



## Risks for the financial centre of Frankfurt

**AUTHOR**  
Dr. Gertrud R. Traud  
Chief Economist/  
Head of Research  
Tel: +49 69/91 32-20 24  
research@helaba.de

**EDITOR**  
Marion Dezenter

**PUBLISHER**  
Helaba  
Landesbank  
Hessen-Thüringen  
MAIN TOWER  
Neue Mainzer Str. 52-58  
60311 Frankfurt am Main  
Tel: +49 69/91 32-20 24  
Fax: +49 69/91 32-22 44

How nice it would have been if Germany had been chosen to host the EBA (European Banking Authority) in Frankfurt. It would have brought us closer to achieving several goals, thus killing the proverbial two birds with one stone. Alas, things have turned out differently and now Germany is faced with a dilemma.

But let's not get ahead of ourselves: it was around this time last year that the British government officially submitted its application to exit the European Union (EU). Brexit negotiations are underway, but the British government does not seem to have anything resembling a clear concept. This applies to a future trade relationship and the Irish border as well as to rules governing the rights of EU citizens in the United Kingdom. At least there are efforts to agree a two-year transition period, although it has not been formalised yet. If no corresponding agreement is made by the end of the year, the British will "exit instantly" on 1 April 2019.

Decisions pertaining to the future homes of EU institutions currently domiciled in London were taken as early as November last year. Germany had submitted bids for both the EBA, to be relocated to Frankfurt, as well as for the European Medicines Agency (EMA), planned to be based in Bonn. In both cases, other locations were selected: our main financial centre competitor in continental Europe, Paris, was awarded the prize of hosting the EBA. The EMA is to be relocated to Amsterdam. The question as to whether Germany would have benefitted from a concentration on one institution is pointless after the decision.

But how damaging is the fact that we failed to get either of these EU authorities? In relation to our region, relocating the EBA here would have given Frankfurt a significant boost as a financial centre and as a European hub of supervision. In addition, a merger with the European Insurance and Occupational Pensions Authority (EIOPA), which has been based in Frankfurt already since 2011, could have leveraged synergy effects. On the other hand, a similar argument can be made for Paris, the location of the European Securities and Markets Authority (ESMA). Anyway, a merger between authorities there would not really pose any risk to Frankfurt.

However, there is another issue pending that Germany has frequently alluded to in the past: potential conflicts of interest resulting from the dual role of the ECB as an institution controlling monetary policy and a supervisory authority for major banks. If German policymakers continue to press for more clarity in this respect and Paris takes up the argument as well, this could lead to a substantial loss of qualified jobs from Frankfurt. Paris would be able to point to the synergies achieved by bundling the three European supervisory functions of ESMA, EBA and parts of the ECB.

Transferring ECB supervisors to Paris would likely not only involve the relocation of 40 % of the approximately 3,200 ECB staff but would also create a magnet for market players. So far, Frankfurt has been in pole position as a potential beneficiary of Brexit in terms of banks relocating to the remaining EU member states. Now, it is crucial that Germany draws the right conclusions in reconciling regulatory policy concerns with securing Frankfurt's position as an international financial centre. So, watch out! Otherwise, good intentions will end up being badly executed. ■

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