MAPPING THE EFFECTS OF BREXIT DEAL ON THE FINANCIAL SECTOR OF UNITED KINGDOM & EUROPEAN UNION

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ABSTRACT

Brexit deal is one of the most impacting deals ever seen in the global sphere of international trade. United Kindom and European Union sharing a strong trade partnership for various years are now facing a lot of challenges post Brexit. One major challenge faced by the UK is that of the financial services sector. As of today, pass porting rights, which gave allowance for UK firms to settle and carry out business operations in the EU have now been cancelled. In place of the pass porting rights, equivalence rights have been set to start. As the UK now losses its right to be a member of the EU, the UK would be treated as a third country and would lose its member rights. The research conducted studies equivalence rights and discusses the various laws which might be proposed when the negotiations for financial services take place.

KeywordsEuropean Union, Financial sector, Financial services, Equivalence, Passporting, Third country.

Introduction

As on account of monetary administrations, the European Union part states have consented to a typical corpus of monetary guidelines for example the single rulebook. It concerns bury Alia guarantors of protections, speculation firms, venture reserves, rating organizations, venture experts, and market foundations, for example, exchanging settings and exchange clearing counterparties. It likewise concerns store-taking establishments. The legitimate position is that monetary administrations firms that acquire approval inside this single rulebook from the public skilled power (NCA) in their nation are then allowed to offer administrations all through the EU part states with no requirement for additional nearby approvals.

The EU lawful structure for the financial sector has been based upon the deal objective of building a single/inner market and the key opportunities of free development of capital and administrations. In the mid-seventies, a solitary market for monetary administrations has been on the plan of the European official. The initial steps into the production of a genuine single market were the First Banking Directive of 1977 and the second Banking Directive of 1989. The size and extent of the monetary guideline were restricted in contrast with the current legitimate structure-directing monetary business sectors. The accentuation of the two Directives was on the harmonization of the authorisation necessities for credit organizations. For protections showcases, the primary activity for making a solitary market was taken with the UCITIS Directive of 1985. The Investment Services Directive was concurred in 1992, accommodating common acknowledgement of authorisations of speculation firms.

Literature review:

Brexit and financial services by Kern Alexander "The UK's Third-Country Status Following Brexit: Post-Brexit Models, Third-Country Equivalence and Switzerland- The UK's withdrawal from the EU is likely to have a significant market, political, and policy consequences for the UK financial system, for the single market and the euro area, and the international financial system".

ESMA (2011), "Final Report, Guidelines on the application of the endorsement regime- Brexit brings about a stop in passporting rights of a financial firm, treating UK as a third country imposes a greater risk of the negative trade balance for the UK".

Lamfalussy Report, "Final Report of the Committee of the Wise Men in the Regulation of European Securities Markets- By being the no. 1 clearing area for both Euro designated exchanges and exchanges named in different monetary standards, the UK based CCPs make huge 'edge pool benefits', which makes clearing in the UK appealing for Euro designated exchanges. A movement of these exchanges into the Euro region would subsequently, from the outset sight, bring about greater expenses relating to the extra edge necessities".

Statement of problem:

The Brexit deal has proposed many variations and a new set of regulations to all the sectors and industries of the trading partners. Under the

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various negotiations carried out to date, a strong set of rules for financial services has not been decided upon. Until this date, passporting rights of firms have been seized and in turn equivalence law has been put into force. The problem identified in this research is to understand the financial sector of the UK and EU, to understand the equivalence scenario. The research is aimed to understand equivalence rights and how they would affect the trade between the two countries.

Relevance and importance of study:
The Brexit deal being one of the most impacting deals in global trade has brought various challenges with it. One amongst them is the challenges faced by the financial sector in setting up new firms or practicing financial activities in the EU. As not much research has been done on how the market would react and how it would affect the trading relations of the UK and EU, this study proposes a wide range of policy recommendations that could help in stabilizing the trade situation.

Objectives:
1. To understand the trade relations of the UK and EU.
2. To examine the financial sector trading of the UK and EU.
3. To understand the role of financial activities in the EU which contribute to its economic growth.
4. To study passporting rights of financial firms of the UK to start working In the EU.
5. To understand in depth the equivalence rights and laws which apply to countries dealing with the EU.
6. To study the equivalence laws which apply to third countries dealing with the EU in the financial services sector.
7. To find policy recommendations on better financial services administration post Brexit deal.

Methodology:
The research has been conducted on a quantitative basis and is based on secondary data from credible sources. The data was first summarized with the help of brainstorming and then charts, tables and diagrams were prepared to statistically represent the data. The diagrams presented have been explained with suitable examples. The analysis of data has been found through trusted reports with quantitative measurement tools. The use of charts has been made to create a visual impact that facilitates better understanding.

Analysis:
The EU participation: Under the EU enrolment, the UK had full admittance to the inside market, all the enactment relating to monetary administrations and has, when EU mandates are utilized, to be joined into UK domestic law. Further, under the EU enrolment, there is secure admittance to equity, just as the rational translation and use of EU law by the Court of equity of the European Union (CJEU). With regards to the EU, these components are viewed as a “conditio sine qua non” for having full admittance to the inner market shaped by the EU Member states.

In 1999, the European Commission finished up, that the EU monetary business sectors had stayed divided and business, shoppers didn't have direct admittance to the cross-line monetary establishments. These discoveries prompted the distribution of the European Commissions Financial services activity plan (FSAP). With the FSAP, the commission focused on additional animating EU monetary coordination. MiFID comprised one of the spine orders of the FSAP, focusing on a further improvement of a container European capital market by encouraging cross-line speculation administrations and exercises inside the EU. The monetary emergency of 2008 went about as an impetus for progressively incorporated EU monetary business sectors. It additionally fundamentally influenced the institutional system. For example, three new containers European Supervisory Authorities (ESAs), to encourage the assembly of oversight by public equipped specialists. Besides, prudential oversight of banks inside the eurozone has been incorporated with the European Central Bank (ECB). Throughout the long term, these advancements have brought about fit, now and again even called bound together, European legitimate structure for monetary business sectors.

Objective of the EU: The essential target of the EU monetary business sectors guideline was the formation of a solitary market for monetary administrations. Since the monetary emergency of 2008, in any case, guaranteeing monetary steadiness and fortifying financial backer and investor assurance have become the main administrative targets. Current guideline subsequently additionally centers around full-scale prudential oversight, notwithstanding miniature prudential management, just as on clearing and settlement of monetary exchanges and financial backer proprietorship privileges of monetary instruments.

The EU legitimate system directing the monetary business sectors involves various instruments of optional enactment and delicate law instruments with the targets of improving participation between the part states and encouraging administrative combination. Before the FSAP, monetary enactment was created by methods for the normal authoritative cycle of the EU, including the European Commission, the committee and parliament. Such interaction may require as long as two years to finish up. In 2001, this administrative interaction was surveyed considering the goals of the FSAP and it was inferred that this cycle was excessively lethargic and too inflexible to even consider staying up with in the fast advancement of the monetary business sectors. To defeat these challenges, another authoritative cycle was exhorted; the Lamfalussy interaction.

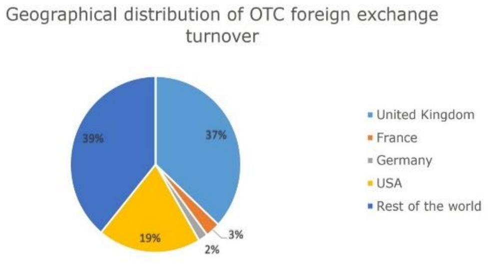
The Lamfalussy interaction concerns four degrees of enactment. The primary level comprises the fundamental political decisions; the system rules. These guidelines are set down in Directives or Regulations and are created as per the conventional authoritative interaction. The subsequent level expounds on the system rules and fills in the subtleties of the main level enactment measure: the specialized principles. These guidelines are likewise set down in the Directives or Regulations Act yet are not created by the common administrative interaction. These specialized guidelines are drafted by the commission in collaboration with the applicable ESA: the European Banking Authority (EBA) where it concerns banks, the European Securities and Markets Authority (ESMA) where it concerns markets and protections and the European Insurance and word related benefits Authority (EIOPA) where it concerns safety net providers and annuity reserves. The third level of the Lamfalussy cycle is centered around improving participation and intermingling among public administrative specialists and involves delicate law instruments given by the ESAs, including suggestions, rules and Q&As. Level four focuses on a more successful authorization of EU enactment by the European Commission.

Passporting rights: One of the critical highlights of EU monetary enactment is the European visa for EU monetary establishments. This visa is appended to the permit to work as a monetary organization conceded by the home controller. Based on their authorisation in the part condition of the foundation, monetary organizations are permitted to work in all the part states. The host part state may consequently not force any extra methods albeit certain direct business rules may apply. All together for a monetary establishment to work in another part state based on the European identification, it needs to finish up a warning strategy. Before the presentation of the European visa, cross-line working gatherings needed to experience an authorisation interaction in every part state where they proposed to work, frequently expected them to set up independent legitimate elements in every part state. Under current EU enactment, the identification system exists for different sorts of monetary establishments, including credit foundations, venture firms and backup plans. A comparable system was presented for outlines: when a plan has been endorsed by the capable expert in the part state where the backer has its enrolled office, the outline might be utilized for the contribution/posting of monetary instruments in other part states.

Worldwide Standards: The current EU administrative system of monetary administrations is generally founded on worldwide principles. The monetary emergency of 2008 stressed the significance of global collaboration and administrative combination. The G20 Washington Summit on Financial business sectors and the world's economy in 2008 accomplished general concurrence on the measures to change the monetary business sectors to maintain a strategic distance from future emergencies. Late European administrative changes are likewise an aftereffect of worldwide principles set by bodies, for example, the Basel Committee, the International Organization of Securities Commissions (IOSCO) and the monetary strength gathering. These global guidelines and arrangements have been executed in EU enactment. The above explored was the situation of monetary administrations dealings with EU part nations. The third nations which are not individuals from EU need to follow an alternate arrangement of guidelines which are explored here under. As of late, the EU fit way to deal with third nations firms has been a need thing on the plan of the European market. The official has perceived that monetary business sectors have gotten progressively associated abroad. In this manner, EU's methodology is to give better to the third nations to get to the EU monetary market. Subsequently, the main post-emergency instruments of monetary guidelines presently incorporate a system for access of third-country firms dependent on identicalness laws. In the event that the administrative and administrative structure of the country where the third nation firm is set up is viewed as identical to the European system, this firm won't be dependent upon full EU guidelines and EU oversight.

Comparability systems as of now are a long way from a homogeneous gathering of systems. They range from conceding admittance to the single market (passporting) to third nation firms to permitting EU organizations to get openings certain third nation firms. These openings can be like EU monetary establishments, to perceiving third nation exchanging scenes as qualified settings for EU monetary organizations to conform to exchanging and detailing commitments for offers and subordinates. The systems giving passporting rights are portrayed by a "piecemeal methodology". Subsequently, such systems will just give admittance to the EU to the kinds of administrations and the sorts of customers which are expressly remembered for the important EU enactment. In addition, the third nation's systems that apply to EU prudential prerequisites and EU exchanging and clearing necessities are intended to oblige EU monetary establishments. Most equivalence choices taken by the European commission to date identify with encouraging global capital imprint. The UK is the main monetary help exporter with an enormous hole to monetary specialist organizations in the EU27. In light of this information, questions can be raised for the limit of the EU27 to meet its own monetary administration's requests that are at present covered by the UK. Such questions are upheld by the Global Financial Centres Record 21 that positions monetary focuses in understanding their capacity to perform high-calibre monetary. As per this record, London is the No. 1 worldwide monetary focus followed inside the EU by Luxembourg at 18, Frankfurt at 23, Munich at 27, Paris at 29, Dublin at 33, what's more, Amsterdam at 40 (Yeandle 2017). These numbers show that the fulfilment of the UK's job by at least one EU27 Member States will call for a huge limit building requiring time and involving costs.

This information doesn't just feature that the UK is right now the exchanging place for unfamiliar traded OTC on the planet and for Euro designated OTC, however additionally that the two most significant exchanging places the EU after the UK, which are France and Germany, are right now little. Indeed, these are little to such an extent that the previously mentioned 'edge pool advantages' that favour the UK as an area for clearing don't exist. The US, notwithstanding, could against this foundation perhaps advantage from 'Brexit'. The nation was considered comparable by the European Commission a year ago (European Commission 2016) and hence freeing from Euro-named exchanges could move to New York, which is a large enough market for 'edge pool advantages' to exist. The urgent inquiry for an assessment of the impacts of a movement of freeing from euro-named exchanges from the UK into the Eurozone is thusly, regardless of whether the freeing from exchanges with different monetary standards would follow the Euro named exchanges when freeing from the last mentioned is migrated. The current points of interest for the freeing from non-Euro named exchanges the UK implies that such a development isn't not out of the ordinary. One purpose behind this is the before referenced 'edge pool advantage'. Another is that OTC subsidiaries are in most occasions gave under English law, implying that financial backers depend on the English overall set of laws to secure their inclinations corresponding to OTC.



Source: BIS (Foreign exchange turnover in April 2016, 2016).

On the off chance that freeing from exchanges different monetary forms than the Euro isn't following the movement of the freeing from euro-named exchanges, the point of the Euro turning into universally serious cash and worldwide hold money would be sabotaged. Unfamiliar brokers may consider exchanging Euro less appealing if freeing from Euro designated exchanges won't take place in similar CCPs as different exchanges (Scarpetta and Booth 2016: 53; Standard and Poors 2016)

However, these dangers to the EU27 may, eventually, not be pretty much as unsafe as they show up from the outset sight. The primary explanation behind this declaration is that LCH and ICE may likewise move inside the organization Euro-designated exchanges to auxiliaries set up in the Euro region, for example, the LCH SA, set up in Paris, and the ICE Clear Netherlands. By moving exchanges to auxiliaries situated in the Euro region, these CCPs could consent to a potential movement necessity furthermore, still utilize the 'edge pool advantage', which is produced inside one CCP at the organization level (Schoenmaker 2016: 9; Standard and Poors 2016). Just CME has not yet a Euro region auxiliary, which it would need to set up. In total, the current financial significance of the UK for the freeing from Euro named exchanges is high. By being the No. 1 clearing area for both Euro-designated exchanges and exchanges named in different monetary standards, the UK-based CCPs make huge 'edge pool benefits', which makes clearing in the UK appealing for Euro-designated exchanges. A movement of these exchanges into the Euro region would subsequently, from the outset sight, bring about greater expenses relating to the extra edge necessities. However, UK-based CCPs can keep on the contribution these favourable circumstances to their customers exchanging with Euro named monetary items by moving these exchanges to auxiliaries situated in the Euro zone, which are partake at organization level in the 'edge pool' created in the UK.

Table 10: Interconnections between UK and EU financial services

	Total	Banking	Asset management	Insurance & Reinsurance	Market Infrastructure
UK financial services revenues (in GBP)	190-205	108-117	20-23	39-42	22-26
Fraction of the UK financial services revenues related to the EU	23%	21%-23%	25%-26%	8%-12%	41%-46%
UK market share in the EU	24%	26%	41%	22%	–

Sources: Wyman 2016: 6 & EGOV 2016: 1.

This information shows, from one perspective, that the UK's public economy is very subject to the monetary help interest and, then again, that the EU interest for monetary administrations given from firms as of now settled in the UK is moderately high and sums to at any rate one fourth of the all out interest for monetary administrations from the EU27. As per numbers distributed by The City UK in August 2016, the UK represents 78% of unfamiliar trade turnover, 74% of OTC loan fee subsidiaries and 85% of multifaceted investments resources, 49% of private value finances raised, 30% of value market capitalisation and 26% of bank loaning in the EU (The City UK 2016: 3). It is likely that, after Brexit, a significant part of the OTC exchanging will move to the area of a focal counterparty. Besides, notwithstanding exchanging, the London market is significant for its information and innovation of new subsidiaries. The interest is at present not met by other EU Member States bury alia for reasons of an absence of limit, the absence of an equivalent 'environment' as London including a huge pool of exceptionally gifted human resources, just as the absence of economies of scales that can offer similar monetary types of assistance. A decrease of the meaning of the UK monetary administrations for the EU27 requires speculations identified with the migration of those monetary administrations that need passporting. Enduring discontinuity of the monetary business sectors in the EU27 is perhaps the most hazardous hindrances in such a manner (Sapir, Schoenmaker and Véron 2017). The current dependence of the EU27 on admittance to the UK monetary market and framework is additionally featured when investigating passporting. As per the UK Financial Conduct Authority 8.008 EEA-based firms utilize 23.532 international IDs to offer monetary types of assistance in the UK. These travel papers are utilized by organizations, for example, Deutsche Bank and Commerzbank.

Table 11: Number of passports and firms using passports inbound and outbound the UK

	Total	Inbound (into the UK from the EEA)	Outbound (UK firms into the EEA)
Number of passports in total	359,953	23,532	336,421
Number of firms using passporting	13,484	8,008	5,476

Source: FCA 2016.

Besides, out of 2,229 organizations and a complete market cap of 4 trillion GBP 112 organizations from other EU Member States are recorded on the London Stock Exchange with a market cap of 378 bn. Both the number of organizations of EU27 birthplace recorded on the London Stock Exchange and the number of firms utilizing travel papers in the UK Ramifications of Brexit on EU Financial Services unequivocally propose that admittance to the UK monetary market is additionally of premium for EU27 based firms. In January 2017, HSBC and UBS illustrated plans to move about 1.000 positions each from the UK to the EU27. The equivalent was at that point declared by Citigroup, Deutsche Bank and JPMorgan Case. Lloyd's of London has just affirmed it will set up an auxiliary in Brussels as its new European Base. The auxiliary is relied upon to be ready for action in January 2019. Boss leader Inga Beale expressed it to be essential to give an answer for the market and clients for continuous business during and post Brexit. The Brussels office is relied upon to utilize under 100 individuals, so a huge development of staff isn't required. Goldman Sachs' Europe CEO Richard Gnodde said the firm will start executing its emergency courses of action. A piece of that is the migration of "many positions" from Britain to the EU. They will at first do as such by recruiting individuals inside Europe, just as moving a few people out of London. Besides, they will put resources into foundation and innovation throughout the following 18 months to guarantee customers can be served when Brexit emerges. Where in the EU the firm is intending to move was not revealed. Goldman Sachs has banking licenses in Germany also, France and workplaces in numerous European urban communities. Deutsche Bank is likewise considering moving a huge number of occupations from London to Frankfurt, as per Chief Regulatory Officer Sylvie Matherat. She added that moving front office workers to mainland Europe to manage EU customers would add up to 2000 individuals. Also, if hazard the board is needed to be done locally, another 2000 individuals would need to move. The organization would likewise need to put resources into data innovation in Frankfurt. Matherat expressed that "everyone needs clearness – and the sooner the better" (Schuetze 2017). JPMorgan's head of venture banking Daniel Pinto has as of late expressed the bank will move many individuals from London to Europe for the time being, "to be prepared from the very first moment". Besides, the director of Standard Chartered José Viñals said the firm is in talks with controllers in Frankfurt about setting up another auxiliary in Germany, where it as of now has a branch. Standard Chartered isn't anticipating moving staff from London, rather it plans to enlist staff locally in Frankfurt. An alternate assessment is held by Barclays CEO Jes Staley, who believes Brexit to be "a completely sensible test" which is "essentially less expensive" than different issues the bank has confronted. Staley noted: "At long last, we don't right now see a need in our alternatives to move English positions or critical tasks somewhere else. In the event that we require the development of ability in another European Union purview as a feature of our arrangements then we can do as such, and we will". The specific state of things to come legitimate connection between the UK and the EU is as yet a moving target. The 'hard Brexit' situation, which is depicted in the following segment, is very conceivable to appear. As expressed over, some monetary firms are preparing and are prepared to move occupations and exercises paying little mind to the result of the arrangements. Others apply a stand by and see approach. Regardless, monetary firms are given the cut off time of 14 July by the Bank of Britain to draft their Brexit emergency courses of action.

Equivalence decisions adopted by the European Commission in relation to UK regulatory and supervisory framework on the basis of the currently existing third-country regimes in EU secondary law, i.e. the UK would be considered at the moment of withdrawal from the EU as compliant with the relevant EU financial service law. In this scenario, financial firms lose their passporting rights, yet the European Commission formally grants third-country equivalence to the UK as a whole. Firms and financial services activities, for which an equivalence mechanism entailing market access is available within the respective EU secondary legal acts, can then remain active within the single market of the EU27 provided the Commission does not withdraw any equivalence decision. This has benefits for both the UK and the EU27. EU authorities can rely on the fact that UK entities are compliant with equivalent rules. Moreover, overlap in compliance requirements between the UK and the EU is reduced or even eliminated. Also, certain products or services of UK companies are acceptable for regulatory purposes in the EU. Furthermore, in relation to EU financial institutions' exposures to the UK and the event supervisory standards in the UK would change significantly as compared to the state of affairs of today, a less burdensome prudential regime can be achieved by an equivalence determination than would otherwise be the case for exposures to the UK in the absence of an equivalence decision. The body responsible for assessing equivalence is the European Commission's Directorate General for Financial Services (DG FISMA), advised by three financial supervisors: EBA, ESMA and EIOPA (European Commission 2017c). Since it is up to the Commission's final verdict whether a country is granted equivalence, and the Commission can postpone this decision as Policy Department A: Economic and Scientific Policy long as it pleases, this could become a factor in the negotiations concerning the withdrawal agreement under Article 50 TEU. Solvency II, for example, requires three aspects to be evaluated before equivalence is granted for this legislation.60 Other EU legislation, however, either do not offer equivalence, or the equivalence available does not provide for passports in that it does not grant access to the Single Market. Moreover, equivalence can be withdrawn (as opposed to passporting rights for EU based market operators), which might introduce minor uncertainty in the financial market. Withdrawal can happen if legislation between the EU and the third country diverges from each other. So if EU legislation changes over time, the UK will have to adapt in order to remain equivalent. The European Commission has, however, never withdrawn equivalence in the past. The feasibility of this scenario seems high. As the UK and the EU currently have the exact same regulations, regulatory equivalence should be relatively easy to achieve (Scarpetta & Booth, 2016). On a positive equivalence decision adopted by the European Commission. It follows that the London ecosystem will partially remain intact. Therefore, the preliminary notion can be made that the 'regulatory equivalence' scenario is less costly than the 'hard Brexit' scenario. Since the European Commission does not work on fixed deadlines, a decision on equivalence can take years, introducing uncertainty in the financial market. Therefore Scarpetta & Booth argue 'pre-emptive' equivalence should be considered in the Article 50 talks. That is, a set of equivalence decisions that enter into force on day one of Brexit. This would minimise uncertainty. However, this would require an alteration to, or at least a liberal interpretation of, the equivalence process. The UK will not become a 'third country' until the day one of Brexit, and therefore can strictly only apply for equivalence from this day onward.

Yet the UK is likely to be regarded a 'high-impact' third country, since "an equivalence decision may be used intensively by market operators and any shortcomings in the analysis underpinning the decision may significantly jeopardise financial stability or market integrity in the EU will feature a higher number of risks which the Commission will need to address in its assessment of the equivalence criteria and in the exercise of its discretion" (European Commission 2017a: 11). The importance of risk assessment in relation to the UK after having become the third country will most likely require a lengthy determination period. At the same time, the fact that currently the regulatory and supervisory regimes of the UK and the EU are similar to each other could speed up this procedure.

In this 'equivalence' scenario, fewer financial service providers will have to relocate as some will be able to enjoy passporting rights due to equivalence decisions adopted by the European Commission. However, a substantial amount of financial service providers will need to relocate to continue to be able to serve EU27 clients even in the equivalence scenario, as they will lose passporting rights. This is true in particular for wholesale banking activities (CRD IV) and also for some investment banking activities (MiFiD II) and some asset management activities (AIFMD and UCITS. As noted before, there seems to be a willingness among these financial service providers to. However, as also noted before, third-country firms that use the UK as a hub to offer financial services in the entire EU may reconsider whether both the additional costs linked to the continuation of activities in the UK or those linked to the relocation of activities into the EU would not render any kind of business activity in the EU too unprofitable. There is one main aspect, however, not solved by financial firms simply relocating to the EU, and that is, again, the ecosystem aspect. While some financial service markets, such as reinsurance, can remain in London, the London ecosystem is still disrupted. Economies of scale and scope are at risk, leading to negative repercussions on the EU economy of financial services. This means this scenario is not cost-neutral. The EU can mitigate these negative repercussions by attempting to create a financial ecosystem on the European mainland. This would then benefit from the same economies of scale and scope as London does today.

Policy recommendations:

1. Minimising the uncertainty in the financial markets created the withdrawal procedure: Swift and transparent negotiations for a withdrawal agreement relating to financial service matters.
2. The EU together with Member States' governments can engage in direct contact with financial services providers in order to assist them.
3. Strengthening the single market for financial services: In order to gain global competitiveness in relation to financial services, the EU27 should finalise and implement the Capital Markets Union. This should allow for an increase in available capital for financial service providers and keep costs for capital down.
4. Promoting the establishment of a financial centre within the EU27: This requires the creation of a competitive environment without lowering the EU's regulatory and supervisory standards. Improving the competitive environment in addition to relocation obligations can attract significant parts of the financial industry to the EU.

The following measures could help to achieve this goal:

- Improving the effectiveness of the supervisory mechanism in order to speed up the issuance of banking licenses.
- The regulatory framework should be further developed in being start-up-friendly (in particular in relation to FinTech) and in promoting to set up new businesses.
- Stability and safe levels of Capital and liquidity requirements.
- Harmonised taxation within the single market in order to create taxation certainty for financial service providers within the EU27.

CONCLUSION

It was found that the UK and EU financial markets are highly interconnected and that the UK is the most important financial service exporter currently in the EU. Moreover, the UK is the No. 1 clearing location for both Euro denominated trades and trades denominated in other currencies, giving it significant 'margin pool benefits'. It was also found that both the EU and the UK are highly reliant on passporting into and out of the UK. Due to the new law of equivalence, it was found that UK would be treated as a third country and might have to undergo the regulations as per the third countries. This poses significant negative trade balances as most of the UK based financial firms have the ease of doing business in the EU due to the passporting rights. Certain financial service providers can make use of passporting rights because of a positive equivalence decision adopted by the European Commission in order to serve the EU market. This would entail relatively high relocation costs in the short run, but this may turn out to be very lucrative in the long run.

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