. While this is only 10% of the total number of moves in our sample we think the final tally for Amsterdam is likely to be significantly higher: the AFM has said it held initial discussions with around 150 firms about potential relocation and that it is expecting around 50 firms to increase their presence in Amsterdam.

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 only four banks (Commonwealth Bank of Australia, MUFG Securities, Norinchukin and RBS) have chosen Amsterdam as their post-Brexit hub. 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 more than two thirds of the firms basing their future EU headquarters in the city. This includes six exchanges or trading platforms (such as Bloomberg, Cboe, CME, Tradeweb and Turquoise) and nine specialist trading firms (such as Jane Street, Jump Trading, Mako Derivatives and Quantlab). Nearly a third of all firms in this sector have chosen Amsterdam.

The longer term impact of Brexit:

This report provides a comprehensive overview of how different firms in different sectors in banking and finance have responded to Brexit, and which financial centres in the EU have benefited most from the decisions these firms have taken in terms of relocations and setting up new entities. But this is just the beginning of the process. Over the next few years, Brexit will have a profound impact on the nature of the banking and finance industry across Europe.

1. **A bad place to start:** the relocations and shifts in business highlighted in this report are an inevitable consequence of Brexit. 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.
2. **What might have been:** 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. This distraction is likely to persist for many years to come as the UK and EU hammer out the details of a potential trade deal.
3. **The cost of Brexit:** some of the largest banks have spent hundreds of millions of dollars preparing for Brexit. We estimate that the overall cost for the industry so far is around \$3bn to \$4bn, which will be passed on to customers and shareholders. Whatever the terms of a future deal on market access, the vast majority of what has already moved will not be coming back.
4. **Complexity, cost and risk:** the redistribution and fragmentation of business across Europe as a result of Brexit will increase the ongoing costs for firms, increase the complexity of their business, and increase operational risk. This will pose significant challenges for firms, customers, supervisors and regulators, and will require close collaboration between supervisors in the UK and EU outside of the existing formal EU framework.
5. **A drain on the City:** despite the large number of moves, there is no suggestion that London is going to lose its position as the dominant financial centre in Europe anytime soon. However, we think these moves mark the beginning of a gradual leakage of business from London to the EU for the foreseeable future.
6. **The future framework with the EU:** the only realistic framework for future market access to the EU from the UK is one based on equivalence, which is a poor substitute for the single market. There is some scope for equivalence to be improved, in many sectors of the industry the damage has already been done and the terms of any future deal on market access will have only a limited impact.
7. **The future global framework:** the UK faces a difficult balancing act between staying close to its largest market on its doorstep and developing closer ties in banking and finance with the rest of the world. While there is a big potential opportunity for the industry beyond the EU, the UK's influence in setting global standards has been diminished by Brexit.
8. **The future direction of the EU:** Brexit has simultaneously forced many firms to expand their presence in the EU and opened the door to a change in the tone and direction of policy and regulation in the EU. Without the UK at the table, firms are likely to face tougher regulation of their EU business in future.
9. **The domestic agenda:** talk of a bonfire of regulations or of London turning itself into a Singapore-on-Thames is little more than wishful thinking by a minority of firms in the City. However, Brexit presents an opportunity for UK policymakers to rethink some aspects of domestic regulation.
10. **The economic impact:** the initial economic impact of Brexit is likely to be small, but as more firms shift more substance and business to subsidiaries in the EU it will reduce the £32bn in financial services exports to the EU, cut the £26bn trade surplus in financial services with the EU, and widen the overall trade deficit. A 10% shift in banking and finance activity would reduce total UK tax receipts by around 1%.