Amsterdam overtaking London as a financial centre?[1]

Brexit will move some financial services to the continent but to make real progress the EU needs to focus on its Capital Markets Union

Share trading moving to the EU an inevitable consequence of Brexit

The news that Amsterdam overtook the City of London as Europe's premier location for share trading in January was greeted as major news in the media but was the inevitable consequence of the UK's final departure from the European Union at the start of the year. With European investors no longer able to trade shares on the London Stock Exchange in the absence of a financial services agreement between the UK and the European Union, trading activities had to move to an EU member state.

Despite Brexit, London remains one of the top global financial centres

Some observers have argued that the switch from London to Amsterdam is a sign of things to come. But there is more to a financial market than share trading on an electronic platform. Despite Brexit London remains one of the top two global financial centres - the other being New York - with the other competitors all in Asia. Only New York can offer London's breadth and depth in expertise and skills covering insurance, investment banking, finance-related legal services, Fintech or venture capital among others. What gives New York perhaps the edge is its huge American home market, something the UK cannot offer. In return though London is arguably more diverse - leading for example in Islamic finance - and more internationally focussed. The fact that the UK's largest bank, HSBC, started as The Hong

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Kong and Shanghai Banking Corporation gives a flavour of what the City of London is about. Despite Brexit this ecosystem remains strong and the UK will, of course, work hard to defend this position.

The UK will not be a pushover for the EU when it comes to financial services

Negotiations on a future relationship are ongoing - the big question is whether the EU will grant the UK the coveted equivalence status with which it would recognise the UK's financial regulations as "equivalent" to its own. In a recent speech Andrew Bailey, the Governor of the Bank of England, warned that the EU should not cut off London as it would pay a heavy price for that.

The EU is aware of that but given London's size and proximity there are good reasons why it might wish to take a tougher stance towards London than it does, for example, towards Singapore, another major financial centre. As seen from the continent, it just cannot afford to have a very differently regulated financial centre on its doorstep.

But the EU should not expect the UK just to budge to its demands in the ongoing negotiations on financial services post Brexit. When it comes to financial services negotiations the UK government will feel that the respective bargaining positions are much closer than they had been in the previous rounds of negotiations. The UK government knows how important the City of London is as a global financial centre, that the EU has benefited hugely from it in the past and that it is difficult (but probably not impossible) to dislodge it from its established position - a position supported by a unique ecosystem of expertise and skills in its workforce. The City of London demonstrates what agglomeration forces and scale economies can look like in financial services. Moreover, the UK government will want to ensure that it can take advantage of its newly-gained freedoms to diverge from EU rules if and when it feels like it. Rumours have it that the UK government might be planning a "Big Bang 2.0" for the City of London, repeating the original "Big Bang", which revolutionised financial regulation in the late 1980s. The EU should thus not expect the UK to give up its new freedoms without a fight.

The EU needs to complete its Capital Markets Union project

Fact is the European Union, the single largest consumer market in the world, doesn't have a single global financial centre. Perhaps it doesn't need one and its needs are best served by a network of regional financial centres involving Dublin, Amsterdam, Frankfurt, Paris, Luxembourg among others. But to make that work the EU would urgently need to complete the Capital Markets Union, one of its post-financial crisis flagship initiatives. More than half a decade into this initiative, what has been achieved has remained well below expectations. The European Commission relaunched the CMU project last autumn. Genuine progress in this area could put it in a much stronger position to challenge the City of London eventually - if indeed this is what it wants to do. Perhaps the Covid-19 crisis is the catalyst required to get the CMU project finally off the ground, just as it opened the door to EU-wide fiscal burden sharing in the form of the Next Generation EU recovery plan.