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# 'Post-Brexit: We could all be losers here'

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**Alan Farkas, partner at law firm Dorsey & Whitney, with extensive experience in domestic and cross border mergers and acquisitions, warns that the UK and the EU will lose if financial investors choose to move to New York or Singapore.**

Alan Farkas, partner at law firm Dorsey & Whitney

Alan Farkas, who has experience in mergers and acquisitions, public takeovers and joint ventures, has also advised issuers on IPOs and secondary issues on AIM and Main Market of the London Stock Exchange. An advisor for a broad range of transactional work including private equity and venture capital as well as corporate group re-organisations and capital restructuring, Farkas has been keenly observing the post-Brexit developments. In this interview with *Asset News*, Farkas pointed out that the EU could potentially trip when it came to tax regulations, London's edge as a financial centre and why Brexit could be a lose-lose situation for EU and the UK.

**Asset News: What has been the implications for financial services, post-Brexit?**

**Alan Farkas:** There is a wait-and-see approach to see if the principle of equivalence can be made to work. We need to see how this subject is treated in the MoU, which will need to provide much greater clarity of what exactly is meant by the term 'equivalence'. In particular we need clear metrics if the industry is to continue investing billions of pounds. It is not going to be attractive for the players in the financial services industry to make these types of investments unless there is clear benchmarking which the industry can understand.

You cannot take away the politics. The deal got signed. People can criticise the thinness of the agreement, but I believe what is important is the fact that an agreement has been reached. The principle is far more important than the actual words and both sides now want to make the agreement work.

However, the financial services companies are prepared for all scenarios, including the possibility of having to move greater numbers of employees to Europe. They have got their regulatory approvals in place and have attached the necessary shiny copper plate signage to their new (small) European offices. Certain activities have already moved across to Europe and they will not be coming back anytime soon.

**Has the Covid-19 impacted this situation further?**

An interesting angle is the question of human capital, where Covid-19 may yet have a significant impact on Brexit. You have had people living and working out of their living rooms for the better part of the year, with traders and other investment professionals discharging their work efficiently from their homes. Does the Covid-19 impact mean that we no longer need to move human capital to the same extent as before? The capital base and the need to move money to where the deals are being executed will no doubt increase. Labour however is much more immobile.

Could we see 'deal doing' being performed virtually where the human capital stays in London but the deals are executed from these European offices? From a UK point of view, is that good news? Yes, but let's be clear, the UK government wants to raise as much tax as it can and whilst the UK will benefit from these taxes and from money spent by these well-off individuals, the really significant taxes will be paid by institutions in the European capitals of Paris, Frankfurt and Amsterdam.

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**Where does the EU and the UK stand when it comes to their financial services status?**

A lot of people say that London's reputation as a financial centre will suffer post Brexit. But can you see Paris, Frankfurt or Amsterdam really stealing London's thunder? The fear is that we could all be losers here, if financial investors choose to go to New York or Singapore to execute their deals. According to reports, the derivatives industry has seen the US market platforms almost double their workload (at the expense of the UK) and the EU have lost 25% of their market since 1 January. I hope that the UK and the EU regulators will understand that if they fail to agree workable long-term solutions on equivalence all that will happen is that human and financial capital will move from the EU and the UK to Asia and the US.This is what concerns me most.

**Do you see Bexit as an opportunity for London to flourish further as a financial centre?**

Yes, I do see it as an opportunity but within certain parameters. I see opportunities for London to attract possibly more capital than that which it will lose to Europe. I could quite easily see the EU tripping itself up by introducing financial transaction taxes and increasing its capital requirements for many of its financial institutions. These sorts of policies could have a significant impact on the movement of capital with London, New York and Singapore benefiting from these regulatory and tax changes by the EU.

The concerns that have been expressed of London becoming a destination for 'dirty' money are not realistic. There is no way that the UK will go backwards when it comes to money laundering. It would simply not be politically acceptable in the UK in the same way as it is not acceptable in France, Italy or Germany. What the UK will not however do is to accept that there should be dynamic alignment of regulations affecting its financial services industry. It was not prepared to accept this for goods, and it will not agree to this for its financial services.

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**What kind of an impact would Brexit have on the M&A and private equity space?**

Since the end of last summer both the legal profession and investment banking have hardly missed a beat. Just look at the level of M&A activity over the last few months with very large deals being announced on almost a weekly basis. These big deals are important as they provide confidence across the M&A market, creating a ripple effect with smaller deals being done consequently.

Due to the low interest rates, private equity has been very successful in raising significant new funds which then have to be used by a certain date. The private equity scene has a wall of new money to be spent. In terms of opportunities and pricing, whist we have seen some sectors such as retail and transport on their knees, healthcare, renewables and tech are in real demand. I do foresee an extremely positive second half of the year for us at Dorsey and in the M&A market.

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