

Brexit Research Paper

Finance in Malta has a bright future



Introduction

2017 is a major political year in Europe, with national elections in The Netherlands, France, Germany and now the UK. But the history books will likely attach more significance to last year's Brexit referendum as being a more pivotal moment.

For many, it was a surprise result and it sent shockwaves across the continent. But while Brexit will have implications for many economic areas of life in Europe, the most important are perhaps for our own industry, financial services, in which the UK - and especially the City of London - is such a dominant player.

The key question is to what extent will the UK's ties with the European Union be cut? The answer has yet to be revealed of course but to gauge the thoughts of people inside the industry, Managing Partners Group conducted research* among institutional investors worldwide in March, around the time that Article 50 was triggered by Prime Minister Theresa May.

The results were striking: more than seven in 10 (73%) institutional investors believe Brexit will be 'hard', including 29% who believe it will be 'very hard'.

More than four out of five (82%) also believe the number of UK-based financial services firms generally seeking to establish subsidiaries in the European Union will increase over the next three years due to Brexit. While 44% believe that UK asset managers specifically will probably get to passport their funds into the EU after Brexit, around 30% believe this will not happen.

The full findings of the research will be available at the **Finance Malta 10th Annual Conference**, due to be held in Malta on 17-18 May 2017. MPG believes that one of the biggest beneficiaries of Brexit will be Malta because of its EU membership, its efficient regulatory and legal environment and its highly educated, English-speaking workforce.

Although a sizeable minority in our survey believe UK asset managers will be able to passport their funds in the EU after Brexit, MPG believes this will be unlikely – current members of the European Economic Area such as Switzerland, Liechtenstein and Norway do not have this privilege.

As such, many asset managers and other UK financial services companies will look to establish a secondary entity somewhere in Europe post-Brexit and Malta should certainly be on the list of serious options.

Our survey also showed that respondents believe the most important considerations for those UK companies looking to set up another operation elsewhere are a comprehensive legal and regulatory framework (78%), followed by the tax regime (52%) and economic stability (42%). Malta is exemplary under all of these criteria.

The mood within Malta's financial services industry is certainly confident. In the words of **Kenneth Farrugia, Chairman of Finance Malta**: "Malta's proposition as an international financial centre has continued to enjoy momentum, as evidenced by the sustained growth experienced in 2016 and the conduit of international business operations currently seeking an investment services licence through the Malta Financial Services Authority.

"This success of Malta's financial services industry has been driven by a number of factors, including the presence of a comprehensive regulatory legal and framework, the work ethos and skills of the human resources in Malta, the accessibility to the Regulator and its pro-business approach, Malta's cost competitiveness as well as political and economic stability."

Joe Portelli, Chairman of the Malta Stock Exchange, also adds: "Malta offers a highly competitive, cost-effective solution for any company looking to establish itself within the EU. We are a pragmatically well-regulated, English-speaking financial centre with a hardworking and educated workforce. Setting up in Malta can be done relatively efficiently and highly cost effectively, with costs being considerably lower than other European domiciles."

My own expectation is that Brexit will not be as hard as many people fear. The UK is the second largest importer of German goods by value and Berlin will be leading the discussions to ensure an equitable deal is reached with the UK.

But whatever the outcome of Brexit, Malta's many positive attributes means its future as a financial centre looks assured.

**Jeremy Leach, Chief Executive Officer
Managing Partners Group**

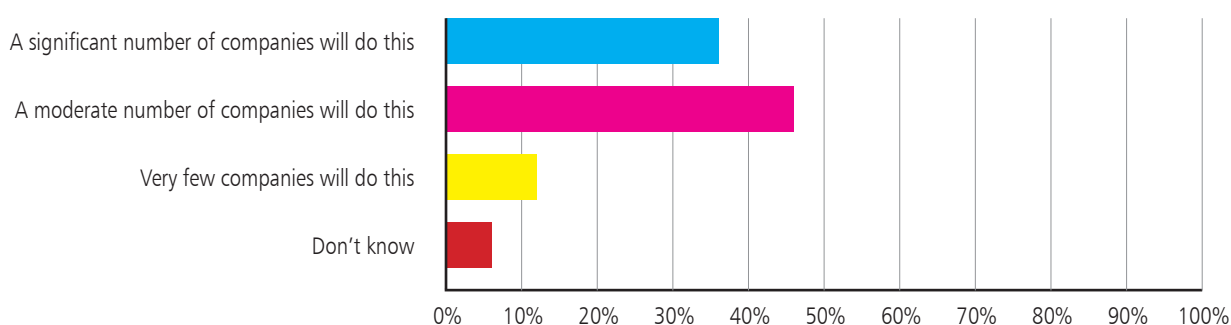
*Source: 51 institutional investors globally were interviewed, 20-28 March 2017

FinanceMalta Conference Survey

The impact of Brexit on UK-domiciled companies

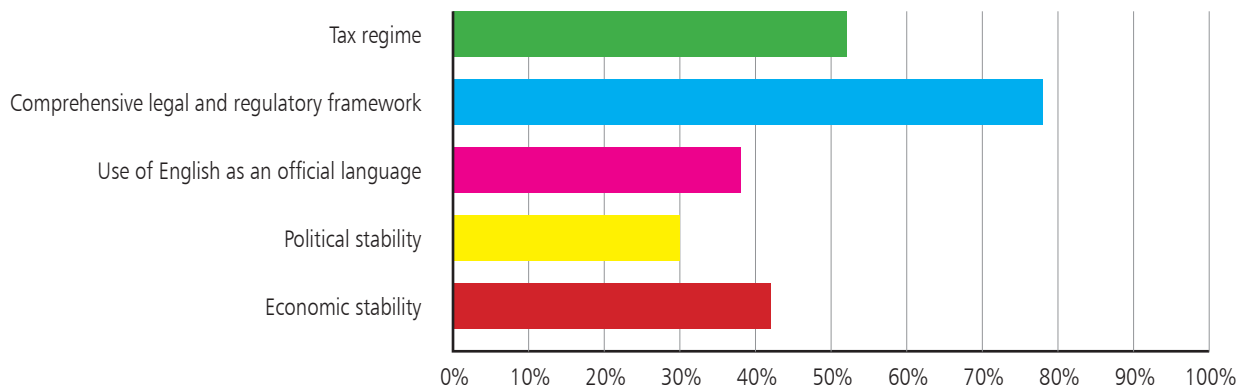
51 institutional investors globally were interviewed, 20-28 March 2017

Question 1: Over the next three years, how do you see the level of UK-headquartered financial services companies setting up branches or subsidiaries in other EU countries changing as a result of Brexit?



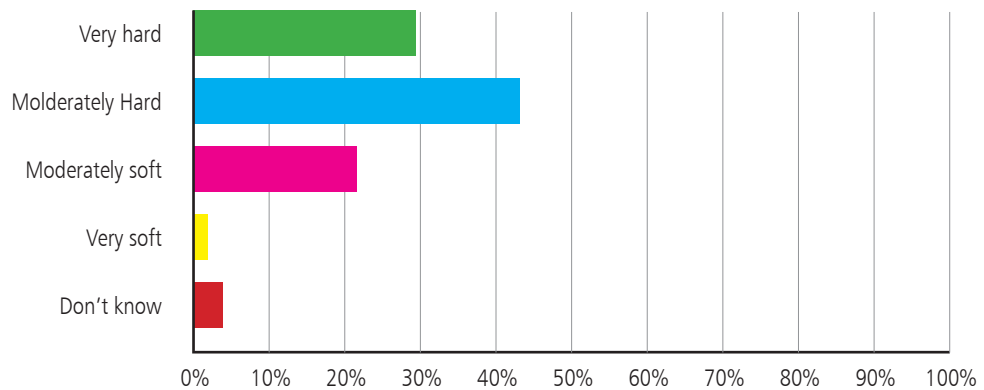
Answer Choices	Responses	
A significant number of companies will do this	36.00%	18
A moderate number of companies will do this	46.00%	23
Very few companies will do this	12.00%	6
Don't know	6.00%	3
Total		50

Question 2: Which of the following factors do you think are the most important for UK-based companies to consider if they are looking at re-domiciling or setting up a subsidiary in another EU country as a result of Brexit?



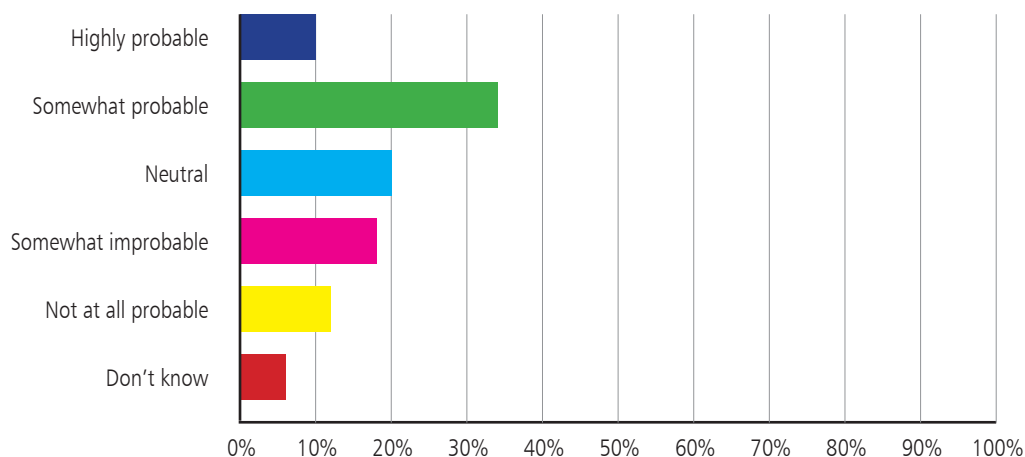
Answer Choices	Responses	
Tax regime	52.00%	26
Comprehensive legal and regulatory framework	78.00%	39
Use of English as an official language	38.00%	19
Political stability	30.00%	15
Economic stability	42.00%	21
Total Respondents: 50		

Question 3: Do you think Brexit will be hard or soft?



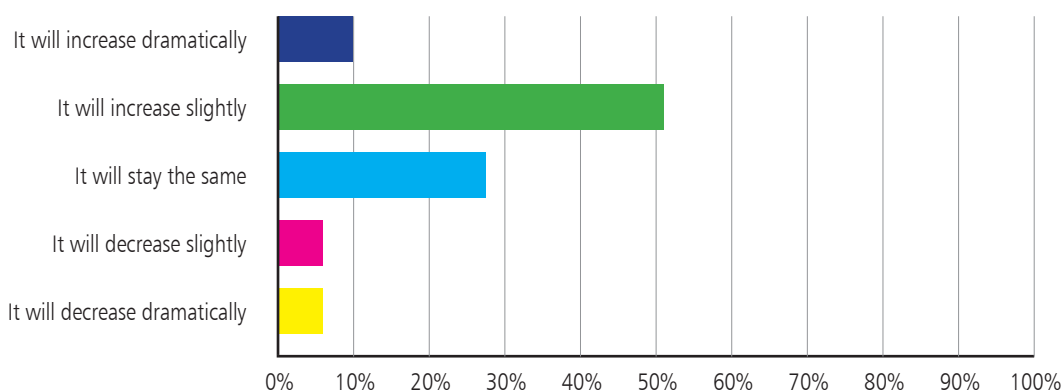
Answer Choices	Responses	
Very hard	29.41%	15
Moderately hard	43.14%	22
Moderately soft	21.57%	11
Very soft	1.96%	1
Don't know	3.92%	2
Total		51

Question 4: How likely do you think it will be that UK companies will get to passport their funds into the European Union after Brexit?



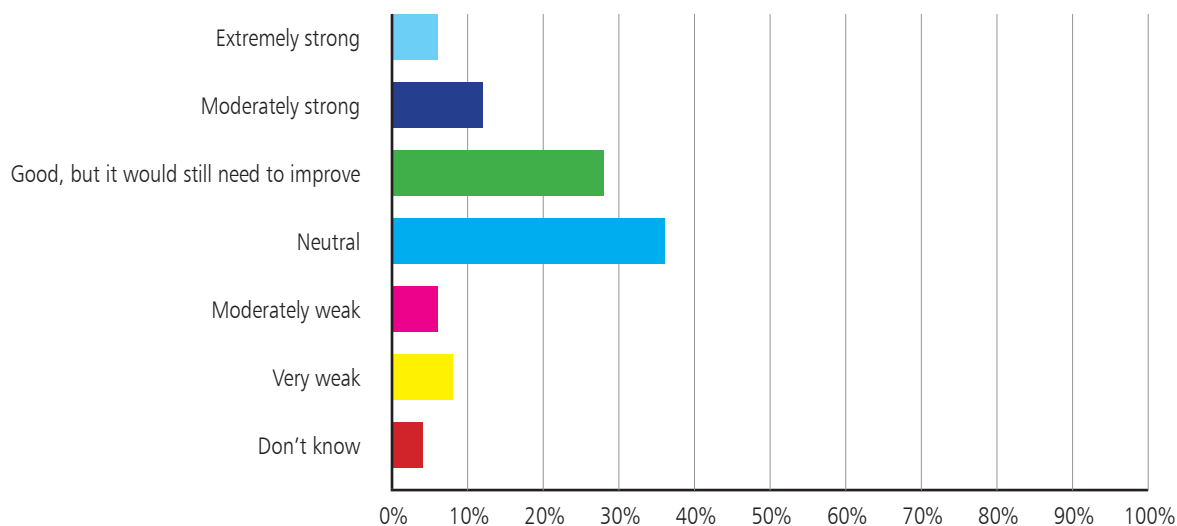
Answer Choices	Responses	
Highly probable	10.00%	5
Somewhat probable	34.00%	17
Neutral	20.00%	10
Somewhat improbable	18.00%	9
Not at all probable	12.00%	6
Don't know	6.00%	3
Total		50

Question 5: Following Brexit, how do you expect the level of trade the UK does with other Commonwealth countries to change?



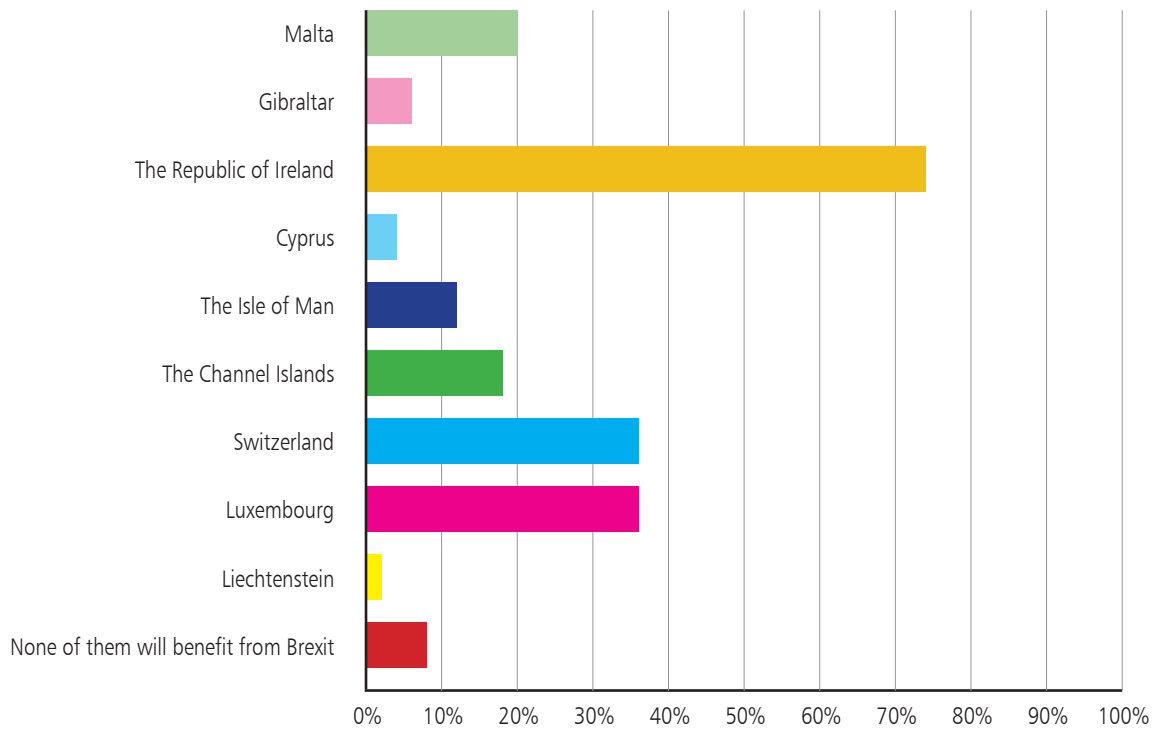
Answer Choices	Responses	
It will increase dramatically	9.80%	5
It will increase slightly	50.98%	26
It will stay the same	27.45%	14
It will decrease slightly	5.88%	3
It will decrease dramatically	5.88%	3
Total		51

Question 6: Malta has already established itself as a respected international financial services centre. With its strategic location in the Mediterranean and trading history, how do you see its potential for strengthening its position as one of the leading financial centre servicing the European Union?



Answer Choices	Responses	
Extremely strong	6.00%	3
Moderately strong	12.00%	6
Good, but it would still need to improve	28.00%	14
Neutral	36.00%	18
Moderately weak	6.00%	3
Very weak	8.00%	4
Don't know	4.00%	2
Total		50

Question 7: Which of the following jurisdictions do you believe will benefit the most from the UK leaving the European Union?



Answer Choices	Responses	
Malta	20.00%	10
Gibraltar	6.00%	3
The Republic of Ireland	74.00%	37
Cyprus	4.00%	2
The Isle of Man	12.00%	6
The Channel Islands	18.00%	9
Switzerland	36.00%	18
Luxembourg	36.00%	18
Liechtenstein	2.00%	1
None of them will benefit from Brexit	8.00%	4
Total Respondents: 50		50

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