

Global Risk Regulator

A SERVICE FROM THE BANKER

UK retains strong attractions for financial firms post-Brexit

[Rosalyn Breedy](#) | October 2, 2019

- [Twitter](#)
- [Facebook](#)
- [LinkedIn](#)
- [Mail](#)
[Print](#)

The never-ending Brexit saga has cast a dark cloud over the UK, but there are still good reasons for international financial firms to locate there, not least because of its first class legal and regulatory system. By Rosalyn Breedy at Wedlake Bell.

French fashion firm, Chanel, explaining why it chose London for its global head office told BBC Radio 4's Today programme that it "wanted to simplify the structure of the business and London is the most appropriate place to do that for an international company. London is the most central location for our markets, uses the English language and has strong corporate governance standards with its regulatory and legal requirements".

Meanwhile, in the financial sector, the hedge fund Caxton announced that it has shifted its headquarters from New York to London where it has recently been increasing its headcount.

While the media has rightly reported the loss of jobs and difficulties the City of London may face managing the transition post-Brexit, it is important to remember that the City hosts 37% of the world's currency dealing and 18% of cross-border lending and is a hub for derivatives, asset management, insurance and investment banks.

The UK has the second largest pension industry in the world with more than £3tn (\$3.7tn) in investments and UK financial services continues to innovate, with, for example, UK fintech revenue in 2016 at £7bn.

London also provides financial services business with access to a deep pool of talent and investors from 183 countries. The courts are regarded as independent, incorruptible and fair with a long history of jurisprudence which provides reliability as to litigation outcomes.

While there has been discussion that a weak pound provides an incentive to international firms to relocate to the UK, the principal reason they should come, in my view, is to take advantage of the balance and flexibility of the UK legal and regulatory regime combined with the skill, experience and approach of the UK financial services regulatory and legislative authorities.

Counterintuitively, it is the proposition of this article that it is better for firms to operate under a clearly understood regime which adapts to the needs of consumers and is in step with other national financial regulators.

The UK's Financial Conduct Authority (FCA) has a long tradition of taking a world leadership role in financial services by participating in global standard setters such as the International Organisation of Securities Commissions, Financial Stability Board, the Financial Action Task force, and workstreams for Organisation for Economic Co-operation and Development.

Post-Brexit collaborations

So, while the FCA may lose its formal role as the UK representative of the European Securities and Markets Authority, it is difficult to see how the UK and EU will not continue to collaborate with regard to systemic resilience and investor protection issues, because both the UK and the EU participate in global financial regulatory co-operation bodies.

Furthermore, it is not just the case that the UK is in step with the rest of the world with regard to financial services regulation. The UK often addresses issues affecting the industry earlier.

For example, recently there has been a comparison between the costs, charges and fees disclosure regime imposed by the Markets in Financial Instruments Directive (MiFID II) and the US SEC Regulation B1 and Form CRS.

MIFID II requires investment firms and advisers to disclose to retail investors among other things all costs and charges related to the financial instrument and ancillary charges, including the cost of advice, and where relevant the cost of the financial instrument recommended or marketed to the client, including any third party payments. Third party payments received by the investment firm in connection with the investment service provided to the client must be itemised separately and the aggregated costs and charges totalled and expressed both as a cash amount and a percentage. Clients must also be provided with an illustration showing the effect of the overall costs and charges on investment.

The Form CRS, however, only requires firms to disclose what kinds of fees will be paid, not how the amount of fees or how they will be paid.

MIFID II is clearly a step ahead of the US.

It is important to remember that it was the FCA with its Retail Distribution Review on December 31, 2012, which first seriously examined the sale of investment products to retail consumers. The review introduced new rules which raised the minimum level of adviser qualifications, changed the way charges and services were disclosed to consumers and banned the use of commissions to pay for financial advice.

The FCA continues to consider investor protection and published its approach to consumers in July 2018. The FCA secured input from consumer bodies as well as the industry and has developed an approach which sets out its vision for well-functioning markets for consumers.

It also recently launched, on July 23, 2019, a consultation on proposed guidance for the treatment of vulnerable customers.

The guidance is intended to set out the FCA's view of what it requires of firms to ensure that vulnerable consumers are consistently treated fairly across financial sectors.

The FCA wants to see a culture of doing the right thing for vulnerable consumers deeply embedded in firms, who will need to think about what the guidance means for their business and customers, and how they are understanding and addressing the needs of vulnerable customers.

The FCA has also engaged with innovations in finance such as crowd-funding and peer-to-peer lending, and more recently in January this year published its policy statement on crypto-assets, setting out details on where different types of crypto-assets might fall in the regulatory perimeter.

Notwithstanding Brexit, London is indeed and will remain a destination of choice for financial firms looking to grow and innovate for the future.