

UK Dealmakers are Finally Hearing the City's View

By Stephen Gillespie

"When they've gone, it's hard to see them coming back."

Thus spoke Miles Celic as he warned of the potentially irreversible damage Brexit may inflict on the City, already witness to numerous firms announcing moves of parts of their operations out of the UK. His sombre warning preceded Theresa May's address in Florence last week, which shed further light on the UK's future relationship with the EU.

As she took centre stage in the Santa Maria Novella, it's clear what the City needed May to say. With "passporting" impossible and "equivalence" proving incredibly difficult to negotiate given its unreliable mechanism, the only rational alternative remained a longer transitional period.

City spokespeople have long agreed this will need to consist of several years, to allow banks the time to up sticks and prepare a move elsewhere if they must. Similarly a longer transitional period will allow the UK to work out more intelligent ways to avoid wrecking what it has historically built up.

Banks need to find out now if they must move or not (and when). From a practical perspective, leases on property must be signed, and regulatory oversight applied for with permits obtained and people are already relocating.

The Prime Minister heard the voices of those in the City: "People and businesses ... would benefit from a period to adjust ... in a smooth and orderly way", confirming that the implementation period would be around two years. Of course this will have to resemble a status quo transition.

Michel Barnier has reminded Brits they will still have to play by EU rules. But it seems here that the aim of May's arguably pragmatic address was to demonstrate to the EU negotiating team that the UK

has listened enough to be worth talking to. This will also likely come in the form of a "divorce" goodwill offer of an estimated \$18 billion (Dh66 billion) cost contribution.

But this transition will still have to be negotiated within the environment of the unedifying tableau of hungry EU neighbours that are fighting among themselves for the spoils of Brexit. While banking authorities and other bits of the City may have to be distributed among EU cities, Dublin, Amsterdam, Paris, Luxembourg and Frankfurt are all attempting to take advantage of the Brexit dividend.

From the perspective of the surrounding EU countries, there is no noble vision here. EU countries are acting as individuals as opposed to a single entity, and will beggar their neighbour for their own benefit.

Euro trading

The attitude of "let's strip London of everything it has" is entirely self-harming. Indeed, the EU benefits enormously from having such a financial hub in London: 75 per cent of all euro trading takes place in London and 45 per cent of all European assets are managed in London. It will be impossible to recreate such a centre if bits of the City are scattered all over the continent, and other European countries are wrong to think it won't affect them.

Let me direct you towards a quick example: a recent JP Morgan study estimates that eight big US and European banks face a total bill of \$7.5 billion over the next five years if they have to move their capital market operations out of London.

In terms of what this means for the UK economy, the future looks bleak. Huge numbers of operational staff will relocate, and many of these will be very high earning people. Furthermore, the City accounts for a significant percentage of UK's GDP (hovering at

around 10 per cent), on top of which maybe a third of all business conducted within the City is directed at the EU.

It's quite clear: if you lop off a chunk of EU directed business from the City, the whole UK economy is going to feel it.

So what the British Government must do is pay more attention to the City in future Brexit negotiations. May's latest speech has reflected a more promising attitude in this regard. Looking ahead I will also hope that EU politicians similarly display a more responsible approach.

Indeed, during the transition period, they may yet see the value and cost efficiency in maintaining the London centre. Why on earth would you strangle the goose rather than let it lay its golden eggs?

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