



IMPACT OF BREXIT ON THE EUROPEAN FINTECH LANDSCAPE

The UK as a major FinTech Hub and expected developments post-Brexit. EU initiatives on FinTech and opportunities for the EU-27

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Outline:

1. UK as the largest European FinTech hub
2. Brexit and its implications for FinTech
3. EU policy and regulatory initiatives on FinTech – opportunities for the EU-27

UK as a major FinTech Hub

- London – the largest financial hub in Europe and in the World (CFGFI Index 2017)
- EUR 200 billion – financial sector's contribution to the UK's GDP (2016)
- Financial services account for 11 % of the UK's total GDP
- 24 % market share of the total EU financial services market

- The Financial services leadership is extended into FinTech

UK as a major FinTech Hub (II)

- The UK Fintech sector generates approx. EUR 23 bn annually
- The UK – the leading European Fintech hub (by revenue and inbound investment)
- Decisive drivers:
 - High concentration of global financial institutions (banks, investment firms, insurers, asset managers)
 - Availability of capital
 - Developed financial services infrastructure
 - Talent pool
 - Regulatory approach

UK as a major FinTech Hub (III)


Innovative UK Regulatory approach to FinTech:

- A "Regulatory Sandbox" established by the UK's Financial Conduct authority
- Regulatory and supervisory experimentation with new business models
- New FinTech products and services are market-tested by companies in close cooperation with the supervisor, waving/relaxing certain regulatory rules
- The UK pioneered this approach, which was lately replicated in many other jurisdictions (Dubai, Australia, Malaysia, Hong Kong). In France – the AMF's "Regulatory Soundbox".

Impact of Brexit on the EU FinTech landscape

- **23 June 2016 – UK Referendum on EU Membership – majority of voters supported BREXIT**
- **BREXIT – an earthquake for the EU FinTech and the wider financial sector?**
- The BREXIT formal process in a nutshell:
 1. The **UK** formally notifies the European Council of its decision to withdraw from the Union (29 March 2017). ✓
 2. The European **Council** adopts guidelines for the negotiations between the UK and the remaining 27 MS. ✓
 3. The **Commission** submits recommendations on the opening of the negotiations to the Council. ✓
 4. The **Council** adopts a decision authorizing the opening of the negotiations. ✓
 5. The **Council** subsequently adopts negotiating directives on substance and on the detailed institutional arrangements. ✓

Impact of Brexit on the EU FinTech landscape (II)

6. The **Council** appoints the Commission as the Union negotiator. 
7. The **Negotiations** on a withdrawal agreement take place between the EU and the UK.
– WE ARE HERE –
8. The **European Parliament** consents to the withdrawal agreement by a majority of votes cast.
9. The **Council** concludes the withdrawal agreement on behalf of the EU by qualified majority voting (20 out of 27 MS & 65% of population of the remaining States).
10. Treaties cease to apply to the UK from the date of entry into force of the withdrawal agreement, or, if no agreement is reached, two years after the UK notification.

Impact of Brexit on the EU FinTech landscape (III)

State of play of the BREXIT negotiations:

- July-October 2017 – 5 rounds of negotiations
- 6th round of negotiations – 9-10 November 2017
- To date the progress is very limited (=negotiations are stuck!)
- The key blockig point: the Brexit Bill (EUR 60-100 bn); other outstanding issues: citizens rights (free movement), Irish border
- The UK pushes for negotiating the new relationship now / while the EU refuses to discuss the new relationship before the 'divorce' deal is agreed
- **March 2019 – the UK will leave the EU**
- **BUT: already March 2018 – the 'point of no return' in the negotiations**
- The worst case scenario – the UK leaves the EU without a deal on the 'divorce' and on the future relationship

Impact of Brexit on the EU FinTech landscape (IV)

BREXIT implications for FinTech:

- The key issue for FinTech (and for the wider financial sector) – access to the EU market (the EU Financial Services passport)
- Mutual recognition of regulation and standards (financial services, data protection, cybersecurity, etc)
- Access to EU funding programmes
- FinTech landscape will be also affected by the relocation of the 'mainstream' financial services companies'.
- Huge uncertainty for business

Impact of Brexit on the EU FinTech landscape (IV)

Will the UK lose its leading position in FinTech and financial services?

- Many major Financial services firms have already started relocating their European headquarters or parts of their operations from the UK to the EU – 27 (Morgan Stanley, Nomura, Goldman Sachs, HSBC, Bank of America, Lloyds of London, Barclays, Chubb)
- FinTech giant TransferWise announced its plans to relocate from the UK by March 2019
- Predictions: many more relocations expected; likely slow down in FinTech expansion
- CBI Study (Nov 2017): 60 % of firms will trigger their contingency plans by March 2018 if there are no transitional arrangements in place by then

- However, some reports predict that the UK will maintain its leadership in FinTech also post – Brexit:
- PWC report 2017: 9 of the top 20 UK FinTech deals were closed post Brexit

EU initiatives in the field of FinTech and opportunities for the EU-27

- FinTech – a policy and regulatory priority for the EU
- The EU institutions recognise FinTech's huge potential to boost the EU
- European Commission FinTech task Force created in November 2016 to develop a comprehensive EU strategy on FinTech
- The EU is currently working on a new EU regulatory and supervisory approach to FinTech
- Relevant recent initiatives:
 - Capital Markets Union Action Plan (2015) – conceived for the EU 2018 but being readjusted now
 - EU Commission consultation on FinTech (March-June 2017)
 - European Parliament resolution on FinTech (March 2017)
 - EBA consultation on FinTech (August-November 2017)
 - September 2017 – Proposal on review of the ESAs (EBA, EIOPA, ESMA) regulations – mandate for the ESAs in the area of FinTech; ESMA's role in coordinating an EU – Innovation Hub ("regulatory sandbox" approach)

EU Initiatives in the field of FinTech and opportunities for the EU-27 (II)

What is next for the EU-27 FinTech?

- Q1 2018 - the EU to announce its action plan for regulatory and policy proposals on FinTech (important to see whether FinTech will be regulated as a sui generis area or remain within the regulation of the mainstream FS activities)
- Likely support to towards the "Regulatory Sandbox" approach at the EU level, although some MS likely to resist
- Other EU Member States quickly catching up as FinTech hubs (Germany (Berlin), Sweden (Stockholm), France ((Paris)).
- In Nov 2017 Paris received the European Capital of Innovation Award from the EU Commission (More than 100 000 square meters of incubators, the world's largest start-up campus)
- Specificity of FinTech – online/virtual at its core – opportunities for all EU Member States to develop strong players
- The EU is committed to supporting the development of the FinTech sector in the EU-27
- Important for the FinTech industry to participate the policy-making process – EU and national level

EU Initiatives in the field of FinTech and opportunities for the EU-27 (III)

- Diversity of the European FinTech landscape:



(Source: letstalkpayments.com)

Questions and Answers

Questions ?

Contact details

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