PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

POLICY BRIEF

17-8 Making the Best of Brexit for the EU-27 Financial System

André Sapir, Dirk Schoenmaker, and Nicolas Véron
February 2017

André Sapir *is senior fellow at Bruegel and a University Professor at Université Libre de Bruxelles (Belgium).* **Dirk Schoenmaker** *is senior fellow at Bruegel and a Professor of Banking and Finance at the Rotterdam School of Management, Erasmus University Rotterdam.* **Nicolas Véron** *is visiting fellow at the Peterson Institute for International Economics and a senior fellow at Bruegel.*

Authors' Note: We thank our colleagues at both Bruegel and the Peterson Institute for feedback on this Policy Brief and Bruegel's Uuree Batsaikhan and Robert Kalcik for outstanding research assistance.

London is the financial hub of the European Union, providing corporate and investment banking services to the Union's 28 member states and well beyond. Following the June 23, 2016 referendum vote, the British government clarified that the United Kingdom would leave not only the European Union but also its Single Market by the spring of 2019. As a consequence, UK-based financial firms are expected to lose their regulatory passport to do direct business with their clients in the EU-27 (European Union minus the United Kingdom[1]), and Britain's exit (Brexit) will lead to a partial migration of financial services activities from London to locations in the EU-27 to continue serving their customers there.[2] In addition, other London-based activities might be relocated to non-European jurisdictions, primarily the United States. While much attention and debate is understandably being devoted to the implications of Brexit for the United Kingdom and the City of London, this Policy Brief focuses on what it means for the other side—the EU-27.

Section 1 discusses the orders of magnitude of the shift of activity from the United Kingdom to the EU-27 with a focus on wholesale banking, a crucial market segment. The estimates presented in this Policy Brief are for illustration and debate and not intended as forecasts.

Section 2 analyzes the possibility of market fragmentation, if the EU-27 receives the incoming UK business as 27 separate jurisdictions as opposed to one single financial space. Fragmentation of trading activity might increase costs and decrease access to capital for companies. This medium-term risk comes on top of the short-term risk of an abrupt departure, which would disrupt financial markets and the financing of the European economy. A related risk is that of a regulatory race to the bottom among the 27 member states, leading to misconduct, loss of market integrity, and possibly financial instability.

But Brexit also involves opportunities for the EU-27. It may generate momentum toward building more integrated and vibrant capital markets that would better serve all its member states' economies, improve risk sharing to withstand local shocks, and make the Union an attractive place to do global financial business. These improvements would speed up the rebalancing of the EU-27 from a primarily bank-based to a relatively more market-based financial system, an objective inherent in the European Union's Capital Markets Union policy launched in 2014.[3]

1. The Single Market also includes non-EU countries of the European Economic Area. In this Policy Brief, we use "EU-27" as shorthand for all Single Market countries.

2. See Djankov (2017 forthcoming) on how the City of London became Europe's dominant financial hub; Véron (2016a) and Schoenmaker (2017 forthcoming) on the likelihood of hard Brexit and loss of passporting rights; and Martin Wolf, "Business should assume a hard Brexit," *Financial Times*, January 13, 2017.

3. See Langfield and Pagano (2016) for the case for a Capital Markets Union, and Véron and Wolff (2016) for a desirable policy agenda. The European Commission has announced that it will publish a mid-term review of Capital Markets Union in June 2017. This Policy Brief is intended as a contribution to that review.

Table 1 Overview of UK banking assets, end 2014

Bank type	Total UK banking assets (retail and wholesale)		Wholesale banking in London		Wholesale banking for EU-27 clients		
	Assets (billions of euros)	**Percent of total UK banks**	**Assets** (billions of euros)	**Percent of total UK assets in category**	**Assets** (billions of euros)	**Percent of total London wholesale assets in category**	**Percent of total UK assets in category**
Major UK international banks	4,583	45	1,375	30	275	20	6
Major UK domestic banks	1,489	15	0	0	0	0	0
Other UK banks	321	3	0	0	0	0	0
Investment banks from rest of world	2,221	22	2,221	100	777	35	35
Other banks from rest of world	591	6	591	100	207	35	35
Branches of EU-27 banks	1,018	10	1,018	100	509	50	50
Total UK banking system	**10,223**	**100**	**5,205**	**51**	**1,768**	**34**	**17**

Source: Authors' calculations. Data on total assets based on Burrows, Cumming, and Low (2015) and data on branches of EU-27 banks on ECB (2015). Authors' estimates for wholesale banking (issuing and trading securities, foreign exchange trading, and derivatives) in London and for wholesale banking for EU-27 clients. The final columns (wholesale banking for EU-27 clients) are estimates for the business moving to EU-27 after Brexit.

Section 3 reviews three key areas relevant for policy to address these risks and opportunities. The first is directly linked to the finding that intra-EU-27 financial market fragmentation is likely to increase borrowing costs. To avert such fragmentation and related costs, a single set of rules (or single rulebook) is necessary but not sufficient. Consistent supervision and enforcement are also needed and would be best achieved by reforming the European Securities and Markets Authority (ESMA) to play an enhanced role as a single European capital markets supervisor. ESMA should operate in a hub-and-spokes model with national capital market authorities, similar to EU competition policy enforcement and euro area banking supervision.

Second, the euro area's unfinished banking union should be further strengthened to generate the desired incentives for banks and national authorities. We recommend that further risk sharing should go hand in hand with additional harmonization initiatives and limiting banks' holdings of individual countries' sovereign bonds.

Third, the future European capital markets framework should adequately take into account cross-jurisdictional interdependencies inside the EU-27—especially since not all member states are part of the banking union, let alone the euro area—and in relation to third countries, including not only the United Kingdom but also the United States and other jurisdictions like Switzerland. The next few years may also call for renewed emphasis on the European Union's strategic interest in joint global initiatives in financial regulation, given that the United States under the Trump administration is likely to adopt a less multilateralist approach.

If the EU-27 initiates such consistent financial regulatory policies, then competition among member states and financial centers to attract financial activity and jobs could be in the common European public interest. In this context, individual EU-27 countries should improve the quality of the infrastructure, the skills base, English language proficiency, and tax and labor laws within the limits set by the EU framework (e.g., state aid control and fundamental rights) to foster efficient and vibrant markets. This Policy Brief, however, does not discuss such national reforms, focusing instead on policymaking at the EU-27 level.

1. WHOLESALE BANKING ON THE MOVE

To assess the extent to which wholesale banking could shift to the EU-27, we estimate the current size in London of this market segment, which comprises issuing and trading of debt and equity securities, foreign exchange trading, and derivatives. Total (retail and wholesale) UK banking assets amounted to €10.2 trillion at the end of 2014 (table 1). Our ballpark estimate is that half of this total is related to wholesale banking in London.[4]

To offer financial market products to EU-27 clients, banks need a passport under the Markets in Financial Instruments Directive (MiFID) of 2004. Based on discussions with market participants throughout Europe, we estimate that about 35 percent of London wholesale banking is related to EU-27-based clients, ranging from about a fifth for UK-headquartered banks to a third for US-headquartered banks and half for EU-27-headquartered banks. Thus, about

4. See Batsaikhan, Kalcik, and Schoenmaker (2017) for a more detailed assessment.

Table 2 European operations of top five US investment banks

A. Estimated revenue, by country, end 2014

Country	Revenue in millions of euros	Percent share of total revenue
United Kingdom	22,744	92
Share of UK revenue potentially relocating post-Brexit	*7,960*	*35*
Germany	513	2
France	361	1
Italy	193	1
Ireland	201	1
Luxembourg	276	1
Other EU	438	2
Total	24,726	100

B. Estimated number of employees, by country, end 2014

Country	Number of employees	Percent share of total employees
United Kingdom	26,629	89
Share of UK positions potentially relocating post-Brexit	*3,329*	*10–15*
Germany	794	3
France	293	1
Italy	326	1
Ireland	1,011	3
Luxembourg	491	2
Other EU	365	1
Total	29,909	100

Note: The data refer to European operations of Bank of America, Merrill Lynch, Citibank, Goldman Sachs, JPMorgan Chase, and Morgan Stanley. Goodhart and Schoenmaker (2016) provide a breakdown for each bank.

Source: Goodhart and Schoenmaker (2016, annex tables 2 and 3).

€1.8 trillion (or 17 percent) of all UK banking assets might be on the move as a direct consequence of Brexit (table 1).[5]

Goodhart and Schoenmaker (2016) provide detailed data on the European operations of the top five US investment banks (Bank of America, Merrill Lynch, Citibank, Goldman Sachs, JPMorgan Chase, and Morgan Stanley), which together account for about a third of London wholesale banking. Panel A of table 2 shows estimated revenue earned by these banks in the European Union. We estimate that 35 percent of the corresponding sales of these banks (about €8 billion) in the United Kingdom might move to the EU-27.

The number of jobs that would move with this volume of business depends on business considerations of the investment banks and on the "substance requirement" of the EU supervisors. This requirement enables supervisors to demand sufficient "substance" in the form of management, staff, and internal control systems as part of the licensing procedure. At a minimum, the new EU-27-based entities would need to have autonomous boards, full senior management teams, senior account managers, and traders, although much of the back-office might stay in London or elsewhere in the world.[6] Panel B in table 2 shows estimated number of employees in the top five US investment banks in the European Union. We estimate that 10 to 15 percent of these jobs might move

5. Djankov (2017 forthcoming) presents an alternative assessment and reviews several other recent studies.

6. Principle 5 of the Basel Core Principles of Effective Supervision (BCBS 2012) states that "The licensing authority determines that the proposed legal, managerial, operational and ownership structures of the bank and its wider group will not hinder effective supervision on both a solo and a consolidated basis."

from the United Kingdom, which amounts to about 3,300 jobs for the top five US investment banks. As US investment banks account for a third of London wholesale activity that might move, our estimate for the entire wholesale banking segment is about 10,000 banking positions moving from London to the EU-27. Batsaikhan, Kalcik, and Schoenmaker (2017) estimate that another 18,000 to 20,000 positions related to professional services (e.g., consultancy, legal, and accounting) might also be on the move.[7]

2. INTEGRATION VERSUS FRAGMENTATION IN THE EU-27

Where in the EU-27 would the London business move? Would the wholesale banking market be integrated or fragmented along national lines? This section presents a tentative analysis of the benefits and drawbacks of integration. Fragmentation would increase borrowing costs, compared with an integrated market for the EU-27. By using different trading venues and central counterparties, banks would forgo synergies from cross-margining across products and would need to expand their staff and systems to comply with differing local requirements. Even assuming that banks could continue to participate in the London market for their own risk management purposes (e.g., derivatives or offsetting foreign exchange transactions), they would need to relocate the wholesale trading of securities, foreign exchange trading, and derivatives for EU-27 clients to the national markets of the EU-27 because of the requirement of a MiFID passport. This would increase the cost of capital for households (mortgages and consumer credit) and corporations (bank loans and corporate bonds). We conservatively estimate the higher cost of capital to be in the range of 5 to 10 basis points, an extra annual cost of €6 billion to €12 billion for households and corporations (or 0.05 to 0.10 percent of EU-27 GDP).[8] This cost of a fragmented EU-27 compared with an integrated EU-27 would be additional to the (possibly greater) cost resulting from the partial loss of access to the efficient London financial market, which we take as given and do not attempt to estimate here.

As for the drawbacks of integration, concentration of financial activities can have a negative impact on other industries. The financial sector might attract too many graduates from a country's talent pool and overvalue the real exchange rate, and it can also become too big for the country (as London arguably has become for the United Kingdom). But trading parties do not need to be in the same physical location to enjoy the benefits of integration.[9] As long as consistent rules and enforcement guarantee equal conditions, traders can operate from different places, with trading venues linked electronically to facilitate optimal execution. But common rules across member states are not enough. The framework must ensure that administrative decisions (which we refer to here as "enforcement" but also include various regimes of authorization, registration, and supervision) are also consistent.[10]

To illustrate these points, we present two scenarios for the EU-27 financial system, acknowledging that they are inevitably arbitrary. In both scenarios, the United Kingdom's share of the European wholesale market drops from 90 to 60 percent because of Brexit. The starting point is that financial firms with a MiFID passport can serve EU-27 clients from anywhere in the EU-27, just as they currently do from London. We expand on the Batsaikhan, Kalcik, and Schoenmaker (2017) study of London and four major cities (Frankfurt, Paris, Dublin, and Amsterdam) that together might ultimately host most of the new EU-27 wholesale market.[11] Scenario A assumes fragmented markets in the EU-27, with financial rules subject to national variations and national supervision. Paradoxically, fragmentation of markets leads to a concentration of the financial industry. Banks have an incentive to move to the same place in order to minimize the cost of fragmentation. Frankfurt already hosts the largest share of the European operations of US investment banks outside London (see table 2) and is home to the European Central Bank (ECB), which is also the euro area's banking

Fragmentation of the EU-27 wholesale banking market along national lines would increase borrowing costs for households and corporations.

7. We do not discuss how many relocated positions might be filled by the same employees who held them in London.

8. Our calculations are based on €6.1 trillion of household loans and €5.0 trillion of corporate loans from EU-27 monetary financial institutions and €1.2 trillion of corporate bonds (ECB Monetary Statistics, December 2016).

9. See, for example, Degryse, de Jong, and van Kervel (2015).

10. Nicolas Véron, "Europe's Capital Markets Union and the new single market challenge," RealTime Economic Issues Watch blog, Peterson Institute for International Economics, September 30, 2015.

11. Other financial centers, presumably including Brussels, Copenhagen, Luxembourg, Madrid, Milan, Stockholm, Vienna, and Warsaw, will also play a part in the system. The figures presented here should be viewed as simplistic projections for illustrative purposes, not forecasts.

Table 3 Scenarios for migration of wholesale markets (percent of market)

		Scenario A: Fragmentation		Scenario B: Integration	
Country	**Current share of total European wholesale market**	**Total European wholesale market**	**EU-27 wholesale market**	**Total European wholesale market**	**EU-27 wholesale market**
United Kingdom	90	60	n.a.	60	n.a.
Germany	2	18	45	14	35
France	1	8	20	8	20
Ireland	2	6	15	7	18
Netherlands	1	4	10	5	12
Luxembourg	1	1	3	2	4
Italy	1	1	3	2	4
Spain	1	1	3	2	4
Other EU	1	0	1	1	3
Total	100	100	100	100	100

n.a. = not applicable

Sources: Authors' calculations for market shares in Scenarios A and B. Current market shares based on Goodhart and Schoenmaker (2016, annex table 2). In both scenarios A and B 35 percent of the UK market moves to EU-27, so that 60 percent of the current European wholesale market stays in London. Scenario A assumes fragmented markets in the EU-27, leading to concentration. Scenario B assumes an integrated market forthe EU-27, allowing a geographically spread industry.

supervisor.[12] For this and other reasons, we assume that Frankfurt becomes the most prominent center with 45 percent of the EU-27 wholesale market. Paris, which is home to the European Securities and Markets Authority (ESMA) and several large banks, covers 20 percent. The runners up, Dublin and Amsterdam, cover 15 and 10 percent, respectively, and all other centers together account for an aggregate 10 percent (see table 3).

By contrast, under scenario B, which assumes EU-27 financial integration, there is less need for all activities to move to one location, which reduces the pressure (and price) of having all facilities (infrastructure, offices with trading floors, prime residential housing) in one city. In this scenario, with a more geographically spread industry, 35 percent of EU-27 wholesale finance might be in Frankfurt, 12 to 20 percent each in Amsterdam, Dublin, and Paris, and an aggregate 15 percent in all other centers.

Regardless of whether the EU-27 financial system post-Brexit is hosted mainly in one location or dispersed across several locations, these locations are likely to be inside rather than outside the euro area for two reasons. First, the largest financial centers within the European Union are located in the euro area. Second, the ECB, as supplier of liquidity and banking supervision, is unrivalled in the EU-27. This euro area advantage is more pronounced for some market segments than others, however, and countries outside the euro area might level the playing field by joining the banking union under the so-called Close Cooperation procedure.[13]

The fact that several countries and financial centers are vying for business from London suggests that they are hoping to reap benefits from having larger financial sectors, not least in the form of additional tax revenue. At the same time, countries with larger financial sectors face higher potential costs associated with potential public expenditure in case of financial turmoil. These potential costs would be shared by all euro area countries in a full banking union but not necessarily in an incomplete banking union as is currently the case. It will be a challenge to balance benefits and potential costs across euro area countries.

3. RECOMMENDATIONS FOR EU-27 POLICY

EU-27 leaders need to set clear objectives for reshaping the post-Brexit financial system. Different countries and cities will naturally compete for business moving out of London. We strongly recommend that leaders unambiguously state that competition should not be on the basis of financial

12. Some investment banking operations may be currently beyond the ECB's scope of supervisory authority, but we expect financial firms to anticipate that the ECB's oversight will likely be expanded to cover such market segments.

13. This procedure allows EU member states that have not adopted the euro as their currency to participate in the banking union alongside euro area members. So far, no member state has opted for close cooperation.

regulation and supervision.[14] Such a statement should be rapidly backed up by concrete decisions, even though implementation will inevitably take time. A topical example is the substance requirement: EU-level arrangements should prevent national authorities from imposing only insubstantial requirements in order to attract business.

A Greater Role for the European Securities and Markets Authority

As we have noted, consistent oversight of wholesale markets and enforcement of relevant regulations are critical to achieving cross-border integration. They require integration of the institutional architecture, for which the tried-and-tested model in the European Union is a hub-and-spokes design, long used for competition policy and, more recently, for banking supervision. The straightforward way to implement such integration, without changing EU treaties, is to reinforce ESMA, created in 2011, which already has a direct EU-wide supervisory role, though only for limited market segments, including credit rating agencies and trade repositories.[15] It is notable that the call for a single supervisor for EU capital markets has been made not only by EU authorities, most prominently in the Five Presidents' Report of June 2015 (Juncker et al. 2015), but also by some individual member states (e.g., German Council of Economic Experts 2016).

The straightforward way to implement such integration, without changing EU treaties, is to reinforce the European Securities and Markets Authority....

Broadening the scope of ESMA's authority requires reforming its governance and funding, which currently limit its independence and capacity. Such reform should not disrupt ESMA's operations in the meantime but should align it with better-designed institutions, such as the ECB's Supervisory Board and the Brussels-based Single Resolution Board. ESMA should be managed by an executive board of five or six full-time members vetted by the European Parliament, in place of the current supervisory board of national representatives (in which the chair cannot even cast a vote). Such a change would help overcome distortions arising from influential national interests and prevent regulatory capture. In line with international practice, funding of the reinforced ESMA should rely on a small levy on capital markets activity under the scrutiny of the European Parliament, instead of the current political bargaining through the general EU budget.

The reformed ESMA should primarily focus on market segments where EU activity is currently most concentrated in London, such as the wholesale banking aspects of MiFID/MiFIR (Markets in Financial Instruments Regulation), including oversight of trading platforms, benchmarks, and all regulatory provisions applying to international financial infrastructures and derivatives (e.g., the European Markets Infrastructure Regulation, or EMIR). For other aspects, such as authorizations of initial public offerings and fund management registrations, ESMA's policy-setting role should be strengthened, but national authorities could retain responsibility for individual decisions for the foreseeable future.

Another area that requires further convergence within the European Union is accounting and auditing. ESMA should be the central authority for the enforcement of International Financial Reporting Standards, even though accounting experts in national authorities would continue working on individual cases. An EU-level supervisory framework should simultaneously be created for audit networks (see also Véron and Wolff 2016).[16]

Strengthening the Banking Union

Thanks to the wide-ranging reforms agreed to in 2012–14 and already implemented, the prudential supervision of banks is now significantly more integrated than other areas of financial regulation in the euro area, and European banking supervision is now working broadly as intended.[17] International investment banks operating in London that want to set up a new entity or build up an existing entity in the euro area are already in talks with supervisors to ensure that they meet the substance requirement discussed in section 1. The ECB will have to quickly learn and adapt, but

14. The governor of the Central Bank of Ireland, Philip Lane, made a similar point in a speech last year (see "The European Financial System after Brexit," speech at Reuters Newsmaker Event, October 28, 2016).

15. One of us (Nicolas Véron) is an independent board member in a trade repository supervised by ESMA; see https://piie.com/experts/senior-research-staff/nicolas-veron for details.

16. We don't discuss the separate issue of the European Banking Authority, currently based in London. We recommend that its future location be decided as soon as possible, in order to minimize operational disruption and loss of staff morale, and that its possible broader reform (in the wake of banking union) be deferred.

17. Schoenmaker and Véron (2016) found that as of mid-2016, European supervision of significant banks was generally "tough and fair," based on euro-area-wide observations and nine country-specific studies. Developments since then, especially in Portugal and Italy, have reinforced the assessment of effectiveness of the new supervisory mechanism.

there is no reason to doubt its ability to manage the authorization and oversight processes.

The banking union, however, remains incomplete, and it needs to be further developed to buttress the reshaping of the EU-27's financial system post-Brexit. Strengthening banking union should include more explicit euro area–wide risk-sharing arrangements, which could encompass the creation of a European Deposit Insurance Scheme (broadly along the lines proposed in November 2015 by the European Commission), a mandate for the European Stability Mechanism (ESM) to act as a backstop to the existing Single Resolution Fund and the future European Deposit Insurance Fund, and the possibility of using the ESM's direct recapitalization instrument for precautionary recapitalization purposes. Simultaneously, a properly calibrated framework is needed for binding limits on sovereign exposures of euro area banks, in order to reduce their current high home bias (Véron, 2016b). Further legislative harmonization is also needed, in order to come closer to the vision of a single rulebook for banking supervision and the insolvency regime that applies to euro area banks.

Completing the banking union would also better enable European banking groups to challenge the current dominant positions of leading US investment banks.

Completing the banking union would also better enable European banking groups to challenge the current dominant positions of leading US investment banks. The home base of European banking groups is still largely framed on the national rather than European scale,[18] perpetuating significant distortions among euro area countries (Schoenmaker 2016).

Strengthening the banking union should imply that euro area countries better share not only the risks but also the benefits from an expanded euro area financial sector post-Brexit. Unless benefits are shared, countries will be unwilling to share the risks, leaving the expanded euro area financial sector more vulnerable to financial instability.

Improving Oversight of Financial System Infrastructure

As a result of Brexit, some key components of the EU-27's financial system infrastructure will be outside its territorial scope. This challenge should force a broad rethink of the way the EU-27 manages its regulatory relationships with third countries, which is currently based largely on the principle of recognition of equivalence. This principle creates too much reliance on third-country authorities for critical infrastructure, such as clearinghouses (also called "central counterparties" in Europe), which are financial firms whose role in the financial system has been much enhanced by recent reforms of derivatives markets, in particular by the requirement that many over-the-counter derivatives transactions be centrally cleared by clearinghouses. Currently, EU-based clearinghouses are supervised by authorities in their home country;[19] clearinghouses elsewhere are supervised by their home authorities on the basis of recognition by the European Commission of the equivalence of their country's supervisory regime to the one defined by EU law. By contrast, foreign clearinghouses that operate in the United States are supervised not only by their home authorities but also by the US authorities, including for their home-country operations (e.g., operations in London by UK-based international clearinghouses), under a robust surveillance framework that includes on-site (i.e., extraterritorial) inspections and data access.

To ensure supervision and risk exposure are properly aligned, European authorities should supervise euro area–based clearinghouses under a framework akin to that in place for banking supervision. A US-style third-country regime should be established by which these European authorities acquire extraterritorial supervisory capacity over non-EU-based (e.g., UK and US) clearinghouses that have systemic relevance for the EU-27. Such arrangements would be in the interest of both the United Kingdom and the EU-27, because they would avert the alternative option of a costly and economically suboptimal "location policy" that would restrict contingent ECB liquidity to clearinghouses based in the euro area.

Outlook and Sequencing

The recommendations outlined in this section entail a bulky legislative agenda for the European Union that presumably cannot be fully implemented in time for Brexit in early 2019. We recommend front-loading the governance and funding reform of ESMA to position it as a genuine hub of securities and markets authority for the EU-27 wholesale markets, complemented by its empowerment to enforce accounting based on International Financial Reporting Standards by EU-listed companies. This can be initiated in the course of 2017, in parallel to and independently of the bilateral negotiation with the United Kingdom on Brexit.[20] A policy

18. See Goodhart and Schoenmaker (2016) on the rising share of US investment banks in the European investment banking market.

19. Recent legislative proposals from the European Commission extend this country-level framework to the resolution of clearinghouses.

20. The corresponding Internal Market legislation would need

package on banking union should also be envisaged in the near future, including the endorsement of the European Deposit Insurance Scheme, sovereign exposure limits, and further efforts at harmonization of prudential rules and bank insolvency law.

If the key political decisions on these proposals are made and announced in 2017 or early 2018, it will provide sufficient clarity to public authorities and private-sector participants about the future EU-27 financial services policy framework to make the best of the Brexit transition, even if the other initiatives we recommend take more time to implement.

adoption by qualified-majority voting. The United Kingdom should not be expected to oppose it in any case, since there is a strong UK interest in having a well-regulated, well-supervised EU-27 financial system as a neighbor.

REFERENCES

BCBS (Basel Committee on Banking Supervision). 2012. *Core Principles of Effective Supervision.* Basel.

Batsaikhan, Uuriintuya, Robert Kalcik, and Dirk Schoenmaker. 2017. *Brexit: Data Overview of the Financial System.* Bruegel Working Paper. Brussels: Bruegel.

Burrows, Oliver, Fergus Cumming, and Katie Low. 2015. Mapping the UK Financial System. *Bank of England Quarterly Bulletin 2015Q2*. London: Bank of England.

Degryse, Hans, Frank de Jong, and Vincent van Kervel. 2015. The impact of dark trading and visible fragmentation on market quality. *Review of Finance* 19: 1587–622.

Djankov, Simeon. 2017 (forthcoming). *The City of London after Brexit.* PIIE Policy Brief. Washington: Peterson Institute for International Economics.

ECB (European Central Bank). 2015. *EU Structural Financial Indicators 2014.* Frankfurt.

German Council of Economic Experts. 2016. *Time for Reforms: Annual Report 2016/17*. Wiesbaden.

Goodhart, Charles, and Dirk Schoenmaker. 2016. The Global Investment Banks are now all Becoming American: Does that Matter for Europeans? *Journal of Financial Regulation* 2: 163–81.

Juncker, Jean-Claude, in close cooperation with Donald Tusk, Jeroen Dijsselbloem, Mario Draghi, and Martin Schulz. 2015. *Completing Europe's Economic and Monetary Union*. European Commission. Available at https://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf.

Langfield, Sam, and Marco Pagano. 2016. Bank bias in Europe: Effects on systemic risk and growth. *Economic Policy* 31, no. 85: 51–106.

Schoenmaker, Dirk. 2016. *Resolution of International Banks: Can Smaller Countries Cope?* CEPR Discussion Paper 11600. London: Centre for Economic Policy Research.

Schoenmaker, Dirk. 2017 (forthcoming). The UK Financial Sector and EU Integration after Brexit: The Issue of Passporting. In *The Economics of the UK-EU Relationship: From the Treaty of Rome to the Brexit Vote*, ed. N. Campos and F. Coricelli. London: Palgrave McMillan.

Schoenmaker, Dirk, and Nicolas Véron. 2016. *European Banking Supervision: The First Eighteen Months.* Blueprint 25 (June). Brussels: Bruegel.

Véron, Nicolas. 2016a. The City will decline—and we will be the poorer for it. *Prospect Magazine* (September).

Véron, Nicolas. 2016b. Breaking the Vicious Circle. *Financial World* (October/November).

Véron, Nicolas, and Guntram Wolff. 2016. Capital Markets Union: A Vision for the Long Term. *Journal of Financial Regulation* 2016:2 (April).