London firms losing faith in quick-fix access to EU after Brexit

REUTERS, *London*

BIG financial groups in London are losing faith in a quick fix to get access to the European Union after Britain leaves the bloc and are instead drawing up contingency plans to avoid becoming hostage to Brussels politics.

In the aftermath of Britain's vote to leave the EU, legal experts said banks, insurers and asset managers in London using so-called EU passports allowing them to sell services across the bloc should keep their access because regulations in Britain would be equivalent to those within the trading zone.

Foreign Secretary Boris Johnson also said in July he expected financial firms in the country to retain rights to sell within the EU, given the desire of European firms to have reciprocal access to London.

But many in the City of London, Europe's biggest financial centre, are having second thoughts about relying on such an equivalency fix as it will be Brussels not Britain that decides whether the rules are the same.

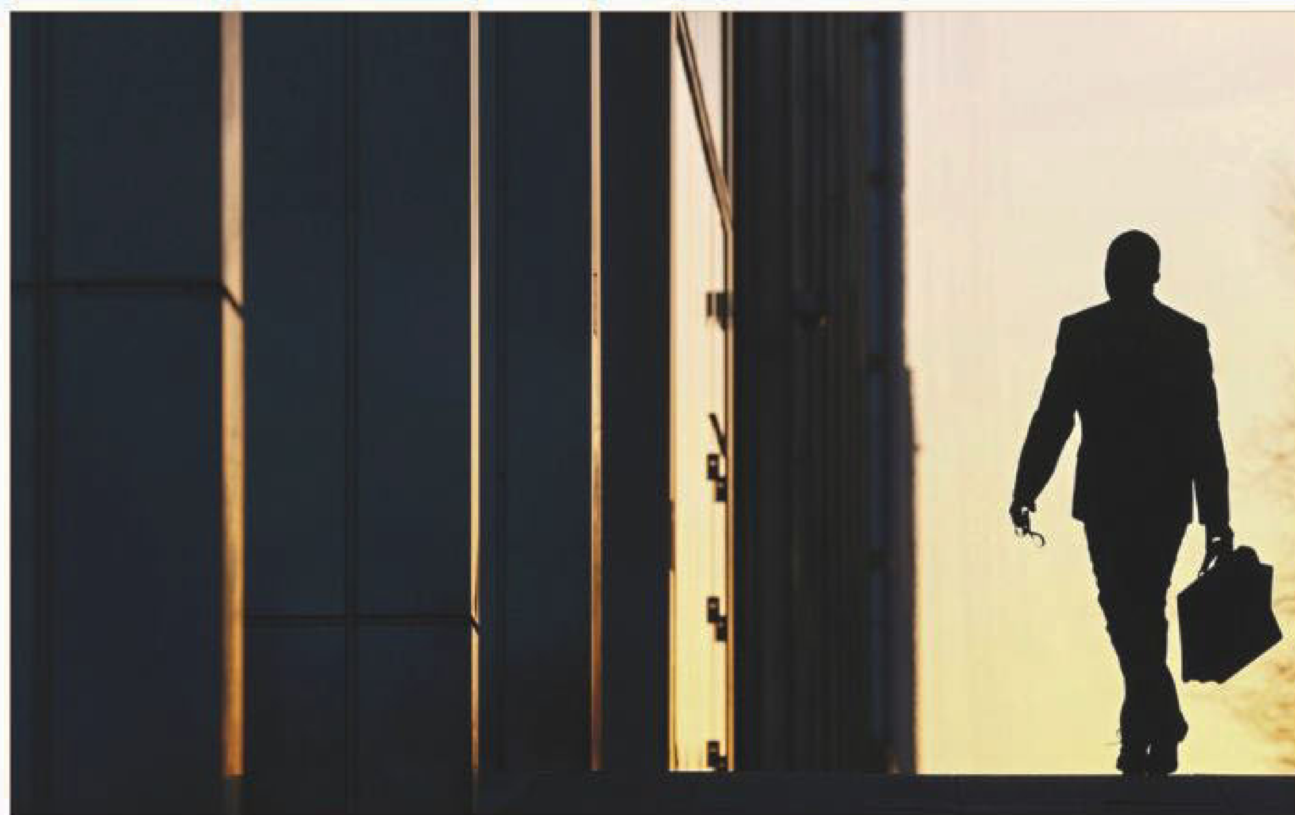
Having equivalent rules is a condition for market access and Britain would almost certainly comply on Day One of Brexit, simply because it would have been enforcing EU-wide financial services regulations up to that point.

But what worries financial firms is that equivalence could, in theory, be withdrawn by Brussels at a month's notice, which is an element of risk some are not prepared to shoulder.

"There is not a very clear structure for how equivalence is granted, and it's likely to be at best a highly politicised environment," said Mark Hemsley, chief executive officer of Bats Europe, the region's biggest share trading platform.

"While on the face of it equivalence appears to be a very attractive route because it implies very little work, when you get down to the first level of detail there are unanswered questions," he told Reuters in an interview.

European heavyweights Germany and France have played down hopes of an easy deal to keep London's financial hub intact and Frankfurt, Paris, Dublin, Luxembourg, Milan and Amsterdam are all vying to woo UK-based firms that need watertight EU access.



REUTERS/FILE

A worker arrives at his office in the Canary Wharf business district in London.

Hemsley said barring a clear signal that Britain would have full access to the single European market, Bats would start work on a second base next year, with Dublin being one of the more attractive locations in the EU.

The EU passporting arrangements have been central to Bats success. Founded in 2005 in the United States, Bats first took on the main U.S. exchanges before expanding to Europe in 2008.

Centred in London with an EU passport, allowing unhindered trade across the bloc, Bats Europe has been able to snatch large chunks of share trading from centuries-old national European stock exchanges to become the market leader.

Other firms such as British insurers Admiral Group and Beazley Plc have also said they may shift some operations to Dublin, or elsewhere in the EU to have guaranteed passporting rights following Brexit.

U.S. banking giants Goldman Sachs and Bank of America both rely on EU passports for their London-based European operations and have said they may restructure some businesses when Britain leaves.

The passport so cherished by financial firms throughout the European Union is granted under a law known as the Markets in Financial Services Directive, or MiFID.

An updated version called MiFID II that comes in on January 2018 includes an equivalence provision for firms in countries outside the bloc that want to do business with EU customers.

"MiFID II is critical because of the need for continuity in global securities trading, but equivalence on its own is unworkable," the head of regulation at a foreign bank in London said, referring to the lack of guarantees that equivalence would be maintained.

The EU's executive, the European Commission, is the body that decides if the financial rules in a country outside the EU are equivalent, and allow market access.

As Britain would almost certainly leave the EU after MiFID II came into force it should be compliant initially. But if the EU amended MiFID later, that would force Britain to make similar changes, or risk having equivalence withdrawn.

There is no set timeline for equivalence decisions and they not only cover countries but every firm wanting recognition from Brussels to trade across the bloc.

"That is not a very satisfactory environment. They can just switch you off," Hemsley at Bats Europe said.

Besides the lack of guarantees, it could also take time for Brussels to make a ruling, adding another layer of uncertainty and risk. For example, it took Brussels about four years to decide that a U.S. rule for clearing derivatives was equivalent, and allow European banks to continue using U.S. clearing houses.

"It would be difficult to make long-term business decisions in the hope that the UK's laws and regulations will be deemed equivalent to EU rules," Vishal Vedi, banking and capital markets Brexit lead partner at Deloitte, said.

"•So, placing sole reliance on equivalence is a high risk strategy."

Bankers say the MiFID II equivalence regime could be a stop-gap from when Britain leaves the EU until new trading terms with the bloc come in.

The head of regulation at the foreign bank said there could be a bilateral arrangement that includes the equivalence regime, plus an overlay to address issues such as the short notice period for withdrawal and future changes in EU regulation.

"It's a choice between being some sort of rule-taker or having some sort of bespoke arrangement, and that probably won't be MiFID II on its own," the banker said.

EU leaders have said that as a matter of principle, Britain would only get complete access to the single market if it in turn allowed EU citizens to work there, a condition many Brexit backers oppose.

Deloitte's Vedi said this was why many banks were planning for the World Trade Organization (WTO), or "hard-Brexit", scenario which assumes Britain gets no preferential treatment and will rely on the WTO's global system of trade tariffs.

"That is the scenario involving most change compared to the current set up. Then they can always peel back from there," Vedi said.

S Sudan wants big budget despite economy in ruins

AFP, *Juba*

The government of South Sudan, whose economy has been ravaged by years of war, has adopted an ambitious budget for 2016-2017 of around one billion dollars, three times as big as the previous year's.

"The purpose of this budget is to implement the peace agreement," Information Minister Michael Makuei told AFP on Friday, referring to a deal signed in August 2015.

The budget proposal has yet to be approved by parliament, but it will likely be accepted as most of the world's newest nation's lawmakers are loyal to President Salva Kiir's government.

Adopted on Thursday by the government, the 30 billion South Sudanese pound ($1 billion, 0.9 billion euro) draft was delayed earlier this summer by a spike in violence, the latest upsurge in two-and-a-half years of war.

It is not yet clear however where South Sudan will find the funds it would need to finance the budget, as fighting continues in parts of the country, leaving key trading routes to the capital blocked.

Asked about the possible sources of funding, the information minister told AFP: "We know where we will get the money. You need not to know where we can get the money."

Makuei added: "The budget is higher than that of last year simply because last year there was no agreement on implementation" of a peace deal.

South Sudan's economy, ravaged by a civil war that erupted in 2013, was further damaged by a wave of clashes in July that pitted President Kiir's troops against the former vice president Riek Machar's forces in the capital Juba.

At least 300 people were killed in the latest violence, and more than 60,000 forced to flee the country.

Among those who escaped were many of the nation's traders and bankers, leading many businesses to close.

On the street, the South Sudanese pound's value has plummeted dramatically, with the exchange rate at 70 pounds to the US dollar -- nearly two and a half times the official rate.

Oil production too, which at the time of independence five years ago contributed 98 percent of the national budget, has sunk to just under 150,000 barrels a day.

Inflation meanwhile is soaring at 600 percent a year, leading to a massive hike in the prices of basic goods.

S Korea, Japan to start talks on new currency swap deal

REUTERS

South Korean Finance Minister Yoo Il-ho shakes hands with his Japanese counterpart Taro Aso, *right*, during the seventh Korea-Japan Finance Dialogue at the Government Complex in Seoul, South Korea yesterday.

REUTERS, *Seoul*

SOUTH Korea and Japan said they will start talks on a new currency swap agreement after the countries' finance ministers met in Seoul on Saturday to bolster defenses against global financial uncertainties.

"South Korea offered to start talks on a currency swap agreement as part of boosting economic cooperation with Japan," South Korea Finance Minister Yoo Il-ho said in a press conference after the meeting.

"Uncertainties can be minimised with the more swap agreements you have and our stance that we will push for as many as we can has not changed."

Japanese Finance Minister Taro Aso also said the two countries recognized the need for economic cooperation after Saturday's talks.

The countries said in a joint statement that South Korea and Japan face threats from low potential growth rates and the risk of increasing global financial volatility.

South Korea's last currency swap agreement with Japan was established in 2001 and the countries let it expire in February last year at $10 billion. The swap line had once expanded to $70 billion in 2011 but was sized down later on political conflict between the two countries.

Details on the timing of the talks and what currencies the new swap line, if agreed upon, will be established with will be settled in the near future, according to the South Korean finance minister.

Yoo added South Korea and Japan would jointly act "firmly" against trade protectionism and cooperate closely on sanctions against North Korea. Both countries expressed "strong concern" over Pyongyang's nuclear program and missile development.

South Korean finance ministry officials had initially said a swap agreement was not on the official agenda for Saturday's talks.

Economists see ride-hailing industry as ripe for competition

REUTERS, *San Francisco*

CHINESE powerhouse Didi Chuxing's acquisition of Uber Technologies Inc's China operations marked the biggest move yet toward consolidation in an industry that many investors and Silicon Valley pundits view as a winner-take-all game.

On the day the Didi deal was announced earlier this month, Uber board member Bill Gurley said Uber's rivals in other markets had a slim chance of splitting the market with the dominant player, just as Uber struggled to erode Didi's share in China.

After China, the industry will consolidate in other markets, said Hans Tung, an Asia-focused investor and managing partner at GGV Capital, which backed Didi and Grab, a Singapore-based ride service.

"There will be a dominant No. 1," he said that same day. The consensus of 11 economists interviewed by Reuters, however, suggests an entirely different scenario, one of perpetual competition in a business with relatively few barriers to entry.

"That one firm wins is a narrow and not accurate way to think about these firms," said David Evans, chairman of the Global Economics Group and co-author of a recent book that included Uber, "Matchmakers: The New Economics of Multisided Platforms."

Ten other economists who have studied ride-hailing agreed that the growing industry, which UBS estimates to be a $40 billion market, has room for at least two successful players, and perhaps a few smaller ones.

The industry, they said, has none of the elements that traditionally have enabled single companies to control a sector. If it is the first of its kind, a company can dominate markets that have huge infrastructure costs, such as putting up cell towers or laying pipes; a large workforce of employees with specialized skills; and customers who get locked into a service and have difficulty leaving for competitors.

Ride-services, by contrast, are relatively cheap to start, depend on contract labor with no inherent loyalty or specialized skills, and have free apps that can be downloaded in seconds.

"You may not want to try a new social networking site if your friends aren't on it," Evans said. "But you don't care what app your friends use for ride-hailing."

The question of whether on-demand ride services will remain open to new players has vexed startups and investors since Uber started the industry seven years ago.

Companies taking on Uber include Lyft in the United States, Grab in Southeast Asia, Ola in India and newer startups like New York City's Juno. In the United States, in particular, part of Uber's attraction to investors is the chance at grabbing the entire industry.

REUTERS/FILE

A driver leaves the office of taxi-hailing service Uber Inc during a driver recruitment event in Hong Kong, China.

In a statement, Uber said: "The ridesharing industry around the world is highly competitive and innovative. That's good for riders."

Uber investor and board member Gurley argued that any competitor would need to pursue a different strategy - perhaps offering more luxury and high-end services - to successfully battle Uber in its strongest markets.

Didi, Ola and Grab did not respond to requests for comment.

When business magnate Carl Icahn invested $100 million into Lyft in early 2015, he told media outlets he saw "room for two." Chris Sacca, a prominent venture capitalist who invested in Uber, responded "This is a winner-take-all game," on Bloomberg television.

Lyft has hired an M&A firm and recently explored the possibility of acquisitions by several companies, a source familiar with the discussions said, and reports of a possible sale stimulated talk of whether it could compete with Uber.

Lyft says it can. In the United States, it says it more than tripled its drivers to about 315,000 in the last year. Between October and May it nearly doubled its annual gross revenue to $1.9 billion - although that figure does not reflect the many rider discounts and promotions Lyft offers.

Uber has 1.5 million drivers and projected $26 billion in gross revenue globally this year, based on a 2015 presentation for investors.

Last year, Lyft hit another benchmark: the wait time for a ride is three minutes, on par with Uber, said President and Co-Founder John Zimmer. At three minutes or less, a passenger will almost always complete the ride.

"You need a certain level of scale to get to three minutes," Zimmer said, referring to the number of drivers and passengers. "Once you reach that, if someone else has more scale, it doesn't matter."

New York-based Juno has brought on 12,000 drivers since launching earlier this year and already has hit the three-minute wait time in Manhattan, said Co-founder and CEO Talmon Marco.

"This is a fairly local industry," Marco said. "You can be a hero in New York and you can be zero in California, and it's OK."

In India, Uber and Ola are neck and neck around 45 percent of the market each after Uber's market share fell and Ola's rose in 2015, according to market research firm 7Park Data.

The challenge for new startups, however, is that leading companies subsidize their drivers and passengers as they prioritize gaining market share over profit. Both Uber and Lyft have spent heavily on driver bonuses and rider discounts and promotional credits.

"Everything that has happened in this space is completely artificial and funded by a glut of VC money," said Daniel Ramot, CEO and co-founder of startup Via, which completes about 200,000 rides each week in New York.

Economists argue that Lyft can be a profitable company with roughly 20 percent of a market, which would allow it to reduce expenses through economies of scale. Lyft and Uber only release market share statistics selectively, but Lyft maintains it has more than a 20 percent share in the majority of its top 20 regions.