

VIDEO

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Focus on Funds: European Views of Regulation and Capital Markets, Post-Brexit

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Brexit—the United Kingdom’s exit from the European Union—could have significant implications for global funds, their investors, and the broader capital markets. In the April 13, 2017, edition of *Focus on Funds*, Centre for European Policy Studies Director Daniel Gros offers his perspective.

Transcript

Stephanie Ortvals-Tibbs, ICI director, media relations: What might be the shape of global financial regulation post-Brexit, and how might financial institutions seek value in the midst of a changing investment climate? These questions were on the table during a recent Chatham House panel discussion. Afterwards, I talked with one of the panelists about his answers.

Daniel Gros, director, Centre for European Policy Studies: Well, I noticed that many of the industry representatives thought that the easy way to fix the problems after Brexit is to establish a subsidiary in the EU, and then work from there. My feeling is that this is true under current rules and regulations, but I very much doubt that this can be a sustainable solution in the long run. So I still think that we do need a very good agreement on financial services between the UK and the EU. The industry might be able to work around it even if it does not exist for some time, but not for very long. So, that optimism might be a bit misplaced.

Ortvals-Tibbs: So as fund managers think longer-term, how would you encourage them to think about the financial regulatory environment post-Brexit, some years from now?

Gros: In the longer term, I think you have to ultimately go where the investors are, and where the capital is coming from. There’s this illusion perhaps in some parts of the UK, and London in particular, that this city is providing capital. But that’s actually not the case, because it’s the eurozone, the continent, which has a huge surplus in current account, meaning that it is proving a lot of capital to the rest of the world.

People are looking for overseas investment opportunities. They are bringing the capital, and the function of London is basically just to say, “Okay, we’ll take your capital”—to the Germans, the Dutch, or the French—and then invest it somewhere else.” That’s a service which London might be well placed to do, but London itself doesn’t have the capital. And from what we know, from the history of the big financial centers, in history—which was related briefly this morning also—it’s very difficult to maintain a very large global financial center if you don’t have your own strong domestic base. And that the UK doesn’t have, because savings in the UK are pretty low. And therefore, at most, the city can perform an offshore function—which is good and nice to have, but that’s different from being a global financial center.

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