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EU-UK Financial relations post-Brexit: where are we heading for?

To understand where we might be heading for after Brexit in the domain of Financial services, one needs to remember what the Single market is all about.

When it was created, the key consideration, strongly supported by the United Kingdom, was the following: if you have a single regulation, with a single jurisdiction providing for a single case law, then you can have a single market, wherever actors providing services are located.

Within the single market, the UK succeeded in developing the City of London as the major EU financial center, which progressively attracted most of the international institutions that were until then operating in several places on the continent.

Later, we realized that having a single market without a single currency was creating significant problems of all kinds. We then decided to include in the EU institutional setup a single currency and a single central bank, although the UK decided to stay out.

Nevertheless, because of the single market rules, there was no obstacle to the concentration of market operations of the single currency in London : most trading rooms that were active in major financial places (Frankfurt for the DEM, Paris for the FRF, Milan for the LIT...) concentrated in London (in fact, only a few remained in Paris, but nowhere else). We then came to an extraordinary situation, where the market liquidity of the Euro was dominantly outside the reach of the issuing central bank, the ECB-Eurosystem.

After the Global Financial crisis, we realized that we had missed another important aspect, which was the risks for Financial stability stemming from a diversity of regulators and supervisors, who in extreme circumstances, might give preference to national interests rather than the interest of the EU - or, as it might be, of the Eurozone - as a whole.

It was then decided to add two major institutional setups: the creation of four supranational regulators and the creation of a single "federal supervisor", the single supervisory mechanism.

The problem we are facing today is not only that the UK is formally leaving the EU. It is that it has decided to diverge from EU regulations in the future, to refuse the case law of the European Court of Justice. and not to be submitted to the supranational regulators just mentioned.

Therefore, it is just impossible to accept that London would remain the financial

center of the European Union. That would create unbearable systemic risks that we can simply not stand. No country in the world, no central bank of systemic importance, would tolerate not to be in control of the liquidity of its currency, and of the major financial players of its own market. In effect, there is no choice than to organize the migration of the bulk of financial services from London to the EU.

Part of it has already happened, and the movement will continue, according to the decisions that will be taken by the European Commission, the Supranational agencies, and the various regulators, including in particular the ECB/SSM. For instance, trading activities will have to move during the coming years, as well as asset management activities, and the extend of back-to-back operations and delegation will need to be progressively limited.

Is there a risk, as is often advocated, for the funding of the EU economy? I do not believe so. The players will remain the same, they have started to migrate their operations, with the key objective of continuing servicing their clients at the same level of quality. Is there a risk of fragmentation across several financial centers? There will be most likely less concentration, although the bulk of activities will tend to concentrate in a limited number of financial places, in particular for market activities.

But most importantly, with modern technology, a certain diversity of locations does not mean that the market cannot function in an integrated fashion and provide the best level of liquidity. ●