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Assured Guaranty – a Parisian response to Brexit

IJGlobal speaks to Assured Guaranty's Paris-based **Raphael de Tapol** about the challenges brought by Brexit and how AG has risen to overcome them…

As the only company still actively engaged in writing new financial guarantee business in Europe, Assured Guaranty (AG) is well positioned for the post-Brexit environment having created a new subsidiary, AA rated Assured Guaranty (Europe) SA (AGE) to serve the European markets from Paris. Its previous UK business, Assured Guaranty UK Limited (AGUK), continues to operate from London.

AGUK has historically covered everything from the UK to the rest of Europe, Australia and New Zealand. However, while Brexit served as a catalyst, AG was already considering opening a continental European base of operations as the team were seeing increasing opportunities in Europe.

Raphael de Tapol, Deputy Managing Director at AGE, says: "Regardless of Brexit, we saw increasing demand for our products in Continental Europe, and believed that having a presence on the continent would help us seize that opportunity and materialise it. Brexit accelerated that process."

He adds: "As soon as the referendum took place in 2016, we started working on our strategy. The issue for us then was not only being able to continue to write new business in the EU, but it was also essential for us to be able to service existing policies – receive premiums, pay claims and make sure the policies we had issued in Europe up till then would remain enforceable for our policy holders."

AG took the decision to not wait until the last minute and to have a strategy whatever the outcome, opening the new company in early 2020 and identifying Paris as the ideal location given its central position in Europe, communication links, and it being a vibrant financial hub that is home to a number of key players in the infrastructure space.

France proved to be a welcoming host.

"We had a lot of exchanges with the French regulator that were very constructive and positive," says Raphael. "That was another reason why we chose Paris – there was a very good dialogue with the regulator and it was a relatively smooth process.

"AGE obtained its licence at the start of 2020 and wrote its first policy the following month – the financing of one of the Spanish solar PV projects that we have guaranteed."

Transfer of assets

One of the first tasks the Paris office faced was the transfer of existing EU exposures from the UK to the new French balance sheet.

"AGUK, our London based company, had issued a number of policies for the financing of various European infrastructure projects and it was essential that we ensure those policies remain enforceable for our policy holders and that we would be able to continue to service them after Brexit," says Raphael. "To that end, we had to transfer the portfolio from the UK balance sheet to the new French entity."

This involved a Part VII Transfer, which is more common for multi-line insurers when they transfer portfolios and assets to support those policies and is a court approved process designed to ensure the transfer is appropriate for policyholders. This was finalised in October 2020, several months before the Brexit deadline.

"This meant that immediately we had a portfolio of 79 policies, approximately €6.1 billion of exposure, that were transferred to the French company. Such policies were almost exclusively in the infrastructure, energy and public debt sectors," says Raphael.

"At that stage, the French entity which at that time only had a handful of policies that we had issued since the start of operations, became a much larger operation."

The future beckons

Having established the European beachhead and relocated a significant portfolio to the Paris company, it was time to drive business which – for AG – has recovered impressively from the lows of the global financial crisis.


Raphael de Tapol

"We had a portfolio of 79 policies, approximately €6.1 billion of exposure, that were transferred to the French company. Such policies were almost exclusively in the infrastructure, energy and public debt sectors."

"Historically, our main focus had been the UK as we had our capital and resources there and the market was more comfortable with the monoline product and capital market issuances," says Raphael.

"However, even before we opened in Paris, we had already resumed issuing new guarantees in Europe – mostly in the secondary market – and it has proved to be one of our most active sectors in the infrastructure space over the last 18 months.

"We re-entered the Spanish market after having taken a pause after the global financial crisis and have closed four large transactions in just over a year – with both the PV and CSP technologies – and we are actively working on deals that we are hoping to close in the coming months."

These transactions all benefit from regulated revenues – a preferred risk profile for AG, perfectly aligned to the company's historic activity.

"Whilst these deals have been a growth area for AGE, the group carefully manages single risk and sector limits in order to manage the effects of correlated credit events. We will only be able to do so many Spanish solar deals with regulated revenues as a result," says Raphael.

Beyond the Spanish solar market, AGE is looking to diversify its broader renewables exposure across Continental Europe, looking for solar projects in other jurisdictions with a similar risk profile.

"We will be targeting individual solar projects backed by a PPA where the offtaker is a utility company, or any other entity for which we would normally guarantee the debt issuance – the likes of quasi sovereigns like universities or local authorities," says Raphael.

"However, we are fully conscious that most solar projects being developed these days tend to be backed by PPAs where the offtaker is a traditional corporate and that is something we would not typically have credit appetite for on a standalone basis."

"Finding opportunities where we can apply our infrastructure and structured finance capabilities is a key part of our strategy going forward."

Raphael de Tapol, Deputy Managing Director at AGE

"We could explore providing a guarantee to the financing or refinancing of a portfolio of solar projects which are backed by multiple corporate offtakers." says Raphael. "That is not something we have seen yet, but with the speed at which the market is moving and at which some big equity sponsors are acquiring or developing new solar projects, this is something we expect to see soon."

AG sees opportunity here for the future – renewable energy projects backed by corporate PPAs with the right level of diversification (industries and jurisdictions) as well as locations.

This speaks to non-infra deals AG has closed in recent years: "In parallel to our infrastructure segment which has been very strong in Europe over the last decade, we have been providing financial guarantees in the structured finance space, in particular in the CLO sector."

"Finding opportunities where we can apply our infrastructure and structured finance capabilities is a key part of our strategy going forward." says Raphael.

AG hopes to replicate the approach it has taken in the solar sector and apply it to onshore wind. Offshore wind has so far remained challenging for the monoline which – as is the nature of the beast – tends to shy away from early-mover status in an emerging sector, but AG recognises that the sector has significantly matured over the last few years and is now actively considering entering this market as well.

Traditional focus

A cornerstone for AGE's target business across Europe will continue to be more traditional PPPs – concession-based projects – a sector that has historically been active for monolines.

While this sector has been most active in the UK PFI market, AG has remained focused on European projects where – until recently – it has been challenging for the wrapper to compete against local lenders.

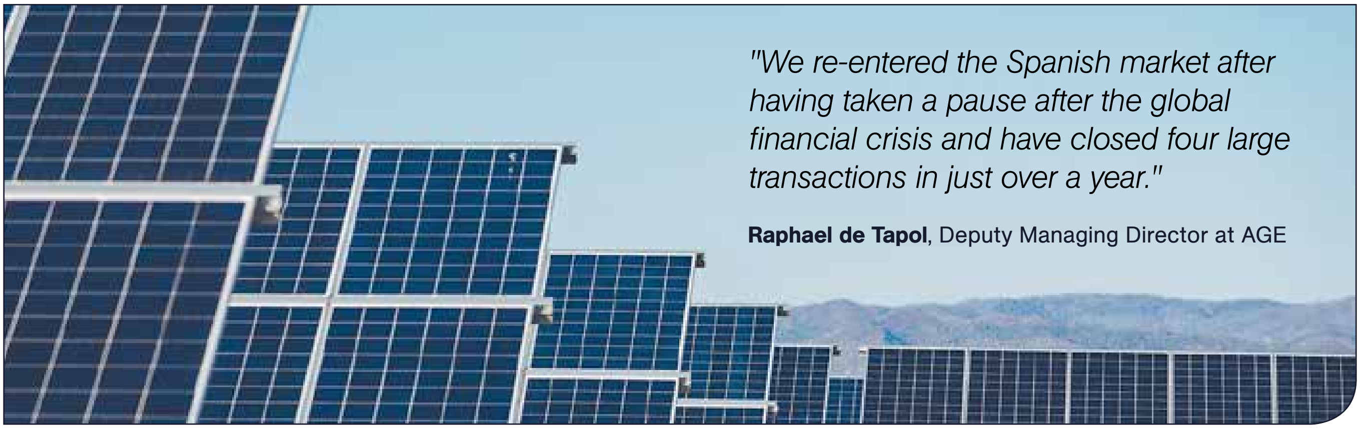
If AG is to operate in this space, it is likely to be on big-ticket transactions.

"We like to be the controlling creditor – the majority portion of the senior funding solution," says Raphael. "For large projects, we need support for large capacity from our investor base, something that has changed recently… mostly thanks to the deals we closed in Spain.

"For PPP projects, we may be able to guarantee senior debt up to €800 million per project and have seen evidence of investor appetite to buy wrapped debt up to that amount at very competitive margins."

Raphael adds: "This is interesting to sponsors for a number of reasons. The universe of investors who have bought debt wrapped by AG is global. We have seen the wrapped solution attracting investors into jurisdictions and sectors that they might not have been interested in without the financial guarantee. We have also seen such investors taking bigger tickets if the debt is wrapped. From the sponsor's point of view – especially for those large financing requirements – with us acting as guarantor, we are the single point of contact.

"That makes the whole process – not only during execution, but also during the life of the project – between the sponsor and the senior funder much smoother."



As to regional focus, AGE is targeting highly-rated European countries with a particular focus on availability based projects in Benelux, Scandinavia and France. It also continues to target toll roads where the monoline has wisdom to bring to the table.

Talking about European toll roads, Raphael says: "We have been able to observe how these projects have performed through economic cycles – most recently with the Covid-19 crisis. We believe that we can be very competitive in this sector".

Stewart Robinson

Stewart Robinson, Managing Director, Power, Energy and Infrastructure at Cantor Fitzgerald

"Cantor have been discussing the AG wrapped bond solution with the global institutional investor base for a number of years. Each year and after each successful transaction we see increasing demand for wrapped debt. Depending on the institution this demand is driven by relative value returns versus other highly rated debt, the improvement in Solvency II or regulatory treatment, or simply de-risking for lenders entering new markets, sectors or investing in deals with construction risk. This demand is present across major currencies and geographies and Cantor are actively pursuing AG wrapped transactions in Europe, US and Australia."

Structured finance & infrastructure experience

One area that is of particular interest for AG – as previously mentioned – is the blend of its capabilities in both structured finance and infrastructure finance.

AG's Raphael de Tapol anticipates that this combined approach could reap rewards in the guarantee of portfolios of operational infrastructure assets held by banks. Similar to the way AG's products have helped Solvency II regulated insurers to be efficient with their capital, AG believes that the monoline's product could be all the more central for banks seeking the same benefits.

"We have been approached by a number of banks looking for our credit protection on their existing portfolios for a range of asset classes, not only infrastructure, as a means for them to optimise the capital associated with those assets," says Raphael.

"If the portfolio shown to us by a bank consists exclusively of assets which we are comfortable with from a credit standpoint, then we could guarantee the entire portfolio and enhance the rating to our credit rating of AA. We have done a few of those over the last few years, largely driven by regulatory objectives. But these portfolio opportunities are also a way for us to guarantee exposures that we probably would not be able to do on a stand-alone basis."

This approach is opening the door to opportunity for the monoline.

"When banks come with portfolios of infrastructure assets that we would not guarantee individually because they are in a jurisdiction or an asset class we are not comfortable with, we can guarantee a senior portion of the portfolio," says Raphael.

"Either the bank itself would retain a first-loss tranche, or that first-loss tranche would be transferred to a third party – which we may be able to facilitate. We could front-end guarantee 100% of the portfolio and transfer that first-loss risk to another party."

This is an interesting area of activity for AG and – should the monoline be able to prove the value of its product to banks on existing assets – there is no reason why this trend should not lead to an uptick in activity… even for new debt.

All told, having engineered impressive recovery from the all-time low of the global financial crisis, Assured Guaranty seems to be riding a wave of new business with the French company playing an increasingly vital role in this post-Brexit economy. ■

Julián Pérez de Madrid

Julián Pérez de Madrid, Head of DCM at Banco Sabadell, Madrid

"I have been working with Assured Guaranty since 2018, achieving the closing of the first wrapped project bond in Spain since 2010. Up to date, we have arranged close to €1 billion transactions with AG, and we are currently working in projects of circa €400 million.

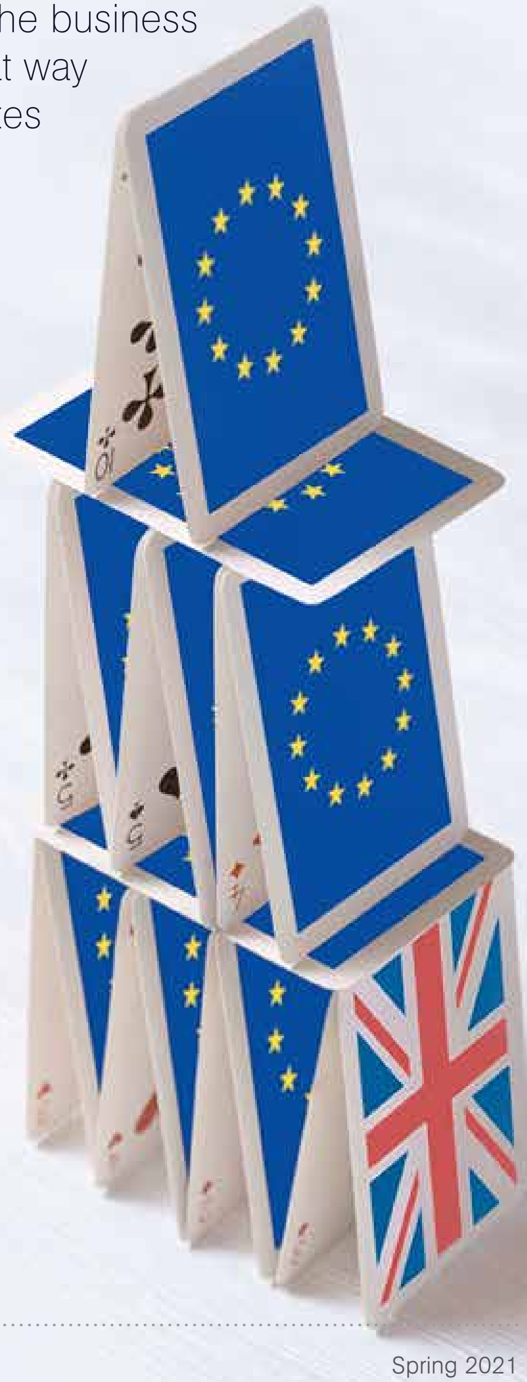
"AG is very flexible and committed. During the execution phase of a Project Bond, it is standard to come across some complications. Assured Guaranty always find a way to solve them in a very constructive way, something that is crucial to get transactions closed in form and time.

"In our experience when placing a project bond, investors look at Assured Guaranty as a reliable partner and – in our experience – appraise the benefit of the guarantee in two main aspects: giving comfort in the process of investing and during the life of the investment, basically through alignment of interests and awesome analytical team; and letting investors meet the most efficient yield / capital consumption, not only improving the credit rating of the investment but achieving an uncorrelated credit position.

"As lead manager, we also see AG as a partner. They help us to find the financial solution to our clients, both the issuers and investors."

The post-Brexit future of the UK fund

In the run-up to Brexit, many UK-based fund managers shifted domiciles to Luxembourg – but for now, much of the business operations remain in Britain. Whether it will stay that way depends on future relations and EU ambitions, writes **Ott Tammik**



Since the EU referendum, an estimated £1 trillion in assets and thousands of jobs have moved from London to Europe, according to analysis by EY. The statistics have become more palpable in the months since the transition period came to an end, with Amsterdam taking London's place as Europe's biggest trading centre and the risk that other services from derivatives to bonds are following.

For the UK's financial services industry, the last-ditch trade deal agreed in December 2020 (which has been bogged down by further delays) has been a frustrating "no-deal". With Europe holding all the cards, as one fund manager puts it, the UK and EU have still yet to hash out a framework for the financial sector, with an MoU initially due before the end of March.

Two of the biggest challenges facing fund managers in particular are the loss of passporting rights – which allowed them to raise capital from investors across the EU – and certain capital regulations that will push institutional investors towards a preference for EU funds over non-EU funds.

In particular, the loss of passporting is an issue for core infrastructure funds, which have been popular with EU investors, whereas core+ strategies have been more popular with US and Asia investors.

The consequences, such as staffing up in Europe, are still evolving but have been playing out since the referendum. In a nod to this trend, placement agent Campbell Lutyens, which supports funds on their capital raising activities, recently opened an office in Paris, saying it "enables the firm to continue supporting its clients and investors effectively following the UK's departure from the European Union".

Losing the passport

In January, the UK has shown it is keen to cooperate in financial services by adopting the EU's regulatory framework for private funds (the AIFMD) as a British law and granting market access to the EU in a number of areas based on "equivalence" – a legal recognition of the other's regulatory rules. But, as lawyers point out, the main benefit of the somewhat problematic EU fund regulation was passporting, which no longer applies.

Fund managers based in the UK – historically home to a big portion of infrastructure funds – are having to find workarounds to gain access to European institutional investors.

For large financial firms with a strong European presence, the loss of UK passporting rights is a mere technicality with little impact, but for plenty of funds it is a problem – particularly in the

Oliver Crowley

"In some countries private placement is simply not a viable option, which makes them very problematic for certain managers targeting investors."

infrastructure market and particularly smaller UK-based fund managers that previously relied on passporting.

"This is more problematic for the smaller funds – those typically in the sub-£500 million range – and those with no presence in the EU wanting to market across Europe," says Oliver Crowley, a partner at Pinsent Masons.

"For others who have had to set up operations in the EU as a result of Brexit, it is still an additional cost."

UK-based funds that previously relied on passporting, now have three main options for fundraising in the EU (aside from setting up EU operations, typically in Luxembourg or Ireland):

- so-called private placements – national frameworks that allow market access on a country-by-country basis
- white-label service providers – companies that set up EU funds on behalf of UK-based managers and delegate much of the work to the latter
- reverse solicitation – EU investors seeking out a UK fund on their own initiative

But there are a number of challenges with these options. In the case of private placements – which firms from non-EU countries like the US have used – these arrangements are different in each country and can be complicated.

For instance, it may take just a few weeks to get fund marketing set up in Luxembourg – but it could take several months in Germany. Moreover, private placement is not available in countries like France, Italy, Spain and Austria.

"In some countries private placement is simply not a viable option, which makes them very problematic for certain managers targeting investors," says Crowley.

Another problem is that the European Securities and Markets Authority (ESMA), which for years has been clamping down on offshore shell companies, has indicated that it could further restrict white-labels and reverse solicitations. For instance, it could increase substance requirements – the minimum threshold for staff on the ground in Europe. It is part of a landgrab by the EU, but also "understandable from an EU perspective", says one London-based funds professional.

Institutionals face regulatory capital requirements

Nevertheless, unless you're a fund manager with lots of investors in countries that don't have a private placement regime – which haven't historically been huge allocators of capital to UK infrastructure fund managers – then the private placement route may not really be a problem, says James Sargent, a partner with Weil Gotshal & Manges.

"Ultimately, you can access a lot of EU investors with a UK structure. You just have to go through a different way of doing it," says Sargent.

A bigger concern for some managers in the wake of Brexit is that EU insurers and German pension funds – a big portion of the infrastructure investor base for a number of core infra funds – are subject to regulatory requirements that disincentivize them from investing in non-EU funds.

Due to Solvency II rules and the German Investment Ordinance, institutional investors have to hold less regulatory capital for EU funds than for non-EU funds. As such, investors that previously invested in UK funds, will likely be putting their money in EU funds going forward.

Keeping options open

London-based Asper Investment Management tells *IJGlobal* that it has domiciled its latest funds in Luxembourg due to Brexit.

Asper – which focuses on energy transition infrastructure with a value-add strategy and counts Dutch pensions group APG among its investors – recently concluded fundraising for a €250 million co-investment platform.

The firm is weighting its options for future fundraisings in light of the loss of passporting rights. Its current approach is to keep its options open: working with providers of fund administration services in Luxembourg and analyzing national private placement rules.

Luigi Pettinicchio

"Our client base is composed of institutional investors, including in the EU and the UK, so preserving the ability to market effectively post-Brexit is of strategic importance for our business."

Furthermore, Asper has recently established a subsidiary in the Netherlands, which it says was driven by other operational needs to have local resources, but the office also facilitates the option of setting up a local fund if needed in the near future.

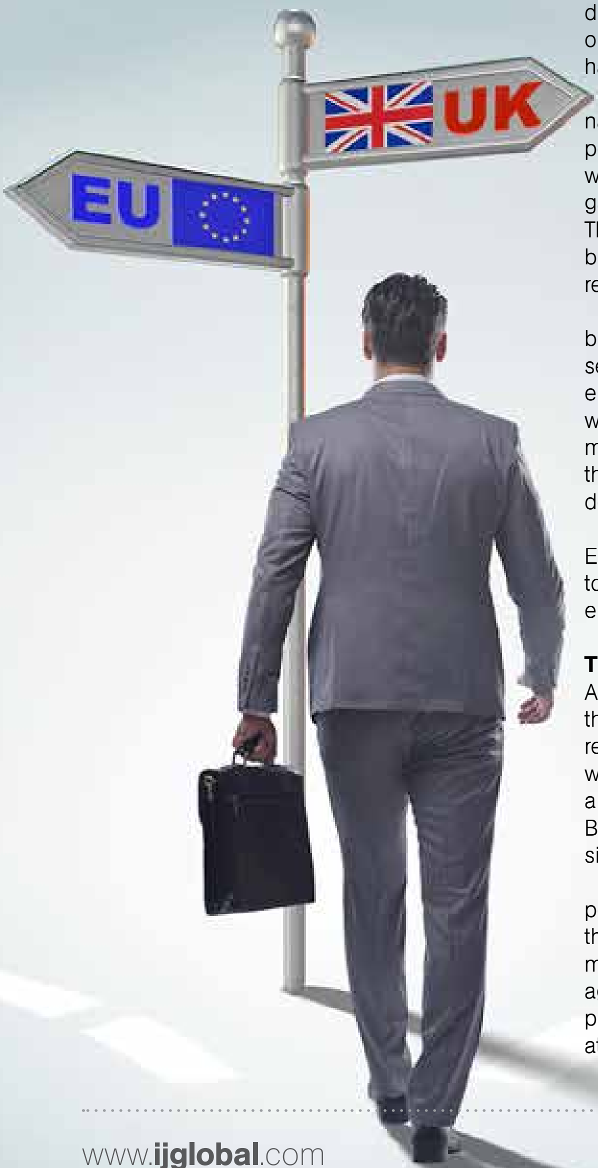
"Our client base is composed of institutional investors, including in the EU and the UK, so preserving the ability to market effectively post-Brexit is of strategic importance for our business," says Luigi Pettinicchio, co-founder and chief executive of Asper.

While market players say a full-scale exodus of the funds business to Europe seems unlikely, it seems safe to assume that as time goes on, a lot will be determined by where investors are based.

In the meantime, the UK is seeking ways to become more competitive outside the EU, with HM Treasury currently reviewing the UK funds' regime. ■

It's a long way to Frankfurt

IJGlobal reporter **James Hebert** takes a look at the lending environment for infrastructure across Europe as the reality of Brexit becomes (kind of) apparent…



Remember back to the simpler, more innocent times when the worst thing you'd hear about Brexit in the news was the total capitulation of the UK economy due to relocations to Frankfurt and mutilated Toblerone bars?

Even with a deal – the EU-UK Trade and Cooperation Agreement – now in place, the British economy is currently reeling from a GDP shrinkage of 9.9% for the year 2020, towards which the Covid-19 pandemic played a uniquely large, deleterious role.

Maybe the gloomiest predictions were right about the state of the economy after Brexit – but for the most part 2020 wasn't due to the risks of Britain attempting to go out into the world alone, but rather Britain having to stay inside.

As the vaccines are rolled out nationwide, some minds are turning to the post-pandemic period, such as whenever we can go back to watching football games without the FIFA sound effects. The size of the economy will recover, but it will be adapting to the new trading relationship built across the channel.

Inner London may not have much fish, but it's still home to the largest financial sector in Europe… complete with its energy and infra lending market. However, while the new fishing rules have been made clear, there is still uncertainty over the services sector in the new EU-UK deal.

Now that the UK has officially left the European Union, how much closer are we to seeing the effects Brexit will have on energy and infra lending in the UK?

The status of the deal

Approximately three years ago, perhaps the biggest question arising from the referendum result was whether there would/should/could be a Soft Brexit or a Hard Brexit – very much the "Oasis or Blur?" of the 2010s but with fewer hit singles.

Eventually, as the end of the transition period approached in December 2020, the primary question morphed into the more alarming "will there be a trade agreement at all?" and the most urgent prognostications about Brexit were then attached to the prospect of 'no-deal'. Neither 'hard' nor 'soft' Brexit, but a separation process with no free trade regime in place.

Finally, the EU-UK trade deal was signed on 30 December 2020. Despite a clearer picture for businesses dealing in physical goods, the financial services sector is still more or less waiting for a deal – the topic of finance was largely left out of the negotiations for the EU-UK deal, which was otherwise focused on more visible industries and labour movement.

A bank source told *IJGlobal*: "Frankly most banks have just been playing the long game in terms of reacting to the issue because I think there was an expectation that there would be a softer form of Brexit and that clearly hasn't come to pass."

On the other hand, there is also an upbeat mood in the response to the deal. Charlie Hodges, a managing director at financial adviser Augusta & Co believes that "international investors look set to deploy growing amounts of capital here. There is a strong belief that the energy market is well regulated and perception that currency risk is manageable."

The common factor in both of the above statements is that it's yet too early to conclude on the EU-UK trade deal as either a success or failure for energy and infra project finance – agents in the market are still operating on expectations and belief.

What are the current impacts?

It was evident on the morning of 24 June 2016 that neither the sky had fallen on our heads, nor had a resuscitated Winston Churchill appeared to pull a sword out of a Yorkshire pudding. The Leave campaign had won, but the short-term impacts of the vote would take much longer to appreciate.

It would inevitably take time to assess the effects and the financial sector isn't special in this regard. Nearly five years later, many in the industry are operating on the expectations of Brexit, rather than whatever effects it currently has.

One European bank executive told *IJGlobal* that, so far, the impacts that have been felt across the industry depend on the department: "We are starting to see the most obvious and apparent impact on our business is that when we look to originate and underwrite loan facilities our syndications capacity that we have in London can't talk to investors in the European space. We have to talk to them via our European located distribution colleagues.

"So, as in the past we might have had one deal run from our London office and selling loan assets into Europe or even underwriting loan assets in Europe and distributing out of London. Now when speaking to EEA domiciled investors in the primary market, you may find two people from one bank on the phone call with the same client so that technically our London based colleague isn't talking without the surveillance and oversight of a European qualifying individual. So that is a very apparent impact."

Dan McCarthy at One Search provides a different response to current impacts: "So far, I have seen more evidence of people trying to take advantage of [Brexit] than I have companies. For example, people know that they can get a better compensation package in London than they can in, say, Paris. But if they can get the London job and only have to physically BE in London two days every fortnight… perhaps they can win on this trade. We also see candidates for roles who are working for a more rigid business actively looking in the market, greatly attracted by the flexibility being shown by others."

As expected, these current impacts are rather limited. In addition, the extent to which these are either significant hurdles or big benefits for lenders both appear minimal.

Whither the exodus? Will lenders be WFH (working from Holland)?

This was one of the doomsday scenarios talked up for Brexit – the prospect of banks and bankers alike moving wholesale from London into another city across the channel, where EU member-states offer unrestricted access to the EU27 single market. How is this going, anyway?

McCarthy answers: "I have not seen one single instance of a critical/senior deal origination role in frontline M&A or project finance being moved from London to the continent – which is just as well for the institutions concerned. Most people in these positions are in great demand and if told their role was being relocated, they could easily stay in London and get a comparable role with another firm."

One unnamed source however hinted that the opposite process is taking place, and that some banks are simply more prepared than others: "Take for example BNP Paribas, they had a presence in both Paris and London so they didn't have to make such drastic changes out of the box. Out there is where you have your sales professionals because those still need to be domiciled in the jurisdictions where they are booking trades. Therefore, you've seen quite a substantial shift in terms of how clients are being spoken to and discussed… transactions in terms of who their critical point of contact is."

McCarthy adds: "If I did have to pinpoint a place where there has been some activity, I would go for Luxembourg. Some banks have been using this as an opportunity to get a foothold in continental Europe whilst perhaps optimizing their tax situation at the same time. The view from these shops seems to be that there is no city which seems particularly attractive to their existing staff, or indeed which might help them, attract talent, so they choose Luxembourg based on cost effectiveness.

"Certain platforms have been trying to induce continental European nationals to move to the continent, but it is difficult to get people to leave London – the vast majority of continental Europeans don't want to go back. London has everything – no European capital compares to it for overall quality of life. In Amsterdam you can park your car opposite the office – that's the best argument I've heard for going there."

Will any changes made during the pandemic be crystallised by Brexit?

As already mentioned, the oft-predicted economic turbulence caused by a rocky exit process (whether because of a Hard Brexit or no-deal) was nonetheless a major side-effect of the pandemic declared by the World Health Organisation in March 2020.

The pandemic has (virtually) shaken up the way many companies do business. If the banks were aiming to make any Brexit-related changes, has the pandemic brought them forward? Has Covid-19 mutated with Brexit-16?

When asked about any hybridisation of Brexit and pandemic, McCarthy responds: "I have not seen any evidence of this. The businesses that didn't need to be in London had already presumably gone through this thought process in the past or were not there in the first place. If you are a front office, client facing business/business unit which needs constant access to the market, to your customers and other third parties, you need to be in London, and businesses understand this."


Alistair Higgins

"The key issue for European banking in the next 5 years will likely be the repercussions of Brexit, rather than the pandemic."

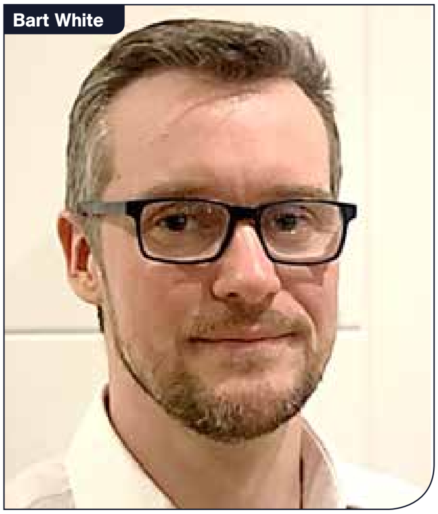
Alistair Higgins, a managing director at ING Bank told *IJGlobal*: "I think inevitably yes. There will be a lot of that taking place but it's very difficult to know… the management of a company is not going to go and say 'we're doing this now because of Brexit three or four years ago', they will say it is part of a general rebalancing in light of everything."

Talk of 'rebalancing' or 'restructuring' has been heard in many companies across the region, even during the pandemic the healthcare sector and healthcare-related research industry have not been invulnerable to personnel shifts and redundancies. As the UK Chancellor, Rishi Sunak, recently announced the furlough scheme is set to continue past April and last until the end of September (2021), clearly responding to concerns from businesses over the possibility further layoffs.

So, what about the financial sector?

Higgins says that ING Bank is "in some regards fortunate that we don't have an overweight presence in the UK. So, we are unlikely to see substantial reductions in our UK presence but that's not true of every institution…

Bart White



"In terms of pipeline of opportunities we remain bullish on the UK for infrastructure & project finance over the near-term at least."

"Take French banks for example, they over the last 15 years chose to have the UK as their principle base of operations because there was a more flexible workforce and a better ability to get business done and for them I think there could very much be a series of progressive cuts, reshuffles, and moves to get that European centre of gravity back which would naturally be their starting point.

"The key issue for European banking in the next five years will likely be the repercussions of Brexit, rather than the pandemic."

The regulatory sphere

Bart White is head of structured finance at another European bank with strong interests in the British market, Santander Corporate & Investment Bank UK. He "remains bullish" but adds that – over time – "the 'unknown unknowns' may come from the impact of regulatory deviation vs the ECB."

Higgins: "[The] Brexit related changes are tangible and real and one thing that has driven the market over the last 10 years and will for the next 10 years is regulation and that's not going away."

One of the most prominent arguments wheeled out for Brexit is the opportunity to cut yet more red tape and reduce – if not remove wholesale – the amount of the much-dreaded regulation drawn up in Brussels. Naturally, this train of thought has enabled the creation of a highly efficient financial sector in London ever since the 'big bang' of deregulation in 1986.

However just like White at Santander, Higgins is speaking from the perspective of a European bank that would be concerned by any new red tape that affects their entry into the UK market.

In his words: "Brexit is going to have a very material impact on the financing of infrastructure post-Brexit, because the whole market is more defined by regulation today than ever, and the central premise of Brexit is contention over regulation."

The lack of consensus

As already remarked, it is too early to conclude what effects the EU-UK trade deal will have on the energy and infra lending market. There is no consensus as yet – it is still at the point where the void of uncertainty is easily filled with either optimism or pessimism, just strike out whichever mood appeals.

Furthermore, the short-term expectation of increased red tape and reduced economic growth – which was a possibility not discounted by some in the Leave camp – has been rather upstaged anyway by the impact of the Covid-19 pandemic in 2020.

In the UK energy and infra spheres since June 2016, many projects were able to achieve financial close in spite of some having Brexit-related issues cited by the people involved when they spoke to *IJGlobal*:

- 42MW Newhurst waste-to-energy – sponsors took a bet on the supply of refuse derived fuel (rdf), which could be affected by a drop in rdf exports to EU member-states
- A465 motorway PPP – lenders "did not have visibility of the risk" involved, including tax implications and movement of labour

The bottom line is that these deals were nonetheless successful and other transactions that have achieved this feat in recent times did not appear to have any concerns of the type at all, such as the Dogger Bank Wind Farm projects and Seagreen Offshore Wind project – both of which were project financed on the back of multi-billion pound, ECA-backed debt tranches.

White at Santander says that "in terms of pipeline of opportunities we remain bullish on the UK for infrastructure and project finance over the near-term at least." A look at the EU's Tender Electronic Daily portal still shows dozens of listings for UK infra opportunities for companies both large and small.

White adds: "Furthermore we anticipate minimal impact on liquidity for new deals, as whilst a handful of international lenders are stepping back and focussing on their core geographies, the UK will similarly benefit from heightened attention from its own long list of domestic lenders."

There is however consensus on the importance of London and here is where the discussion turns entirely macro. Whatever the view is on Brexit, the UK's capital city is still highly prized for its economic status – which goes against the grain of some pro-Brexit narratives. After all a majority of Londoners voted Remain, while many Leave-supporters outside the capital have been content to depict the capital as filled with out-of-touch elites more likely to drink highly carbonated Belgian beer than real ale.

In some ways Brexit has necessarily been 'anti-London'. Many people in the market have expressed concern that the EU-UK trade deal provides more regulatory clarity on fishing – which is a highly visible industry with plenty of pictures for local papers and a wealth of puns for headlines – than on the financial sector.

That's not to suggest that banks have a PR problem, but rather there is something inherent to Brexit that inevitably pits London on the losing end. Not enough fish, no shared border with Ireland, and no masses of Europeans taking up the managing director jobs in Canary Wharf.

There is simply no consensus on how hard the UK's energy and infra lending will be hit, regardless. On one hand… Higgins says: "I think [Brexit is] going to be pretty detrimental to Europe as well as the UK, but as Phillip Hammond [UK Chancellor from July 2016 to July 2019] rightly observed, it is a political outcome rather than an economic one, and sadly the repercussion of that is that in the round there will be more significant downsides to be weathered for most people in and outside the industry."

However, on the other hand… Hodges says: "There will be some long-term pressure, likely from higher inflation and tax rates, but this is not unique to the UK and I sense that the returns will be resilient to potential macro headwinds. The UK is open for business and the worst of the uncertainty that has dogged the market in the past four years is over (rightly or wrongly!)"

So, there it is – the post-Brexit clarity on energy and infra lending now clarified: it's not clarified. ■