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Tougher rules for finance firms

EU forces London-based banks to set up branches inside the bloc

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European Union governments agreed yesterday that foreign investment firms wanting to operate in the eurozone will have to set up branches inside the bloc, a move that will mostly hit those based in London.

At the same time, the governments risked infuriating the industry by agreeing that stricter liquidity and capital requirements would affect a larger number of firms than expected.

The new rules, if approved by the European parliament, mean that investment firms based in Britain after Brexit will need to open eurozone branches to continue offering a full range of services. More than half of the 6,000 European investment firms, including Goldman Sachs and JP Morgan, the big American banks, are based in Britain.

"The Council [of EU states] text further strengthens the equivalence regime that would apply to third-country investment firms," the document says, adding that more powers will be given to the European Commission to monitor foreign financial firms that operate in the eurozone.

Under the new draft rules, investment firms would also be monitored by the European Central Bank, as large banks are, and would need to distribute their assets both inside and outside the eurozone, which could increase costs.

With the terms of Britain's exit from the EU still in the balance, international financial firms have started setting up continental subsidiaries to ensure they can continue to serve clients after March. A Brexit tracker poll released yesterday shows Dublin is the most popular destination for firms setting up EU hubs after Brexit. Of the 222 companies tracked by EY, 30 per cent listed at least one destination in Europe that they had in mind. Dublin was cited by 27 companies, up from 21 last quarter, while Paris attracted another five firms, taking its total to 15. Two more companies confirmed plans to move or develop operations in both Frankfurt and Luxembourg, taking the totals to 15 and 17, respectively.

EY said that as many as 7,000 jobs could be relocated from Britain to the Continent in the near future and that 2,000 European roles had been or would be created by financial services firms in response to Brexit.

Royal London, the insurance firm, is the latest company to set up a subsidiary in Dublin to retain access to the single market.

Investment firms provide "bank-like" services, including proprietary trading or underwriting of financial instruments.

The EU states agreed to halve a threshold for the automatic application of the strictest capital and liquidity rules, which the commission initially had proposed would apply only to firms with assets above €30 billion. As a result, investment firms with assets of €15 billion or more would automatically be subject to the same requirements as large banks, while firms with assets of between €5 billion and €15 billion could face lighter requirements unless their activities are seen to pose risks to financial stability, an EU statement said. Other smaller firms would face a lighter prudential regime.

The agreement reached by diplomats of the 28 EU states needs approval from MEPs before becoming law. They have already given their backing to a legislative text that is very similar to the compromise reached by EU states.

The new rules would be applied only after a five-year transitional period, the EU statement said.

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