Gerle Financial Communications: Article about status of Brexit negotiations for British investment companies (as of 23/03/2019)

The calm before the Brexit storm

Unease within the British investment industry is increasing: Facing the threat of a „No Deal"-scenario there are continuous speculations about the extent of (anticipated) asset outflows due to Brexit, which companies are going to leave and how many employees they will take with them. Since the referendum the media, investment managers and national trade associations have their finger on the industry's pulse. They predict: Small investment boutiques without any European representation will be hit particularly hard.

Albeit a looming „No Deal"-Brexit, the German fund sector demonstrates composure. According to a survey by the German asset management body (BVI), three quarters of German asset managers feel only slightly or not at all affected by an unorderly Brexit without a transition period. After all, portfolio manager from the United Kingdom only stand for 7 per cent of the assets in institutional funds and 3 per cent of the assets in German mutual funds.[1]

Only days before the (so far) still official exit on 29th March 2019 the disquiet in the UK keeps increasing. This is partly attributable to the British perception of its own fund sector's significance. According to The Investment Association their 240 members managed more than 7.7 trillion GBP assets for clients in the UK and 1.8 trillion GBP for European clients at the end of 2017. Overall that is equivalent to 35 per cent of the total assets in Europe[2]

But also does the finance industry fear that Brexit is going to entail an exodus of national and international asset managers of hitherto unknown dimensions. And that (according not only to the British media) would involve outflows of billions (in the hundreds) of client's assets, the departure of dozens of investment managers and the loss of 10,000 jobs.

Two thirds of UK managers consider Brexit as a competitive disadvantage

It is a justified fear: In a regular survey of the CFA-Institute, the worldwide association of investment professionals, 68 per cent of all in the UK domiciled investment companies said in March 2018 that the Brexit vote has already damaged British competitiveness.[3]

So far asset managers as other financial institutes do, too, use the EU-Passporting which is at risk in case of a ‚no deal'. At present, 244 British asset managers use this passporting in order to be able to offer their products in Europe without any barriers. 139 companies from EU member states use an „Inbound Passport" for their distribution in the UK in return.[5] That British participants in the financial market would really lose entry to the EU market in a ‚no deal' scenario has just recently been made unmistakably clear by the Head of the European securities regulator ESMA, Steven Maijoor, in Dublin.[1]

67 per cent of British CFA members assume that they will reduce their presence in the UK because of Brexit. Of all the companies within the EU (except UK) even 76 per cent made the same assumption in that survey. As the biggest loser in a Brexit without a deal, 85 per cent consider it to be London as financial centre. As Brexit-winners on the other hand, Frankfurt, Paris, Dublin, Luxemburg and Amsterdam, are considered.[2]

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A relocation of financial service providers on a grand scale would have serious impacts on job markets of London, Edinburgh or Bristol. After all, 10 per cent of the roughly 94,000 employees in the financial sector come from Europe.[3] So why then, with Brexit as the sword of Damocles, have a lot less jobs been transferred abroad so far than it was feared only two years ago?

When will the removal vans drive up?

Back then, in March 2017, not even nine months after the referendum, representatives of banks, insurers and investment fund companies, mainly situated in London, threatened to move up to 10,000 jobs. But according to a regular research by the news agency Reuters less than 2,000 jobs have been transferred out of the UK to date due to the Brexit (s. infographic 2).[4]

If you are following the British press, the reasons for this hesitation are not explicit. Is it because the withdrawal negotiations even after almost three years post-referendum still do not indicate where the trip is going? Do CEOs and their board members shy away from making a momentous, costly decision? Or do asset managers and bankers struggle to make a move to Frankfurt, Paris or Amsterdam palatable to their families? Some companies have allegedly started to offer generous packages to their employees if they move to another EU country.[5]

The calm before the storm must not hide the fact that particularly big companies have their contingency plans in place, they have rented office spaces in EU countries and have applied for the required licences at the local authorities. In Luxembourg, British asset managers Columbia Threadneedle, Janus Henderson, Jupiter Asset Management and M&G want to expand or develop their representations, according to the Financial Times.[6] And in the Republic of Ireland, at the end of January the Central Bank of Ireland held more than 100 applications of British financial companies willing to relocate.[7]

„Especially small British asset manager without international representation should signal 'We're still open for business!'"

Clients, assets and a good reputation are at risk

A no deal-Brexit would hit particularly hard any British investment boutiques and specialised asset manager who although having clients in Continental Europe have no local representation, yet.

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For some of these asset managers relocation would be too expensive or too elaborate. Others fear the administrative efforts when licensing and distributing UCITS funds. And some are still hoping, to get off with a slap on the wrist by Brexit. But such an attitude can be (much) more costly for smaller companies – for them clients, assets and their reputation are at stake.

An active approach which does not exclude professional help and with an open, honest and straightforward communication should at the latest have priority in this critical phase of Brexit negotiations. In the end it is especially important for smaller UK manager to signal to their employees, clients and cooperation partners that despite Brexit "We're still open for business!"

Back in March 2017, 10,000 jobs in the British financial industry seemed to be prone to be relocated; source: [Gerle Financial Communications]

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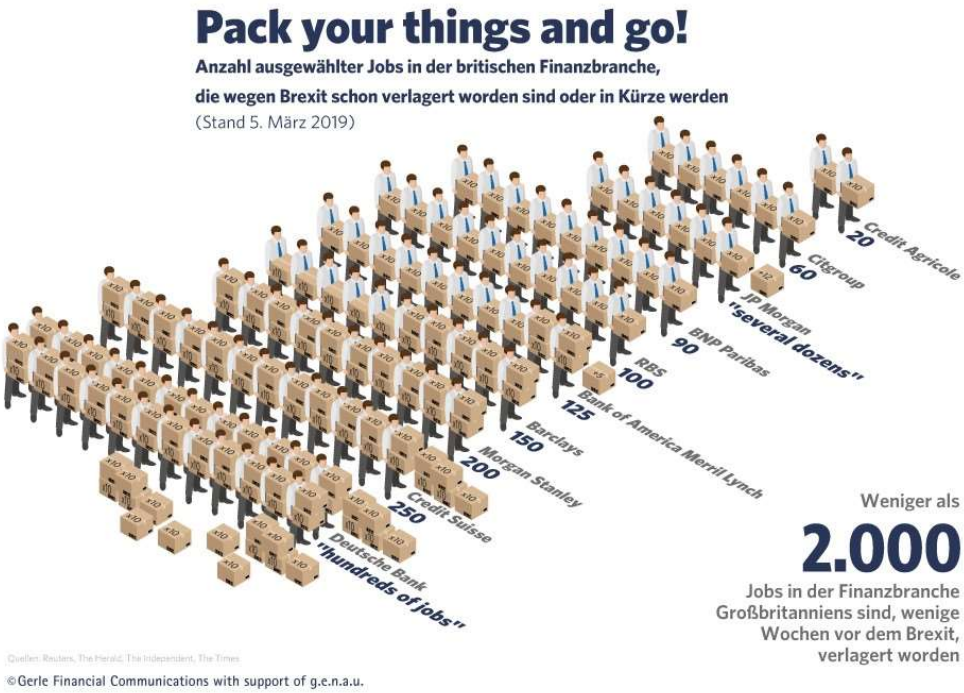

According to news wire Reuters up to March 2019 less than 2,000 jobs have been relocated due to Brexit; source: Gerle Financial Communications

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