Adsatis

Brexit - Current State of Play for Investment Banking

A. Current Overview

1. Background

- There has been a lot of speculation around the Brexit negotiation process and the resulting impact on London as a financial market centre but there is as yet no clear direction on either. Banks will need to carry on with 'business as usual' so will need to ensure that they are in a position to do this whatever the outcome of the negotiations. This means that they need to start taking steps now

- There is a lot of interest in the plans of individual banks and the comments of senior executives of leading banks have been followed with interest for the last few months, along with any official statements on location strategy

- The main objective of this paper is to set out the information that is known about the position of leading international banks on relocating London-based roles and operations into new, or existing hubs inside the EU. The information contained is based on various research we have undertaken on publicly available sources from 1 September 2016 to 30 May 2017, and on anecdotal observation

2. Current Position

- It is anticipated that banks will be relatively cautious initially, to avoid losing nervous London-based staff, until they work out how many jobs will have to eventually move. In practice this means they may end up enacting multi-stage contingency plans with initial operational changes starting in the coming months and continuing through 2018

- It is widely expected that there will be a minimum of a two year 'bridging' period after Brexit happens which means that the real impact will likely be in 2021, and beyond

- Banks no longer believe that 'Passporting' will continue to operate and are now hoping that there will be some form of regulatory 'Equivalence' whereby certain types of cross border business can continue to operate from London on the basis that UK rules and oversight of specific businesses are as stringent as those in the EU

- Even this may be optimistic given the recent hardening of positions on both sides- Bundesbank board member Andreas Dombret has recently stated that "It looks like either a hard Brexit or a very hard Brexit."

3. Key Considerations

There are many factors that banks will need to take into account in their decision making process. The key considerations are shown in the diagram below:

Organisational Structure
- How will access to EU markets impact the legal and organisational structure?
- Which will be the preferred EU locations, and which activities should be located there?
- Will Brexit have any impact on the product and services offering?

Operations and Costs
- If businesses need to be moved what operational challenges will be faced?
- How will a more fragmented market infrastructure impact the business?
- How will capital and resources allocations impact the cost base of banks?

Human Capital
- How will access to human capital impact growth plans and strategy?
- How will mid and senior management respond on the location strategy?
- What will be the relevant cost implications on the human capital allocation?

Clients and Sales
- How will clients respond to Brexit?
- What will the impact be on existing contracts and mandates?
- What is the existing exposure of the business to EU markets and how will Brexit impact this?

4. Overall Impact in London

- It is generally accepted that London will continue as the dominant financial centre in Europe post-Brexit, but that a number of businesses and functions will be relocated to other European centres

- The top U.S. investment banks are expected to keep about 90 percent of their EU-based employees in London

- This will constrain the further development of London as a financial centre and will boost the relative importance of New York

- Some countries (such as France, Ireland, Italy, Luxembourg and Poland) are actively pitching for firms to relocate, offering tax breaks and other incentives. Others (such as Germany, the Netherlands and Sweden) are taking a more passive approach to competition. Everyone agrees that some relocation of UK-based activity will be required

- Dublin and Frankfurt are emerging as the most likely choices with leading US banks choosing to increase the size of their operations in both these centres

- Functions could well be moved to other locations as well, with banks deploying client facing teams in other major European cities

- The UK will likely lose influence in financial policymaking. There is growing support in the rest of the EU to accelerate the integration of supervision, regulation and market infrastructure (Capital Markets Union – CMU) across the EU27 without the UK, and to establish a competing financial market place

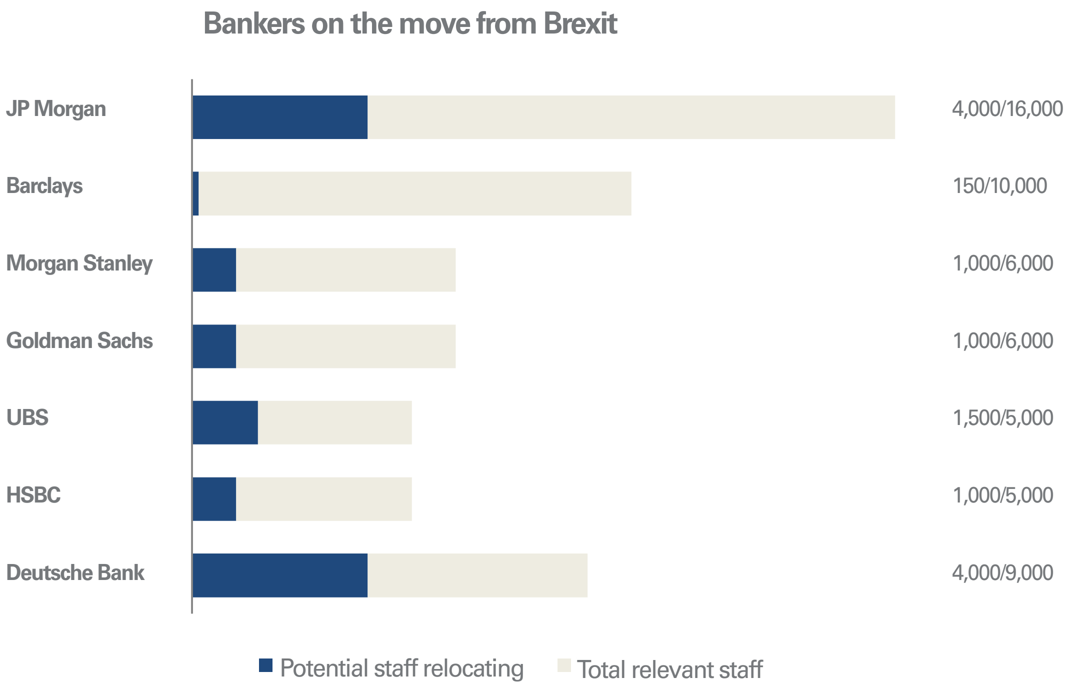
- Current estimates for possible finance-related job losses from Brexit range extremely widely from as few as 4,000 to 232,000, although it seems most likely that the number will end up more towards the lower end of these estimates

- Bruegel, (a Brussels based Think Tank) estimates that London could lose 10,000 banking jobs and 20,000 roles in financial services and that clients may move around €1.8 trillion (£1.56 trillion) of assets out of the UK, and theCityUK lobby group forecasts that up to 70,000 financial services jobs are at risk

- The chart below summarises the potential numbers to be relocated for a number of the leading banks based on public statements by bank officials

- Since the numbers presented are believed to represent the potential maximum number, we see that the actual numbers by banks will likely be lower than this

- Our own estimate is that 20,000 - 25,000 investment banks roles may be displaced from London



Source: Bloomberg

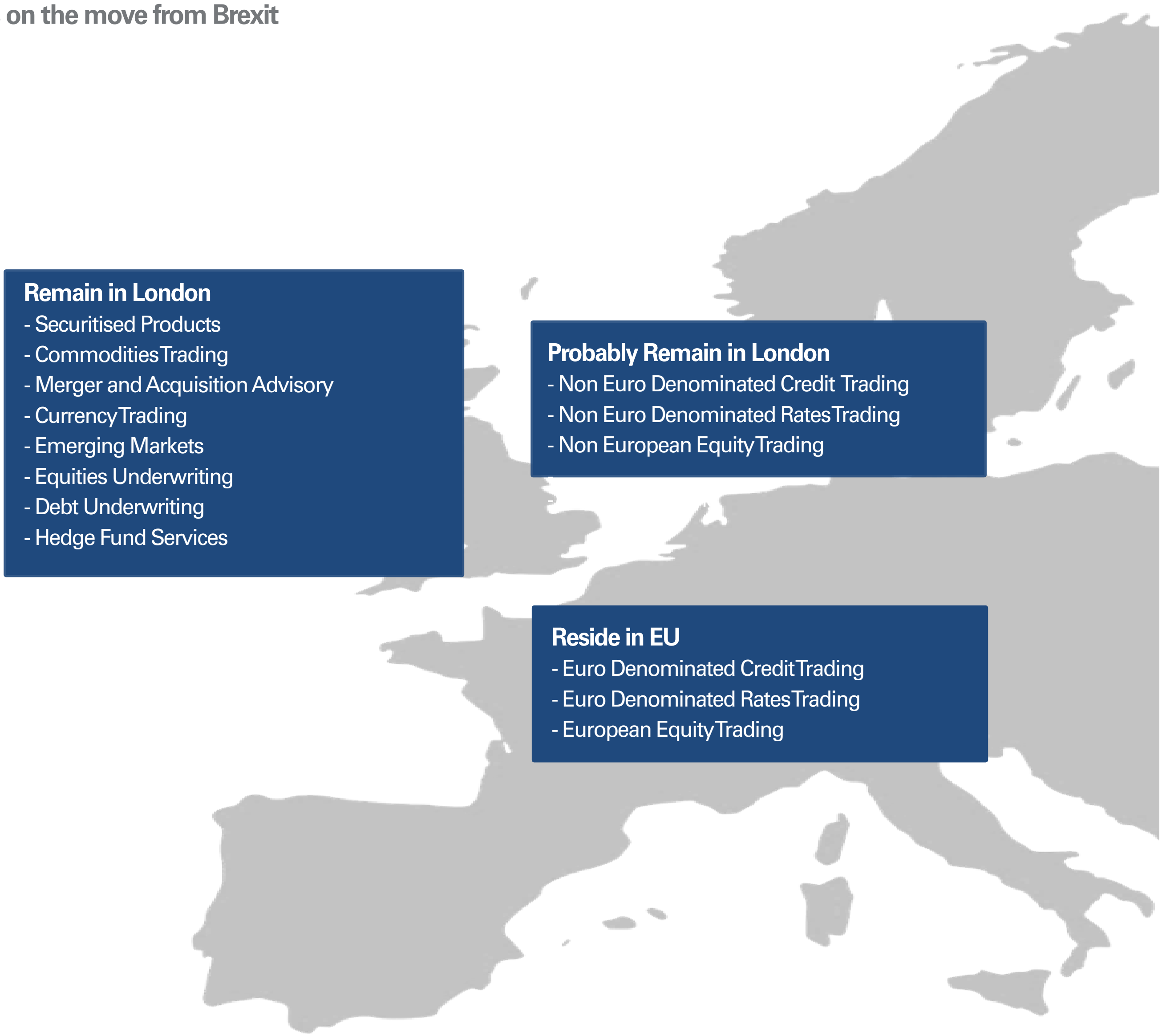
5. Location Strategy by Business

- Business with clients inside the EU will need to be conducted from entities located in the EU but this does not mean that trading and risk management will need to reside in these locations. Many banks already have sales teams in local centres but book business direct to UK based entities or into UK entities through back to back trades. This also happens for business conducted in other global centres

- It is expected that some banks will also look to relocate some businesses/product lines. We identify where different types of activity may be located. For some banks these activities already reside in EU locations

- The EU is widely known to be looking to reduce the dominance of London in EUR clearing (which currently represents approximately 70% of the total). Even though this would increase costs for European companies and fragment global markets it is quite possible that political pressure to do this will prevail. This won't directly affect banking jobs but will shift the centre of gravity for EUR business from London

Business on the move from Brexit



Source: Boston Consulting Group and Adsatis assessment

B. Current Known Brexit Intentions by Bank

Bank	Preferred EU hub(s)	Estimated number of staff moving	Quotes/Comments
Bank of America Merrill Lynch	Not clear - favoured locations are Dublin, Frankfurt, Madrid, Luxembourg, Amsterdam	Not known	- Already has a fully licensed operation in Dublin which is currently considered the default option - Expected to move some jobs to other cities across the EU, including Frankfurt, Madrid, Luxembourg and Amsterdam - Brian Moynihan (CEO) has said that 'you've got to get your legal entity structure correct so you can operate in two different environments: one inside the U.K. and one outside. We already have a lot of that structure set up. Then you have to start to think about where locations are. We are working on all kinds of possible scenarios and it is still unclear what we will do'
BARCLAYS	Dublin	150	- Dublin is considered the natural choice for Barclays where it already has a banking licence and 120 staff in corporate banking and wealth management - It also has a banking licence in France but the need for English-language schooling for the families of staff and France's restrictive labour laws are thought to make Paris less appealing - Jes Staley (CEO) has said that 'I don't believe that the financial centre of Europe will leave the city of London' - This strongly suggests that Barclays approach will be to minimise the amount of relocation
BNP PARIBAS	Paris	300	- Known to be looking to consolidate its existing multi-site operation in Dublin and potentially expand this further - The bank's chairman, Jean-Adrien Lemierre, said 'I don't see London remaining as it is; there will be change and it will be significant' - May move up to 300 London investment bank staff back to Paris or cut roles, depending on the bank's efforts to win new British business
citi	Dublin, Frankfurt	Not known	- Jim Cowles, EMEA Head, stated that London will remain both the EMEA HQ and an important global hub for Citi - The bank currently employs 9,000 people in the UK - In addition to London the bank also has a full banking licenses in Frankfurt and Dublin - It already has an 'on the ground' presence in 20 of the 27 EU states, and 58 per cent of its EU workforce is already outside of London - Citi set out 25 criteria to evaluate which is the best location for the new EU hub and is expected to select Frankfurt - It already has a corporate and investment bank in Frankfurt with 370 employees, and is known to have had discussions with BaFin about moving approximately 200 of its staff there including some of its London-based equity and interest-rate derivatives traders - It employs 2,500 people in Dublin, across corporate banking, retail banking, treasury, fund administration and trade solutions, and may add to this
CA CRÉDIT AGRICOLE	Paris	100	- Philippe Brassac, CEO said that 'If .... it's a hard Brexit, we will not be able to operate some of activities from London. In this case, we will probably repatriate about one hundred employees to France'

Bank	Preferred EU hub(s)	Estimated number of staff moving	Quotes/Comments
Credit Suisse	Dublin, plus potentially another location tbd	Not known	- The bank has operations in Frankfurt, Luxembourg and Milan, as well as branches in Lisbon, Paris and Dublin - The bank is known to be examining a number of alternatives to the UK. Since it already moved it's Prime Brokerage business to Dublin in 2015/16 this is currently thought to be the favoured option - CFO, David Mathers said that losing access to the EU 'would endanger 10 percent to 15 percent of income' at its two U.K. subsidiaries, which have a revenue base of $4bn to $5bn
Commerzbank	Frankfurt	0	- Frankfurt is already HQ, and the bank already moved FI and FX trading from London to Frankfurt in 2016 as part of strategic reshuffle - Also moved back office and IT roles to other lower cost locations ie. Poland - UK business is now positioned to serve UK customers and this focus will remain
Daiwa Capital Markets	Frankfurt	100	- Understood to be finalising plans for a new European base in Frankfurt, which would be launched with fewer than 100 employees and staffed by a mix of local hires and transfers from other locations including London and Japan
Deutsche Bank	Frankfurt	4,000	- John Cryan, CEO, said that 'We see our home city as on the ascent- Frankfurt will become more important' - Sylvie Matherat, Chief Regulatory Officer suggested that a large number of front office roles could be moved to Frankfurt to support doing business with EU clients, and that other functions eg risk management could also move. This could be up to 4,000 people in total - Anecdotal information obtained suggest this number is a high estimate - However it's also known that the bank has begun negotiations over a move to a new London headquarters in 2023, which underscores the bank's commitment to the UK despite Brexit uncertainties
Goldman Sachs	Frankfurt	1,000	- Known to be considering making Frankfurt its EU hub and could move as many as 1,000 employees there from London, including traders and senior managers - Currently employs around 200 people in Frankfurt but it has space to accommodate hundreds more if it needs to implement its hard Brexit contingency plan - Richard Gnodde, CEO (Goldman Sachs International) has said that the bank will also likely relocate some client-facing staff to various EU cities including Madrid, Milan and Paris, and that the bank will be taking extra space in these locations and increasing headcount in support functions and infrastructure in these locations
HSBC	Paris	1,000	- Stuart Gulliver, CEO, said that 'Activities specifically covered by EU legislation will move, and looking at our own numbers, that's about 20 percent of revenue' - The bank has already a subsidiary in Paris that holds most of the licenses needed by an investment bank - It has estimated that on a 'hard Brexit' scenario around 1,000 staff would move to Paris

Bank	Preferred EU hub(s)	Estimated number of staff moving	Quotes/Comments
J.P.Morgan	Dublin, Frankfurt and potentially Luxembourg	4,000	- Before the referendum, CEO Jamie Dimon said as many as 4,000 of its 16,000 U.K. employees could be moved to the continent as a result of Brexit - More recently he said that 'We've been planning for a range of outcomes because it's still uncertain' - Daniel Pinto, Head of Investment Banking has subsequently said 'We will have to move hundreds of people in the short term to be ready for day one, when negotiations finish, and then we will look at the longer-term numbers' - The bank has agreed to purchase a building in Dublin with room for 1,000 staff to give it flexibility to keep serving clients across the EU. The main focus in Dublin is on its Custodian and Transaction banking business - JPM is also known to be looking for increased office space in Frankfurt
LLOYDS BANK	Berlin	Not known	- The bank has no subsidiary in an EU country. However, it has a branch in Berlin which currently employs 300 people. It also has offices in Frankfurt and Amsterdam - It has stated that it plans to convert its Berlin branch into a subsidiary, making that its base inside the EU. A full management team will be put in place, including the finance, risk and human resources staff required of a full subsidiary. It is expected that a small number of people would move from London - The bank has yet to apply for an extension of its German banking licence
MIZUHO	Dublin, Amsterdam	Not known	- The bank is strengthening its operations in Amsterdam, where the bank holds banking licences that enables them to serve clients throughout the European Union - It changed the name to Mizuho Bank Europe on Jan. 1, reflecting its role as a subsidiary overseeing a number of countries in the region, including Belgium, Austria and Spain - It is also considering Dublin as an option for basing its brokerage business
Morgan Stanley	Dublin, Frankfurt	1,000	- Morgan Stanley President Colm Kelleher said that 'the bank would likely move its local headquarters to either Dublin or Frankfurt' - The bank is known to be is scouting for office space in both locations for their enlarged EU hub, and it is thought it will initially move about 300 people to one of the cities, with an end target of approximately 1,000 - The bank has also said that it may well allocate headcount away from Europe altogether, and back to New York
NOMURA	Frankfurt	Not known	- CFO, Takumi Kitamura, said that the brokerage 'is in the final stage of deciding on the location after the U.K. leaves the European Union', and that a selection will be made in early summer - The official position is that no decision has been made but Frankfurt is thought to be the frontrunner, and that the plan is to fully licence the existing branch they have there - The bank has around 3,000 staff across its Europe, Middle East and Africa operations - 2,500 based in London

Bank	Preferred EU hub(s)	Estimated number of staff moving	Quotes/Comments
RBS	Dublin	100	- The bank has a number of banking licenses in Europe which it has stated provide it with 'flexibility on how it might access the EU in different scenarios, depending on what Brexit looks like' - Howard Davies, the bank's Chairman has indicated that it would probably pick Dublin as its EU base
SOCIETE GENERALE	Paris	Not known	- The bank has stated that London will remain a major international financial centre, and the bank will continue its development in the UK - It will continue to operate from a dual hub in Paris and London
Standard Chartered	Frankfurt	Not known	- The bank has selected Frankfurt as its main EU base - Jose Vinals, the bank's Chairman has stated that is already in discussion with the German regulator BaFin about setting up a subsidiary in the city and getting a license to operate across the EU - This will only effect a small number of UK staff and will not have a material effect on its overall business as most of its business comes from Asia
UBS	Frankfurt, Madrid	1,500	- Sergio Ermotti, CEO, said that the bank would consider moving up to 1,500 jobs out of the UK. The bank currently has about 5,000 UK investment banking staff - It is known to be looking at Madrid and has discussed the possibility of moving 300 staff there - It has also recently set up a new subsidiary in Frankfurt for its European Wealth Management which could be expanded if required
WELLS FARGO	Frankfurt, Paris, Amsterdam	Not known	- Committed to purchase new London office in 2016 but has stated that it will need a hub in the EU - Frank Pizzo, Regional President for EMEA said that 'Nobody can afford to wait' and that the bank 'will take steps to ease the impact on its business from Brexit' - The bank employs 900 people in London

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