BREXIT

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EARLIER EDITIONS

REUTERS/Hannah McKay

BoE's Carney calls for UK-EU deal on bank rules after Brexit

By David Milliken, Huw Jones and Alessandra Galloni

Bank of England Governor Mark Carney called on Friday for Britain and the European Union to reach a sweeping deal to recognise each others' bank rules after Brexit, or risk a potentially damaging hit to financial services across Europe.

Speaking at Thomson Reuters' London office, Carney said the outcome of Brexit for financial services would be a "litmus test" for global banking rules and warned against the temptation to try to put up barriers to capital flows.

"The United Kingdom has been at the heart of the global economy for centuries.

Throughout that period the City has channelled the life blood of the world economy, finance," he said in a speech.

"It is all too easy to give into protectionism, but the road less taken is often the most rewarding."

Banks, including many from the United States and other countries around the world, use London as their base for operating across the European Union, making the British capital the biggest financial centre in the region by far.

But their EU "passports", which enable them to operate throughout Europe from a single office in London, are set to be lost once the UK pulls out of the bloc in two years' time.

British hopes of securing a generous new deal are likely to be contested by politicians in many EU states who were jolted by the decision of British voters last year to leave.

Recognising the risk of future barriers, Carney said banks had to be ready for a "hard" Brexit and set a July 14 deadline for all cross-border finance firms operating in Britain to tell the BoE how they would cope with an abrupt EU exit.

It is not just banks that cluster their EU operations in Britain which face risks.

European firms which operate in London via EU passports should be prepared to set up separately capitalised subsidiaries in Britain and submit to BoE regulation if Britain and the EU cannot reach a deal, the BoE's top banking regulator Sam Woods said on Friday.

DON'T RUSH TO LEAVE

Banks are making contingency plans but Carney said they should not rush to leave London. "In my view it would be extreme to take precipitate action."

Lenders are concerned that Britain and the EU will not reach a deal in time for Brexit which is due in two

Mark Carney, Governor of the Bank of England, speaks at a Reuters Newsmaker event in London, Britain April 7. REUTERS/Peter Nicholls

years' time, and are preparing to move staff from London. Germany and France are trying to lure jobs to their financial capitals.
HSBC, UBS and Morgan Stanley have decided to move about 1,000 staff each from London in the next two years, sources familiar with their plans have told Reuters.
Goldman Sachs said last month it would begin moving hundreds of people as part of its contingency plans. Prime Minister Theresa May mentioned the importance of reaching a trade deal with the EU that includes financial services as a "crucial sector" when she triggered the two-year process of Britain's exit from the EU last week.
But many bankers have said they are not convinced the government will prioritise their industry, with May making controls on immigration a top aim. Carney said he expected financial services to be part of a "bigger deal" on trade between Britain and the EU.
He warned of the potential hit to the economy in Europe from a hard Brexit for banking, saying it would be tough for other EU countries to match the scale and expertise of Britain. "That's very difficult to replicate," he said.
To reduce the risk of disruption, the Britain and the EU should take "the high road" of mutually recognising their financial rules, allowing companies to operate smoothly across the English Channel as they have done until now.
"The EU and UK are therefore ideally positioned to create an effective system of deference to each other's comparable regulatory outcomes, supported by commitments to common minimum standards and open supervisory co-operation," he said. Major global trade deals to date have largely excluded financial services due to their complexity, however. Recognition of financial rules has not been tried before on the scale envisaged by Carney, which could make negotiations tricky and protracted. The EU may also be reluctant to forgo the jurisdiction of the bloc's top court in policing rule breaches.
Sean Tuffy, head of strategy for Europe at private bank Brown Brothers Harriman, said Brussels was unlikely to offer Britain more than sector-specific deals on mutual recognition, such as in asset management.
"Barring a huge shift in the UK's negotiating position, it strikes me as very unlikely that we're going to see a broad mutual recognition deal for financial services," he said.
Carney said the system could be bolstered by third-party peer reviews and a new independent dispute resolution mechanism, adding that this could be a template for the wider world. He also said he would push to ensure some clearing of euro-denominated transactions remains in London after Brexit.

TRUMP REFORMS AFFECT U.S., NOT WORLD -CARNEY

Against a backdrop of global concern that U.S. President Donald Trump may undo some of the reforms implemented since the financial crisis, Carney said the global financial system was at a "fork in the road".
Governments had to choose between maintaining high standards of regulation and respecting each others' rules, or looking inward with big costs to global trade, he said.
Trump has said that banking rules are holding back U.S. lending, and has ordered a review of regulation, raising concerns that the relatively unified global approach to financial regulation will splinter.
Carney said the United States under Trump seemed focused on rules unique to the country, rather than a radical overhaul which would have global implications.
"I'd be very wary of interpreting anything that the U.S. administration does as a rollback of regulation, of a turning inwards, of a fragmentation," Carney said.

HIGHLIGHTS

Bank of England's Carney speaks at Thomson Reuters

Following are highlights from Bank of England Governor Mark Carney's speech on international banking at Thomson Reuters' headquarters in London on Friday.

ON BREXIT FINANCIAL SERVICES DEAL

Asked if he was calling for a specific financial services deal with the EU after Brexit, Carney replied:
"No, short answer no. The government has been clear about this and we fully support it.
I'll use the prime minister's words: a comprehensive, bold, ambitious new free trade arrangement and that encompasses everything."
"We fully recognise that the negotiations around financial services are one sliver, albeit an important sliver, but a sliver of a much wider set of discussions that the UK and the EU have just embarked upon."

SHOULD BANKS MOVE NOW?

"No, that's not the most prudent. It's prudent to be in a position to continue operating after the UK leaves."

EURO CLEARING IN LONDON

"There are tremendous economies of scale and scope in clearing multiple currencies in one location."

"We will work hard with European authorities to ensure that the appropriate amount of euro business continues to be cleared in London."

BANKS SHOULD PLAN FOR ALL EVENTUALITIES

"What you would do is, you would follow the spirit of the letter you are receiving today which is to plan for all eventualities. Now I will say that for the vast, vast majority of firms located in the City of London and across the UK, that's exactly what they have been doing..." "Prudent planning means that you have to also plan for a shorter time horizon and a more extreme outcome. That in no way shape or form is saying that that's what our expectation is, and certainly we'll be absolutely clear that is not in the best interest of the EU 27 or the United Kingdom or the global system as a whole."

BENEFITS OF LONDON AS FINANCIAL CENTRE

"There are tremendous, tremendous advantages of being part of the world's leading financial system, unfortunately there will be some costs in terms of contingency planning for the full range of activities but in my view would be extreme to take precipitate action given the two jurisdictions."
"We fully recognise that having the most sophisticated but also the most complex and therefore potentially the most risky financial system on our shores brings special responsibilities."
"We've responded in terms of the standards we have here but also in terms of investment and supervisory capacity, market infrastructure, the expertise that is resident here. "
"That's very difficult to replicate and it does bring prosperity but it also brings risk."

HARD TO REPLICATE LONDON'S ADVANTAGES

"We fully recognise that having the most sophisticated but also the most complex and therefore potentially the most risky financial system on our shores brings special responsibilities. We've responded in terms of the standards we have here but also in terms of investment and supervisory capacity, market infrastructure, the expertise that is resident here first in Canary Wharf, then London, then across the UK. That's very difficult to replicate."

BUILDING BLOCKS FOR BREXIT TRANSITION PERIOD

"All the building blocks are there for a system of enhanced access... for a wide range of financial services. Now, that will be determined by the negotiations and the timeframe in which that is put in place. It will also be determined by those negotiations, which as, both the Prime Minister and President Tusk have acknowledged, may include a implementation period, which is the Prime Minister's language, I think the president uses transition period."

ON HOW U.S. REGULATION MIGHT CHANGE

"I think we should recognise a couple of things. One is that, the U.S. authorities have, over the last several years, done several things that are unique to the United States..."
"They may adjust some of those elements, just like we could always adjust certain things that are bespoke to the United Kingdom and go above and beyond international standards. That wouldn't necessarily have any implication for the ability to build this system, to take full advantage of the system of mutual recognition, and we should recognise that."
"I'd be very wary of interpreting anything that the U.S. administration does as a rollback of regulation, of a turning inwards, of a fragmentation. And I think that we have the mechanisms at the FSB, at the G20, to work together to avoid misinterpretation."

MONETARY POLICY OUTLOOK

"Our central forecast has some modest withdrawal of monetary stimulus over the course of the next few years. There is risk to both sides of that." "(There) are some signs of (strong consumer demand) coming off slowly. That's what we expect but we'll monitor it and ensure that we chart the right path."

Mark Carney, Governor of the Bank of England, speaks during a question and answer session with Reuters Global Editor Alessandra Galloni at a Reuters Newsmaker event in London, Britain April 7. REUTERS/Peter Nicholls

More signs of UK slowdown appear as Brexit gets under way

By Andy Bruce and Alistair Smout

Signs that Britain's economy is slowing as it prepares to leave the European Union hardened on Friday, as official data showed a surprise drop in industrial output and construction in February and a mixed performance for trade.

Sterling slid to a one-week low against the dollar after industrial output dipped 0.7 percent in February, worse than all forecasts in a Reuters poll of economists, which had pointed to a 0.2 percent increase. Output fell 0.3 percent in January.

A surprisingly large goods trade deficit - albeit distorted by imports of high-value goods like gold and aircraft - and a slump in construction added to evidence that Britain's economic growth rate peaked towards the end of last year.

Britain's National Institute of Economic and Social Research estimated that Friday's data suggested growth in the first three months of 2017 would slow to 0.5 percent from a robust 0.7 percent in the last three months of 2016.

There are already signs that rising inflation, caused in part by the pound's post-Brexit vote tumble, is crimping spending by consumers, the main drivers of the economy, just as Prime Minister Theresa May begins Britain's EU divorce talks.

Underlining the caution among households, mortgage lender Halifax reported the weakest house price growth in nearly four years and a survey of recruiters showed staff were nervous about switching jobs ahead of Brexit.

Bank of England Governor Mark Carney, speaking at Thomson Reuters' London office on Friday, said he would keep a close eye on whether consumer demand weakens in line with the central bank's expectations.

"Today's deluge of UK economic data was fairly disappointing and adds to the evidence that the economy has lost some momentum during Q1," said Ruth Gregory, economist at Capital Economics.

The latest data from the Office for National Statistics suggested manufacturing was not making up for a consumer spending slowdown as some economists had hoped following the pound's drop.

Output in manufacturing, a component of industrial output which accounts for about 10 percent of Britain's gross domestic product, unexpectedly fell 0.1 percent following a 1.0 percent fall in January, disappointing against forecasts for a 0.3 percent rise in the Reuters poll.

British manufacturing had a mixed performance in 2016, with economic growth driven mostly by the much larger services sector and consumer spending.

A closely-watched business survey on Monday showed British manufacturing lost some of its momentum in March, as export orders grew more slowly and demand for consumer goods faltered against a backdrop of rising inflation pressures.

Separate figures from the ONS showed Britain's goods trade deficit with the rest of the world rose to a five -month high of 12.461 billion pounds ($15.48 billion), compared with an upwardly revised 11.971 billion pounds in January.

Economists polled by Reuters had expected a reading of 10.9 billion pounds.

The ONS also released figures for construction output in February, which slumped 1.7 percent on the month - the biggest drop in almost a year.

The Reuters poll had pointed to stagnation on the month but output in February was dragged down by a 2.6 percent drop in housebuilding, the sharpest decline since mid-2015.

On the year, construction output rose just 0.5 percent in February - the weakest reading since March 2016 and a far cry from forecasts for a 1.9 percent rise.

"February's data shows that the construction sector has been one of the biggest losers from the Brexit vote," said Samuel Tombs, economist at Pantheon Macroeconomics.

A DLR train crosses a bridge in front of construction work in early morning mist in London's Canary Wharf financial district, Britain March 28. REUTERS/Russell Boyce

BREAKINGVIEWS

Hard Brexit could have sting in the tail

By Edward Hadas

The Brexit story could have a very unhappy ending. Of course, most people expect nothing so drastic. The British politicians who want to set their country free from what they see as the tyranny of the European Union see nothing worse on the horizon than a few temporary difficulties, followed by a brighter economic future. But even more sober economic forecasters are not thinking about disaster. Economists at Berenberg estimate that a so-called "hard Brexit", where Britain leaves the EU without a new trading agreement, could reduce the country's long-term annual growth rate from 2.2 percent to as low as 1.5 percent. The logic is simple and plausible. EU membership brings clear benefits to the UK – access to a big market, skilled migrants and eager foreign investors. Take these away, and as much as 0.7 percentage points drops off the growth rate.

Things need not even be that bad. As long as some sort of agreement is signed, British trade with the EU will continue at close to the pre-Brexit rate, and reasonable arrangements will be made with other countries. Though the country's human, social and physical capital may improve less quickly than before, the decline will be relative and gradual. The performance since Britain voted to leave last June suggests a more resilient economy than most forecasters had expected.

Yet there is also the outside chance of tragedy: what investors call tail risk. After all, revolutions often become more radical as they progress. The French started theirs with a demand to restrain the king and ended in the Terror. Russia moved from mild Alexander Kerensky to horrible Josef Stalin. When English parliamentarians tried to restrain King Charles I in 1640, few thought regicide would be on the agenda during the next decade. The most enthusiastic supporters of Brexit have some of the fervour of Oliver Cromwell. Their indignation at foreign constraints knows no bounds. And they seem powerful enough to push Prime Minister Theresa May into taking an uncompromising stance on migration and the role of the European Court of Justice. Michael Fallon, the UK defence secretary, has even added a military dimension, promising that in the dispute with Spain, Britain's overseas territory of Gibraltar "is going to be protected all the way".

If Britain's radical tone continues, the EU's remaining members may

The statue of Winston Churchill and Big Ben are seen at dawn on a cloudy morning in London, Britain March 8. REUTERS/Neil Hall

eventually become seriously angry. Imagine that they decide to show who is really boss. Dramatic sanctions are not required to put on tremendous economic pressure. All that is needed is a bit of legal obstructionism.
The Brexit process provides many opportunities. Once it is no longer a member of the EU, the United Kingdom will need cooperation from the bloc to operate its nuclear power plants and airlines. It will struggle to join the World Trade Organization, where it is currently represented by the EU, without administrative support from Brussels. Without membership, all trade would become extremely difficult.
Withdrawing cooperation on such administrative matters would inflict some economic pain on the EU. The effect on Britain, however, would be devastating. The prospect of greater disarray would likely scare the international investors who fund the UK's large current account deficit, almost 6 percent of GDP in 2016.
A sudden near-stop of foreign financing would push the pound down and drive up inflation, prompting a rise in interest rates, a fall in house prices and a significant decline in almost everybody's standard of living.
How bad could it get? Faced with a hostile EU and fearful foreign investors, the British economy could contract by a double-digit percentage. The sudden stop of foreign financing to Greece in 2010 led to a 25 percent decline in GDP over the next four years. Admittedly, the Greek current account deficit was 11 percent of GDP in 2010, so it had more to lose. Then again, the EU was not consciously trying to undermine Greece. If Britain were like Venezuela or the Soviet Union, an economic collapse would be followed by the next chapter of the revolution: an authoritarian takeover of the government. The new leaders would give hysterical ideological speeches and persecute truth-telling opponents. British society is rich and developed enough to avoid such a fate. While the UK's political system currently suffers from a shortage of organised opposition, the more radical advocates of Brexit would almost certainly be muzzled long before a political collapse.
Indeed, the mere contemplation of this tail risk would probably be enough to inspire May to quiet down the revolutionaries. She was initially against Brexit, and only adopted the cause after her side lost the referendum.
Right now, she probably has the political strength to limit the sway of the Brexit radicals over negotiations with the EU. However, she might want to act firmly fairly fast. As the French journalist Jacques Mallet du Pan wrote in 1793, "The revolution devours its children".

The author is a Reuters Breakingviews columnist. The opinions expressed are his own.

POLL

Sterling's fate hangs on tone of Brexit negotiations

By Jonathan Cable

How Britain's divorce negotiations with the European Union progress will decide whether sterling sinks possibly as low as $1.10 or bounces as high as $1.50 in the coming year, a Reuters poll of foreign exchange strategists found.
The pound is down well over 10 percent since the surprise referendum vote on June 23 to leave the EU, following a short-term move in the currency that was correctly predicted by Reuters polls. It was trading around $1.248 earlier on Thursday.
If the divorce negotiations turn fractious, sterling will fall to $1.17, according to the median view. Several analysts said it would sink to $1.10 -- a level not seen since 1985, just before the United States devalued the dollar.
Conversely if talks run smoothly, the median forecast was for it to bounce

REUTERS/Toby Melville

to $1.30 -- still below where it was trading at ahead of the June 23 referendum -- although one respondent said it would soar to $1.50.
"Sterling is not very closely linked to interest rate expectations at the moment -- it's really whether there is a soft or a hard Brexit driving sterling, and that is going to continue for a year or so," said Samuel Tombs at Pantheon Macroeconomics.
Prime Minister Theresa May triggered Article 50 last week, starting a two-year countdown to Britain's departure from the EU, which it joined in 1973.
So far there is little clarity on what tone the talks will take, but concern over immigration from other EU member states was a major reason behind the leave vote and May has said she will respect those fears by halting freedom of movement.
Such a move would probably lead to

denial of access to Europe's single market, hurting trade.
May has said "no deal is better than a bad deal" and that she is prepared to walk away from the talks. But a parliamentary committee said earlier this week May must prove that by offering an assessment of the economic impact of leaving the EU with no agreement.

RANGE-BOUND FOR NOW

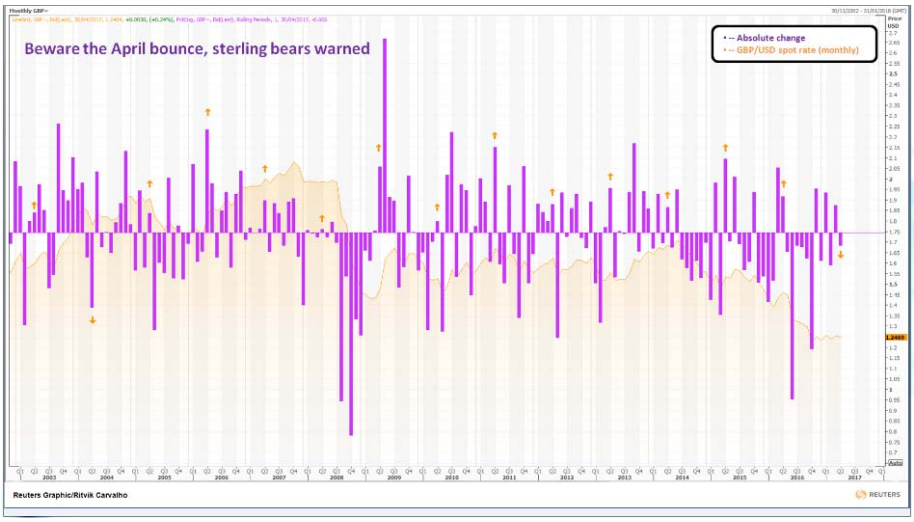
According to the regular poll of over 60 foreign exchange strategists taken in the past week, sterling will trade between $1.22 and $1.24 in the next 12 months. Those medians were little changed from a March poll.
"While we believe headline risk will keep the market's bearish sterling bias intact this year, a stronger structural position supports our view of some sterling recovery in 2018," said Vassili Serebriakov at Credit Agricole.
Sterling is likely to come under pressure from interest rate hikes in the United States. The Federal Reserve is expected to follow up on a March increase with two more rises later this year while the Bank of England is not expected to move until 2019 at least.
Across the channel, the European Central Bank will also be maintaining its ultra-loose monetary policy stance for the foreseeable future and the euro faces its own headwinds in the coming months.
Elections in Germany and possibly Italy could harm the euro project while a win for the far-right National Front candidate Marine Le Pen in the French presidential race could precipitate an eventual end to the common currency altogether. With French opinion polls suggesting Le Pen is unlikely to take up residence in the Elysee Palace, the Reuters poll found a shock victory for her would trigger an immediate 5 percent fall in the euro against the dollar. Medians show one euro will be worth 86.0 pence in a month and 88.0p in six months and a year, slightly more than predicted in the March poll. Earlier on Thursday a euro was worth 85.5p.

GRAPHIC

Pound bears warned of sterling's springtime shine

By Ritvik Carvalho

Investors wary of the impact of Brexit have stacked up record-high bets against the pound, and some in the market warn a traditional April rise in the currency could be a painful spring surprise for anyone who has shorted it.
For the last 12 years, sterling has consistently risen by an average of 2 percent in the month of April.
Currency analysts at Nomura have called the pound's April a "risk to watch" for investors who have shorted the currency.
"In a perfect market the pattern should not exist but FX is not perfect and there is a pattern of sterling-dollar upside in April," they wrote in a note to clients. Speculators' net short positions in the pound hit record highs in the week to March 21, before pulling back slightly last week, data from the Commodity Futures Trading Commission shows. Bank of America Merrill Lynch strategist Kamal Sharma cites a combination of the end of the UK tax year and big dividend payouts by UK companies as potential factors in sterling's buoyancy in April.
"Some of the largest UK listed companies tend to be multinationals, so they have non-sterling receivables and therefore the assumption is they repatriate and pay out sterling dividends," he said. "(but) there's not a huge amount of clarity on what the specific flows are...it (sterling's April bounce) is a function of a lot of other things such as the broader decline in USD through the month." A Reuters analysis of historical price data for the pound going back to 1985 shows that a consistent trend of April gains for sterling versus the dollar emerges only after 2004.
However, with sterling's 3 percent rise versus a trade-weighted basket since the Bank of England's mid-March meeting and short positions on the pound just off record highs, investors will be doubly wary this month.



European regulators offer Brexit sweeteners to investment banks

By Huw Jones, Rachel Armstrong and Jesús Aguado

A gap in EU financial rules is allowing member countries to compete to host the trading operations of London-based investment banks after Brexit by offering looser regulatory standards.

The European Central Bank is the euro zone's banking supervisor but, under EU law, does not have direct responsibility for the divisions of banks that conduct most of their market trading – broker-dealers – even though they are some of the most complex and riskiest parts of their businesses.

This is largely because when the ECB became responsible for euro zone supervision in 2014 the bulk of broker-dealers were in London and therefore not under its purview.

This means banks now looking to relocate these operations, to continue to trade continental securities after Britain leaves the EU, will have businesses approved and supervised by the national markets regulator of whichever country they move to.

Countries hoping to lure banks to their financial centres after Brexit are offering differing regulatory standards, raising fears at the ECB that they could be subject to light touch supervision and undermining its aim of making financial regulation consistent across the bloc.

Such inconsistencies mean broker-dealers trading the same markets in Europe could be subject to different regulatory requirements and raise the prospect that some would take on more risks than other regulators would deem appropriate.

"Regardless of balance sheet size, it's currently the national regulators who will have the authority to approve and regulate the broker-dealers. That is raising concerns of inconsistencies emerging," said Vishal Vedi a partner at Deloitte who is advising banks on how they will need to reorganise as a result of Brexit.

Across the euro zone, the likes of Frankfurt, Dublin, Luxembourg and Madrid are vying to lure banks, hoping to benefit from the tax revenues and jobs they would bring.

Regulation is one way to differentiate

Banks' Brexit dilemma

Banks in Britain are facing the prospect of relocating operations out of London to other cities in Europe so that they can continue to operate across the European Union's single market.

		RANKING LOWEST					HIGHEST
		London	Amsterdam	Dublin	Frankfurt	Luxembourg	Paris
TAX RATES	Corporate	20.0%	25.0%	12.5%	20.5%	27.1%	33.3%
	Personal income (max)	45.0%	52.0%	48.0%†	45.0%	40.0%	49.0%
COST OF LIVING	Pint of beer	€5.79	€4.61	€5.91	€ 3.43	€ 4.09	€ 7.00
	Lunch meal*	€11	€12	€12	€12	€16	€15
	Monthly rent**	€2,732	€1,856	€1,840	€1,544	€2,023	€2,590
	Cost of living ranking	17	64	47	88	59	44
	Quality of life ranking	39	11	33	7	19	37
OFFICE SPACE***	Office vacancy rate	6.9%	11.1%	7.0%	9.1%	5.4%	6.8%
	Prime office rent	1,319	365	646	462	576	770
		LARGEST					SMALLEST
FINANCE SECTOR	Employees	400,000	44,000	23,000	75,000	45,300	147,000
	Size of bank sector****	$10.7 tln	$2.8 tln	$0.6 tln	$7.7tln	$0.8 tln	$7.5 tln
	Foreign exchange trading	$2.4 tln	$0.1 tln	$0.002 tln	$0.1 tln	$0.04 tln	$0.2 tln
	Derivatives trading	$1.2 tln	$0.02 tln	$0.001 tln	$0.03 tln	0	$0.1tln

† Includes a Universal Social Charge.
*Basic lunch menu (with drink) in business district. **Furnished 900 sq ft accommodation in upscale area.
***Central London, €/sq m/year. ****Country's bank claims

Sources: Governments; Reuters; cost of living based on crowd-sourced data on Expatistan as of Feb 01; Helaba; Mercer, 2016; Knight Frank

Staff, 21/03/2017

REUTERS

themselves.
One area in focus is the extent to which national regulators will allow broker-dealers to conduct "back-to-back" trading. This is where a bank would conduct trades - for example, buying European securities - out of its EU base but process and risk manage the transactions at its London office. This would minimise the and number of people a bank would have to move to Europe after Brexit as much of the trading and risk could continue to be overseen in London.
But it would mean regulators in that country and the wider euro zone would not have supervisory control over the people and units that are conducting the trading and managing the risks, with minimal amounts of capital held locally at the EU unit.

SPAIN, GERMANY
Spain's markets regulator CNMV has said it wants to make Madrid "the most appealing option for investment firms considering a move from the UK to another EU country".
According to people advising investment banks on where to move, CNMV has said it would consider allowing broker-dealers to back-to-back 100 percent of their trades.
Other regulators have also said they would allow some back-to-back trading, although will require a portion of the trades to be managed locally, those people said.
"We can look into it, but we will see how this plays out and what the regulatory framework will look like in two years' time," a CNMV spokesman said when asked whether it would allow 100 percent back-to-back trading.
CNMV said in December that while it wanted to be the most welcoming place in Europe for UK financial firms, it would not accept "totally empty shells" or breaches to EU securities rules.
Germany's regulator Bafin has meanwhile said it would consider the limited and temporary use of back-back arrangements, according to an official there, but has indicated that it would expect banks to eventually

Workers walk to work during the morning rush hour in the financial district of Canary Wharf in London, Britain, January 26. REUTERS/Eddie Keogh

establish a substantial operation in the country.
The approach by some regulators to Brexit has created resentment among some countries. Last month Ireland complained to the European Commission that it was being undercut by rival cities competing to host financial firms looking for a European Union base outside London after Brexit.
The EU's European Securities and Markets Authority (ESMA) has been studying ways to limit unfair competition among the bloc's national securities regulators.
It declined to comment for this article.
So far, banks are showing no signs of flocking to Madrid, citing other factors such as Spain's relatively low sovereign credit rating as a reason not to go there.
Countries are also diverging in how banks' risk models for their broker dealers would be assessed, with some saying they would be approved immediately if they were to use the same model to the one they use in Britain.
"Regulators differ in their approach to risk models – particularly around the level of reliance that they will be prepared to place on models which have already been approved in the existing UK entity and the amount of pre-assessment they will do themselves," said Deloitte's Vedi.

BANKS WARY
Most banks - publicly at least - have yet to make a final decision on where they plan to set up their broker dealers after Brexit, and executives say they are sceptical about whether they will be allowed to use workarounds like back-to-back in the long term.
"We do suspect that following Brexit, there will be constant pressure by the EU not to 'outsource' services to the United Kingdom but to continue to

move people and capabilities into EU subsidiaries," JPMorgan Chief Executive Jamie Dimon said in his annual letter to shareholders on Tuesday.
The ECB has warned banks that if they try to cut corners by asking for back-to-back deals, they will be disappointed.
But currently it does not have the legal authority to oversee broker-dealers, though sources say it is quietly trying to put pressure on countries they think are offering lower standards.
The ECB declined to comment on Spain or 'back-to-back' arrangements more broadly, but instead pointed to previous comments by its officials.
Sabine Lautenschlaeger, an ECB executive board member, expressed her concerns on the issue in March when she said there could be changes to EU laws to bring broker-dealers under the ECB's supervision.
"Needless to say that I would certainly not accept banks booking all exposures with the euro area entity while having their risk management and internal control systems outside the euro area," she said.
Regulators like CNMV are currently free to cut deals as long as they don't breach EU securities rules, but the bloc's regulatory landscape could change within a year or two and cast a shadow over any deals on regulation agreed now.
The EU's executive European Commission has proposed that non-EU banking firms with banking and broker-dealer operations with total assets of more than 30 billion euros in the EU, should set up an intermediate holding company inside the bloc.
An intermediate holding company would come under direct ECB supervision in euro zone countries.

ECB tells UK-based banks to apply as soon as possible for licences

By Andreas Framke and Huw Jones

Cross-border banks in London looking to shift operations to the euro zone after Britain leaves the European Union should allow at least six months for a new licence, the European Central Bank said on Tuesday.
The ECB is responsible for authorising banks in the single currency area, with the help of national regulators for small lenders.
Banks in London fear a "hard" Brexit with no access to the bloc's single market after 2019, and face pressure from regulators to avoid a "cliff edge" or abrupt termination in cross-border customer links, which could unsettle markets. Authorities expect about 40 large international banking groups, currently operating their euro zone business out of London, to move subsidiaries or branches to the 19-member currency bloc.
"It usually takes six months from the applicant providing a complete application for a decision to be taken regarding a licence application," an ECB guideline released on Tuesday said. This could be fast-tracked when an applicant asks for an extension of an existing licence. "In any event, a decision must be taken within 12 months of the date of the application." Financial centres Frankfurt, Paris, Madrid, Luxembourg and Dublin are all vying to attract


REUTERS/Ralph Orlowski

banks from London, but all major euro zone lenders are directly supervised by the ECB to stop any national "sweeteners" being offered.
The "relocating to the euro area" guidelines reiterate some comments already made by ECB officials, such as establishing an "empty shell" in the euro zone to avoid moving many staff and operations from London would not be acceptable.
"The requirements for a well-functioning bank must be in place before an institution takes up any banking activities in the euro area," the ECB said. "You should plan accordingly, in order to be sure to obtain your license on time."
It will hold a technical workshop on May 4 to explain its relocation policies further. Banks in London have been asking whether they could still centralise their broker-dealer trading services in London after Brexit to save on costs of setting up new euro zone entities. The ECB said banks should be capable of managing all material risks potentially affecting them "independently and at the local level", meaning there would be a need for a sizeable presence in the euro zone as a condition of getting a licence.
Banks use "internal models" or bespoke software vetted by regulators to calculate risks on their books - and therefore how much capital to hold.
The ECB said there will be a "limited period" in which new euro area banks might use internal models endorsed by UK regulators, but not yet approved by the ECB in a process that can take months of sifting through thousands of pages. "This limited period will cease as soon as the bank's model application has been approved or rejected," the ECB said.

Honing Brexit campaign, EU takes aim at UK residence red tape

By Alastair Macdonald

The European Union should tell London to cut red tape that makes it hard for EU expats to confirm their residence in Britain, senior EU officials said after a meeting in Brussels on Tuesday to prepare for Brexit talks.
Advisers to the 27 other EU government leaders broadly endorsed draft guidelines for negotiations with Britain on its withdrawal. In a mark of fireworks to come when talks get under way in early June, some pressed for clearer, tougher wording on how much Britain must pay to cover its commitments to the Union.
And, in highlighting their priority to ease uncertainty for some 3 million EU citizens there, many voiced concern that British administrative rules were adding to people's worries.
"It's outrageous to use bureaucracy like this," said one senior official from an EU government who participated in the meeting of advisers, known as sherpas. Another said several had spoken of demanding London ease such "administrative burdens".
Applications for lifetime residency status have soared since Britons voted in June to leave but many have been rejected and others complain that the 85-page form and demands for copious proof of earnings and movements during the five-year qualifying period make it hard to claim their legal rights.
"The discussion ... showed a broad wish to give priority to citizens affected by Brexit," an EU source said of a meeting which should result in only minor changes being made in the EU's plans for talks before the 27 leaders endorse them on April 29.
The 27 would "engage early, seriously and substantially in limiting the damage to citizens", the source added.

A European Union flag is waved in front of Big Ben outside Parliament after Britain's Prime Minister Theresa May triggered the process by which the United Kingdom will leave the European Union in London, March 28. REUTERS/Stefan Wermuth

BUREAUCRATIC HURDLES

Under draft negotiating guidelines prepared by European Council President Donald Tusk after British Prime Minister Theresa May triggered a two-year countdown to Brexit on March 29, the EU wants Britain to guarantee full rights to all resident EU citizens before it leaves the bloc in 2019.
But tens of thousands of Europeans have decided not to wait and to seek permanent residency under a British system that, as EU nationals, they have not previously needed to use because all EU citizens can, generally, live anywhere in the bloc. Free immigration for EU workers, especially from poorer Eastern Europe, was a factor in the Brexit vote.
The last quarter of 2016 saw a sixfold increase over the previous year in applications for permanent residence. But over a quarter of those, some 12,800, were rejected or declared invalid. May has called for a quick agreement to guarantee expats' rights but the EU rejected that, saying legal certainty requires detailed work which must be wrapped into an overall deal.
Each side has accused the other of using people as bargaining chips.
May says guarantees must be reciprocal and EU officials echo that.
But some note Britons will benefit from existing EU rules that oblige member states to give extensive, EU-wide rights to long-term residents of any nationality; they want London to give a similar long-term commitment that Brussels can hold it to.

BREAKINGVIEWS

Acrimonious Brexit could hit European Union's credit rating - S&P

An acrimonious Brexit, in which Britain declines to honour its existing financial obligations could put pressure on the European Union's 'double A' rating, S&P Global said on Monday.
Having recently triggered the EU exit process, Britain's government is facing a request from the European Commission to honour its existing financial obligations, which reportedly could reach 60 billion euros.
S&P said the claims were unlikely to be legally enforceable however, and that the EU's rating could suffer if the UK didn't stump up the money.
"The European Union (AA-Stable/A-1+) ratings could come under pressure in an adverse scenario," S&P said.
"This is because our ratings on the EU are to a certain extent predicated on our expectation that the UK would honour its share of financial obligations to the EU."
It said a non-payment of obligations would not constitute a default by Britain.
The ratings of a handful of multilateral lenders the UK pays into could also come under pressure, S&P Global said.
Multilateral lenders including the European Investment Bank, the Inter-American Development Bank, Council of Europe Development Bank, African Development Bank, and Eurofima could all see their ratings reviewed.

Brexit puts Britain in an agriculture quota quandary

By Tom Miles and Philip Blenkinsop

Brexit has created an administrative and diplomatic minefield for Britain by triggering a reworking of its relations in the most contentious area of international trade -- agriculture.
To stand on its own after it leaves the European Union, Britain needs a document setting out its own commitments at the World Trade Organization, the bedrock of global trade. Britain's membership terms are currently included in EU's, so it needs to disentangle itself, with less than two years on the clock.
While Britain can simply replicate the EU's tariffs, the copy-and-paste method does not work for agriculture, where EU imports are limited by 128 "quotas", often allocated to particular suppliers. Imports of goods such as meat, cereals, fruit, milk, wine and vegetables that are not covered by a quota are subject to a much higher import tariff.
Unless Britain agrees what share of each EU quota it will take, and what tariffs apply for some 2,000 agricultural products, businesses will be flying blind.
It is all supposed to be done within the two years of Brexit negotiations. Without an agreement, Britain would be in uncharted waters

A stack of hay bales shaped as a tractor is seen in a field near Downham Market in Norfolk, in eastern England, October 20, 2016. REUTERS/Toby Melville

and might have to unilaterally announce its plans, at the risk of angering farm lobbies at home or abroad.
Suppliers will want the current EU quotas to be shared out between Britain and the other 27 EU nations, and some may see it as a chance to increase the size of their market. Brazil, for example, might want to sell Britain more sugar, Thailand more rice and Switzerland more chocolate.
The EU itself may also seek to cut its own quotas to reflect Britain's leaving.
"It's going to have to be in place, not the day before Brexit but a year before Brexit because exporters and importers will want to know when they're entering contracts," said Alan Matthews, emeritus professor of European agriculture at Trinity

College, Dublin. Under WTO rules, nobody can stop Britain putting forward new membership terms, but diplomats say the quotas represent a pressure point for squeezing out concessions. If they felt Britain had damaged their interests, they could respond with a trade dispute and potential sanctions.
Indonesia has already tabled a formal question to ask how the quotas will be handled, prompting China, Russia, the United States and Argentina to signal their interest too.

BARGAINING CHIPS
No WTO partner will accept less than the current EU offer and in most cases will want more. If Britain did not agree to take on part of the EU quotas to soften that blow, it would anger EU members with which it plans a free trade pact. It would also risk higher food costs for British consumers, already a hot issue due to a weaker pound after the Brexit vote.
The EU quotas cannot be easily shared out according to market size. Many are not fully used, many need translation from euros into pounds, and exporters may argue that they are being penalised because dividing the market reduces their flexibility.
One strong claim for a share of the British market will come from New Zealand, since it has 80 percent of the EU's 284,000 tonne tariff-free lamb quota and Britain takes almost half the lamb it ships to the EU.
But if Britain opens up too much, it might cause a backlash among British farmers and also give away bargaining chips that can be used in future negotiations, said Chris Downes, trade expert at Brussels-based consultancy ECCO.
"A more defensive approach is probable and will, whatever the UK's intention, likely be disputed," Downes wrote in a paper.
In a further complication, Britain needs to prepare for the possibility that it fails to reach a new trade deal with the EU. In such a scenario, France and Ireland would join China, Canada and Brazil in the fight for a slice of the British market. British farmers would have no share of the EU's quota and suddenly face huge tariffs for selling into the EU -- at rates equivalent to over 60 percent for its Scottish beef, 50 percent for its Welsh lamb or 40 percent for its cheddar. And New Zealand lamb would continue to flow in, oversupplying the British market.

ANALYSIS

Brexit to trigger UK farm policy overhaul and EU funding gap

By Nigel Hunt

Britain is expected to radically overhaul agricultural policy after it leaves the European Union and the bloc may have to make changes too when it loses Britain's net contributions to the region's farming budget.
For the first time in decades, farmers in Britain will have to fight for a slice of government funds with departments such as health and education once Brussels hands over the purse strings for farming budgets to London.
Britain's exit also spells trouble for EU farmers as the country puts more into the bloc's Common Agricultural Policy (CAP) than it takes out, meaning subsides for farmers on the continent could also fall unless the funding gap is plugged.
British farmers have been shielded by a powerful farming lobby within Europe and benefit from EU subsidies, preferential trade deals and access to cheap seasonal labour, but they fear

A campaigning slogan is seen on a farmer's tractor cabin near the Houses of Parliament in central London, Britain, September 14, 2016. REUTERS/Toby Melville

they will be losers on all three fronts in a post-Brexit world.
"The bloody-mindedness of the French or the Irish in standing up for agriculture was not just standing up for their farmers but actually brought a good deal for us as well. Without them we are more vulnerable," said Nigel Miller, who has a sheep and cattle farm near Galashiels in

Scotland's Borders region.
"The reality is, as a farmer, I don't see the UK government expending a lot of negotiating capital to protect agriculture. Their main issue when they look for trade deals will be financial services, banking, etc," Miller said.
Britain voted to leave the 28-nation EU in a referendum in June last year. It has two years to sort out the terms of the divorce before it comes into effect in March 2019.
In 2015, British farmers received 3.25 billion euros ($3.5 billion) from the EU's agriculture fund in direct payments based chiefly on the amount of land they farm, essentially a form of income support that does not take individual needs into account.
The government has guaranteed payments will be maintained until 2020 but farming and environment minister Andrea Leadsom said in February there would be a major policy overhaul when the EU subsidies stop.

WEALTHY INDIVIDUALS

On average, British farmers get about 15,000 pounds ($18,700) a year from direct payments and an EU rural development fund. For some, direct payments account for 70 percent of their income.
But a significant chunk goes to wealthy individuals who are large landowners. An investigation by environmental lobby group Greenpeace showed that in 2015 the top 100 recipients of EU direct payments in Britain received more in total than the bottom 55,119 recipients combined.
Berkeley Hill, professor of policy analysis at Imperial College London, said any overhaul should ensure funds go to farmers making decisions that benefit the environment, or help them cope with disasters such as flooding or foot-and-mouth disease.
"It has the potential to be quite radical. What is the taxpayer getting in return for all this money? Most of it does not go to poor farmers," said Hill.
Greenpeace campaigner Hannah Martin hopes the government will reshape Britain's food and farming policy so payments are for the "common good", rather than just rewarding landowners for owning land.
"That means, landowners getting the money are doing positive things like boosting rural economies, ensuring food production is genuinely sustainable, reducing flood-risk, maintaining healthy soils and protecting biodiversity," she said.
Britain has about 18.4 million hectares of agricultural land of which more than half is classified as permanent grassland, according to

A general view of Stocks Farm which grows apples and hops and employs migrant workers to help harvest the fruit, in Suckley, Britain, October 10, 2016. REUTERS/Eddie Keogh

government data for 2015. Wheat is the leading arable crop with 1.8 million hectares while others include barley, rapeseed, oats, rye, sugar beet and potatoes.

SPENDING CUTS

British farmers fear that in a post-Brexit world preferential trade deals could end, seasonal workers from the EU may find it harder to come to Britain and subsidies will stop.

The farm lobby has been a powerful force in Brussels but has less influence in Britain where, according to European Commission data for 2014, agriculture accounts for 1.2 percent of employment, compared with an EU average of 4.7 percent.

A National Farmers Union (NFU) survey late last year showed British farmers overall plan to reduce spending on machinery by 26 percent and cut investment on land by 31 percent over the next three years because of uncertainty caused by Brexit. In budget terms, Britain will benefit from leaving the EU as it puts more into the bloc's CAP than it gets out.

But that does not necessarily mean farmers will be the ones to benefit.

"The moment you are putting payments to farmers up against the National Health Service, care in the community, education ... You can see it is going to take its share of cuts," said Sean Rickard, a former chief economist for the NFU.

Farmers also worry that when it to comes to trade deals and EU market access, sectors such as financial services will be a much higher priority for the government, and any new EU trade tariffs could have a significant impact.

The EU is Britain's most important trading partner for most agricultural sectors. In 2015-16, for example, about 80 percent of UK wheat exports went to the EU, mainly the Netherlands, Portugal and Spain.

There is also concern that new trading arrangements with countries outside the EU could leave farmers vulnerable to cheap imports from agricultural powerhouses such as Brazil and the United States.

CAP GAP

EU agriculture commissioner Phil Hogan is in little doubt that British farmers will suffer following Brexit.

"If people want to go separate ways like the UK there are going to be losers, and the big losers in the UK are going to be farmers," Hogan told a media briefing last month.

For the EU, though, Britain's departure will leave a significant funding gap that is already pitting countries with big farming sectors against major net contributors to the CAP, who are looking for ways to economise.

Alan Matthews, professor of European Agricultural Policy at Trinity College, Dublin, estimates there would have been a 3.1 billion euro hole in the CAP budget in 2015 without Britain, though the gap would have been significantly smaller in 2014.

In 2015, that shortfall would have been more than 5 percent of total EU spending on direct payments and rural development funds of 56.7 billion euros, and farmers in Europe are preparing to fight for their subsidies.

"If our calculations are right, it's a 5 percent cut to the EU budget, so we can say it's 5 percent less for the CAP budget.

That's the first challenge," said Claude Cochonneau, a farmer in northwest France and president of a farming support network.

Spain and Bulgaria, both net beneficiaries of EU farm subsidies, are pushing for payments to be maintained, which would mean any shortfall would have to be made up elsewhere.

Pressure for EU farming budget cuts is more likely to come from large net contributors, such as Germany and Sweden.

"There should be less focus on current direct support and market measures," Sweden's Minister for Rural Affairs Sven-Erik Bucht said in an emailed response to questions about Sweden's objectives in the next round of CAP talks.

Joachim Rukwied, president of the German farming association DBV, said it supported a mix of increased national contributions and spending cuts elsewhere to cover the funding gap. Analysts believe direct payments to EU farmers are likely to be maintained as part of the overall agricultural package although there may be moves to link more funds to ensuring environmental benefits, a policy known as greening the CAP.

"Are we going to see fundamental reform, or some adjustments? For the moment the Commission looks like it just wants to make adjustments to the current market approach, simplifying and greening," said Bruce Ross, managing director at agri-consultants Ross Gordon Consultants in Brussels.

But in Britain, farmers are bracing for a tough post-Brexit world, where some may not survive.

"There will always be people milking cows because we've got lots of grass and there will always be people growing crops - there just won't be as many," said Rickard, the NFU's former chief economist.

Independence clause in Scottish city's debt deal worries investors

By John Geddie

A promise in a bond issued by Aberdeen city stipulating that investors can demand their money back early if the country leaves Britain is the starkest sign yet of investor nervousness over the prospect of Scottish secession.

In what lawyers said was a debt market first, the 370-million-pound bond issued late last year includes an "independence event" clause allowing early repayment if Scotland secedes before the end of the 37-year life of the debt.

Aberdeen council told Reuters on Thursday it may borrow a further 130 million pounds via the bond, the first by a Scottish municipality. Most of the debt raised so far will go towards a new conference centre, a project at the heart of a plan to diversify an economy vulnerable to the slow decline of oil production in the North Sea.

Scottish leader Nicola Sturgeon wants to hold a second independence referendum -- a bid in 2014 failed -- now that Britain has voted to leave the European Union. She argues that Brexit is not in the interests of the Scottish people and points out that most Scots didn't vote for it.

With surveys showing record support for independence, investors appear to be taking extra steps to protect themselves against uncertainties over the country's future currency and creditworthiness.

The clause in the Aberdeen deal attracted little notice when the bond was issued in November. But it has gained attention ahead of the UK's local council elections next month, when the independence issue is expected to dominate debate in Scotland.

"There is a nervousness about Scotland becoming an independent country in the markets," Aberdeen's finance chief Willie Young, a staunch opponent of independence, said from an office overlooking Union Street, the city's main thoroughfare.

"Those that are lending us the money get the comfort from UK PLC, and they wanted that clause inserted," he told Reuters.

One concern about such a deal is who would pay investors early if Scotland did declare independence.

Young has previously said that local public services would have to be cut to pay the debt and that the citizens of Aberdeen, Scotland's third largest city, would suffer.

But the leader of the separatist Scottish National Party group of the council, Stephen Flynn, told Reuters such a suggestion was "fanciful".

"The reality is that if Scotland were to become independent then like any other nation, the Scottish government would be the bank of last resort like the UK government is at this moment in time," said Flynn, speaking in his cramped, dimly-lit office decorated with a large Scottish national flag.

In an emailed statement to Reuters, a spokesperson for the Scottish government said: "Risk is inherent in any bond issue, and any conditions attached to this issue have been taken forward by Aberdeen City Council."

The Town House clock tower is reflected in a window in Union Street in Aberdeen Scotland, Britain April 3. REUTERS/Russell Cheyne

MAJOR RISK

Local authorities usually turn to the Public Works Loan Board, the UK government loan fund, to finance public projects.

In this case, Aberdeen said it found the terms of the privately-arranged bond cheaper and more advantageous because scheduled repayments do not start until mid-2019, by which time some of its projects should start generating revenues.

Aberdeen said by not going to the government for a loan, it will save 10 million pounds over the life of the bond.

The major risk outlined by investors in the Aberdeen deal was uncertainty

Aberdeen Councillors Willie Young and Jenny Laing sit in the Town House Aberdeen Scotland, Britain April 3. REUTERS/Russell Cheyne

about an independent Scotland's future currency and what it meant for servicing the sterling-denominated debt, a source close to the deal said.
If a country adopts a new currency that depreciates against its old one, borrowers will have to pay more to repay interest and principal on old debts.
Investors have voiced similar concerns about European debt markets, given that Marine Le Pen, a leading candidate in France's presidential election, and Italy's 5-Star Movement have pledged referendums on euro membership.
Before the 2014 Scottish referendum, completion of some financial transactions like loans, company mergers and property purchases were conditional on 'no' votes, but rarely included watertight contractual break clauses.
In the debt world, lawyers said, such clauses were unprecedented.
"We are not aware of any deals in the wider context where such a clause has been used to shift the risk of the relevant event to the issuer, rather than flagging the risk to investors who are then on notice when they purchase," said Matthew Hartley, a capital markets lawyer at Allen & Overy in London.
The source close to the deal said seven investors were involved including fund managers, insurers and a pension scheme.
One investor alone bought half the deal.
Council leader Jenny Laing said other authorities had expressed interest in using the city's municipal bond model.
"Other authorities have been looking at what our model was and how we have gone about it because they can see it as a way of bringing that money in," said Laing.
"If we hadn't stepped forward this city would have really suffered because the business sector were unable to do the investment at this time so the public sector had to step in." But Luke Hickmore, an Edinburgh-based investment manager for Aberdeen Asset Management, said any other Scottish municipality would have to include an independence clause and that early repayment risk may be something they are not willing to take.
"Once you have done it once it becomes standard template.
It may well put other municipal issuers off."

Brexit, political uncertainty to curb European insurance M&A

Brexit and political uncertainty in Europe are likely to depress merger activity among European insurers this year, after a steep decline in deals in 2016, ratings agency AM Best said on Monday.

Mergers in Europe involving an insurer on at least one side of the deal totaled around $5 billion last year, down 72 percent from 2015 and 76 percent from 2014, AM Best said.

Negative interest rates in some European countries in 2016 reflected an uncertain economic outlook, which the agency said stifled deals, as prospects for merged firms were unclear. In addition, a fall in the pound following Britain's vote to leave the EU was not enough to make UK insurers cheaper for overseas buyers, as British stock market values rose.

"What with Brexit and the political uncertainties on the map, it doesn't feel that we are going to hit the peaks of 2014 and 2015 (in 2017)," Anthony Silverman, senior financial analyst at AM Best and author of the report, said. Europe faces elections in France and Germany this year, while Britain has triggered Article 50 of the EU's Lisbon Treaty, starting the two-year countdown to Brexit.

Last year's biggest European insurance deal was Dutch-based NN Group's takeover of Delta Lloyd in a $2.5 billion transaction. The largest deal of the last five years was British insurer Aviva's $8.8 billion purchase of rival Friends Life in 2014, data from AM Best showed.

British firms Standard Life and Aberdeen Asset Management said last month they are planning to merge in an 11 billion pound ($13.7 billion) deal.

Mergers between two firms in the same European country are likely to become less common having made up a quarter of the $64 billion in insurance deals tracked by AM Best from 2012 to 2016.

"The scope for large transactions within a European country is likely to eventually become limited by competition considerations," the agency said.

The dawn light is seen over London's Canary Wharf financial district March 30 the day after Britain's Prime Minister Theresa May invoked Article 50 to trigger Britain leaving the EU. REUTERS/Russell Boyce

INTERVIEW

With Brexit underway, EU drug agency prepares to leave London

By Ben Hirschler

Europe's medicines watchdog is preparing to pack its bags and relocate from London, now that Britain has triggered the process of leaving the EU, and its executive director wants a decision on the agency's new home as fast as possible.

The European Medicines Agency (EMA), employing nearly 900 staff, acts as a one-stop-shop for approving and monitoring the safety of drugs across Europe. Guido Rasi fears uprooting it could disrupt this work, unless done very carefully.

At stake is not only the smooth-running of the European Union drug approval process, which is vital for companies, but also public safety, should regulators fail to react to a side-effect problem or quality issue in a timely fashion.

"What I really fear is that something happens exactly during the transition phase - that is the real danger for public health," Rasi said in an interview from his offices overlooking London's old docks.

Relocating the EMA within the two-year window available before Britain leaves the EU in March 2019 will be tight and a stalled verdict by politicians on where it should go would aggravate matters.

"An even worse-case scenario would be a late decision," Rasi said in his first comments since Prime Minister Theresa May formally began Britain's divorce from the EU on March 29.

The EMA, the largest EU body in Britain, has been based in London since its birth in 1995 and it moved into new premises in Canary Wharf on a 25-year lease less than three years ago.

With an annual budget of 322 million euros ($344 million) and attracting 36,000 experts a year to London for its meetings, the agency is a prized piece of Brexit booty for other cities.

Countries vying to host the EMA include Italy, Denmark, Sweden, Spain, France, Ireland and Poland.

Pharmaceutical tablets and capsules are arranged on a table in a photo illustration shot September 18, 2013. REUTERS/Srdjan Zivulovic

The relocation decision will be made not by Rasi but EU heads of state, meeting as the European Council.

"I can only look at the calendar and see when there is a meeting and hope that it comes very early," Rasi said.

"I know that the Council convene a meeting in June, so certainly there is the possibility for them to take an early decision."

The uncertainty has already taken its toll.

The EMA has lost several key staff and is finding it harder to attract recruits, while the number of applicants for its trainee programme has fallen to 700 this year from a usual level of around 2,000.

Central to keeping staff and minimising disruption will be picking a new location with good transport links and infrastructure. Rasi dismissed the need for a local science or pharmaceuticals industry base as "irrelevant".

MUTUAL RECOGNITION?

Brexit brings other challenges for Europe's regulatory process, since experts from Britain's domestic regulator, the Medicines and Healthcare products Regulatory Agency, take the lead in assessing around a fifth of all EMA drug applications.

Losing that input will mean redistributing the workload among the EU's remaining 27 member states, although Rasi said he was "less concerned" about this than the relocation issue.

In practice, Britain stands to be the biggest loser from the regulatory decoupling, since the rest of Europe contributes 80 percent of the workload.

In a bid to limit the fallout, a joint task force of drugmakers and UK officials favour some kind of partnership deal with the EMA after Brexit, potentially allowing for mutual recognition of medicine approvals, which could help both sides.

Rasi said such an arrangement was theoretically possible but it would be up to EU governments to decide whether to offer such a deal, once Britain leaves the bloc and quits the single market governing free movement of goods, capital, services and people.

"To find a way to converge technically will not be difficult," Rasi said. "Politically, it is beyond me."

British fintech sector has shrugged off Brexit dip, says regulator

By Huw Jones

Britain's financial technology sector has recovered from an initial dip after Britain's vote to leave the European Union, a senior UK regulator said on Monday.Fintech companies have revolutionised the financial sector with the likes of mobile payments services and were quickly targeted by centres such as Berlin and Luxembourg after last June's Brexit vote, playing on fears that UK businesses could be cut off from the EU single market when Britain leaves in 2019. "In the immediate aftermath of the EU referendum there was a concern that we would see the number of innovative firms wanting to operate in the UK fall," Chris Woolard, director of strategy and competition at the Financial Conduct Authority, told an Innovate Finance fintech conference.

There was a dip, Woolard said, adding that requests for regulatory advice and applications to use the FCA's so-called "sandbox", which allows new fintech ideas to be tested without a full authorisation process, have continued to come in since the Brexit vote. In the nine months before the referendum, the FCA received 264 requests for support in the form of regulatory advice, and has since increased to 321 requests, Woolard said. The watchdog received 77 applications for the second wave of businesses wanting to use the sandbox -- more than applied in the first round in 2015 -- and 31 will be accepted, nearly double the first set of trials. Despite the sector's apparent post-referendum resilience, Woolard said that global standards are needed to secure the long-term future of the fintech industry.

"As different jurisdictions begin to set up their own sandboxes, with different models and standards, some believe a Wild West version could emerge," Woolard said.

The FCA will seek to develop a global regulatory understanding for fintech through bodies such as the Financial Stabilty Board, which coordinates regulation for the Group of 20 Economies (G20), and the IOSCO global umbrella group of securities regulators.

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