

Europe's Financial Hubs on Frankfurt 'Catwalk' for Brexit Spoils

European financial centers made competing pitches on Monday for financial jobs that flow out of London in the aftermath of the U.K.'s vote to leave the European Union.

Thomas Schaefer, finance minister for Frankfurt's home state of Hesse, said at a conference in the German financial capital that state Premier Volker Bouffier is in New York to discuss with major U.S. banks how they can retain access to the EU market. Luxembourg Finance Minister Pierre Gramegna told the same conference that while London will remain an important financial center for a while, his country could become a "second pillar" for institutions.

Lobbyists from Paris, Dublin and Liechtenstein also staked their claim, while the head of London's Official Monetary and Financial Institutions Forum said the U.K. city will continue to play a leading role in global finance. Each of the region's financial centers stands to gain and none will deliver a "knockout blow" to the rest, said David Marsh, OMFIF's managing director and co-founder.

'Beauty Contest'

"It's a beauty contest and we have to walk up and down the catwalk a little bit," said Marc Coleman, the director of Ibec Financial Services Ireland.

Britain is on track to leave the EU in early 2019 and at least half a dozen European cities are already jostling to present themselves as the best location for banks to set up shop on the continent. The U.K. is seeking to negotiate an exit agreement that guarantees financial firms continued ability to do business throughout the bloc, a strategy that German Deputy Finance Minister Thomas Steffen said is unlikely to succeed.

Frankfurt's central location in Europe, "efficient" infrastructure, and stable political and economic environment speak for the city, Steffen said. Schaefer said the presence of the European Central Bank's supervisory arm is also a draw. He has previously suggested loosening stringent German employment laws to allow banks to easily fire highly paid employees in a downturn.

Gramegna warned Frankfurt against playing the ECB card too strongly, claiming that the 1965 European treaty said European financial institutions should be situated in Luxembourg. "A small exception was made for the ECB," he said. "But the exceptions mustn't multiply."

Friedrich von Metzler, a partner of Frankfurt's oldest private bank B Metzler, said Germany's financial center could benefit from Brexit in the areas such as asset management or credit business. "Frankfurt is in a strong position here," he said.

At the same conference, ECB Vice President Vitor Constancio noted that London banks provide some \$2.5 trillion of loans to the rest of the EU and carry out a "big percentage" of euro-denominated transactions. The latter role in particular "is bound to change with Brexit," he said. "Brexit will open new opportunities to euro-area banks."

Brexit Opportunity

The German operations of the biggest U.S. banks generally focus on advising companies on mergers as well as the issuance of stocks and bonds. While the speakers agreed that London will remain a major financial center, they also foresee an opportunity to shift some activities.

"Brexit provides an opportunity to strengthen other locations in the EU and other locations in continental Europe," said Steffen.

"We think that the U.K. will remain an important partner in Europe, but that a bridge will be needed between London and continental Europe," Hesse's Schaefer said. "A bridge must be built on stable posts on both sides."

Brexit will be an agent for change in an industry already seeking to reinvent itself amid stiffer regulation, new technologies and low interest rates, said Arnaud de Bresson, the managing director of Paris Europlace. While the U.K. marketplace is "investment driven," Paris will be more "customer driven," he said.

Simon Tribelhorn, the director of Liechtenstein's banking association, touted the Alpine country's lack of public debt and bureaucracy and its "favorable tax environment."

"All these different centers will be collaborating with each other, as they are doing already," said OMFIF's Marsh. "There will be a different level of competition."