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Fund industry gives nervous welcome to Boris Johnson's big election win

By Robert Van Egghen 13 December 2019

A big win for UK Prime Minister Boris Johnson in the General Election provides short-term relief to asset managers concerned about the business impact of a Labour government but brings further uncertainty as to the UK's future relationship with the EU, according to experts.

Mr Johnson's ruling Conservative party won some 363 seats in the election, while Jeremy Corbyn's opposition Labour party lost around 59 seats.

Meanwhile the Liberal Democrats, who ran on a pledge to cancel Brexit altogether, failed to make any gains at all.

In a speech following the result, Mr Johnson said the result had given him "a stonking mandate" that puts the UK on course to leave the EU by January 31.

Experts say asset managers should take inspiration from Mr Johnson's campaign slogan to "get Brexit done" and step up their lobbying efforts to ensure the best possible deal for the funds industry.

"Asset managers can now revisit their Brexit contingency plans with a relatively high degree of certainty that Brexit will happen sooner rather than later and the deal struck in October will pass through parliament," says Adrian Whelan, global head of regulatory intelligence at Brown Brothers Harriman.

Simon Turner, wealth and asset management partner at EY, add that while the election result "brings a level of clarity for asset managers", the industry "remains far from the finish line regarding how firms will operate across borders".

Under the terms of the withdrawal agreement between the EU and the UK, asset managers will benefit from a transition period until December 2020.

According to the political declaration, the UK and the EU will begin assessing the equivalence of each other's financial regulatory systems in June 2020 with a pledge to conclude the assessments by July.

However, the new European Commission has signalled any equivalence decision will be dependent on the UK not pursuing a path of regulatory divergence, which is a key priority for Brexiteers.

“This raises legitimate questions around how firms can entirely prepare not knowing if there will be full equivalence, no equivalence or equivalence only granted in some areas,” says Mr Turner.

Owen Lysak, partner at Clifford Chance, adds that the “pace of preparations by asset managers will need to pick up again with such a short timetable now for the UK to finalise an EU deal”.

Mr Lysak says fund houses will also have to work out how they can best “reengage with the government on the need for financial services to be front and centre on any Brexit deal”.

Yet, while the ultimate outcome of Brexit may remain uncertain, many asset managers will be breathing a sigh of relief that a far-left Labour government under Jeremy Corbyn did not materialise.

Mr Corbyn had pledged to nationalise a number of key industries and implement the compulsory acquisition of 10 per cent of a company’s shares, while introducing a shake-up of the UK’s taxation rules.

“A significant number of investors had been focused on the potential impact of a Labour government, raising questions about investing into UK assets or UK focused strategies,” says Mr Lysak.

Attilio Veneziano, a regulatory lawyer and author of Deepening the Single Market in Europe, says Labour’s plans to increase income tax for high earners “could have triggered an exodus of managers operating through limited partnership structures who would have been hit the most by the proposed new tax regime”.

“The result of the election has reinstated some of the certainties that made the UK one of the most prominent and affluent hub for portfolio and asset management,” he says.