

## “Brexit” Concerns Could Prompt M&A Migration

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International banks have traditionally [concentrated](#) their European dealmakers in London, but after the United Kingdom’s vote to [leave](#) the European Union (“Brexit”), it is unclear whether and how much transactional activity will shift out of the U.K. The German deal market is heating up and banks are subtly shifting bankers to satellite offices in Frankfurt, indicating that Germany is in a position to absorb British banking activity.

London has achieved its status as a financial hub with the help of a system called “[passporting](#).” EU law allows any company incorporated in the European Economic Area – all EU member states plus Iceland, Liechtenstein, and Norway – to sell its products and services within that market. With passporting, investment banks can keep the bulk of their activities and personnel in London, while maintaining satellite offices in locations such as Paris and Frankfurt. Whether the U.K. will retain its passporting rights when it formally exits the EU will [depend](#) on the results of the Brexit negotiations, expected to take place in March.

If a favorable agreement between the U.K. and the EU cannot be reached, New York offers an attractive alternative for relocating London resources. It is the only [city](#) that currently rivals London’s “depth of markets, breadth of expertise, or regulatory appeal.” However, a bank wanting to sell goods and services within the European Economic Area would still need teams to operate in a member state. A team is also better able to serve its customers if it is located in a similar time zone.

While New York is an option, recent transactional activity in Germany indicates banks are sending dealmakers to Frankfurt. Germany is Europe’s largest economy, and it [boasts](#) excellent infrastructure and a stable political environment. An expected increase in transactional activity across the chemical, manufacturing, and pharmaceutical industries, in addition to a surge of deals with Chinese investors, has justified the relocation of certain London teams to Frankfurt. Most global banks also already have a satellite office in Frankfurt from which they could passport across the EU.

Frankfurt is not alone, though. Half a dozen European cities are [pitching](#) themselves as the optimal location to conduct banking activities on the continent. A danger of moving bankers out of London to continental Europe is the possibility of fragmenting the banking market such that there is no dominant transactional center. Another factor that will affect how banking activity flows to the continent is which cities are most [desirable](#) to live in. Paris, for example, recently launched a campaign that asked, “When did you last book a weekend in Frankfurt?”

The financial community will have to wait for the results of Brexit negotiations to be sure a banking migration is warranted. Regardless of that outcome, though, Brexit is already influencing the European financial community.