Hard Brexit - Impact on UK CREDIT INSTITUTIONS

Adam Chamberlain, Shoosmiths LLP

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introduction

- 23 June 2017, UK votes to leave European Union
- Uncertainty surrounding Brexit strategy
- Theresa May's speech (17 January 2017):
  - sets out 12 objectives
  - "Not about striking a new partnership between Britain and the EU but about building a stronger, fairer, more global Britain"
  - ruled out continued membership of the European Single Market in favour of a comprehensive free trade agreement which might provide "elements" of the current arrangements for the greatest possible access to financial services and the automotive sector
- Crystallises speculation that UK will seek 'bespoke' deal and will opt for a 'hard' Brexit
- How have we got here and what are the options now?

Brexit timeline and process

1 January 1958: Treaty of Rome - The EEC is born with 6 members

1 January 1973: Britain joins the EC

5 June 1975: The UK holds a referendum on staying in the EC and votes to stay

7 February 1992: the UK signed the Maastricht Treaty effectively creating the European Union

1 November 1993: the European Union was born with the UK one of 12 founding members

2 October 1997 / 1 May 1999: the Treaty of Amsterdam devolved powers from national governments to the European Parliament, including in relation to immigration, civil and criminal laws and foreign and security policy. Also paved the way for expansion of the union

26 February 2001 / 1 February 2003: Treaty of Nice catered for eastern expansion of the European Union

13 December 2007 / 1 December 2009: Treaty of Lisbon further enhances of powers in the EU away from national governments, including significant move away from unanimity voting to qualified majority voting and The EU Charter of Fundamental Rights becoming legally binding. Also formalised the Art 50 process for a member leaving the EU

June 2015: David Cameron lays out his referendum plan at a European Council meeting in Brussels

17 December 2015: The European Union Referendum Bill receives Royal Assent. A referendum is to be held on the question "Should the United Kingdom remain a member of the European Union or leave the European Union?"

15 April 2016: Start of the referendum campaign period

23 June 2016: UK votes to leave the European Union

24 June 2016 / 13 July 2016: Cameron resigns and Teresa May appointed as Prime Minister

13-14 July 2016: May appoints Cabinet: Establishing Department for International Trade with Liam Fox as Secretary of State, together with Boris Johnson as Foreign Secretary and David Davis as Secretary of State for Exiting the EU. The three are tasked with devising Brexit strategy

3 November 2016: High Court decision ruling that Art 50 cannot be invoked without Parliament's approval

5 – 8 December 2016: UK Supreme Court hears an appeal by the Government against the High Court's judgment

17 January 2017: Theresa May deliver's speech setting out key points around Brexit strategy with main objective to build a "truly global Britain"

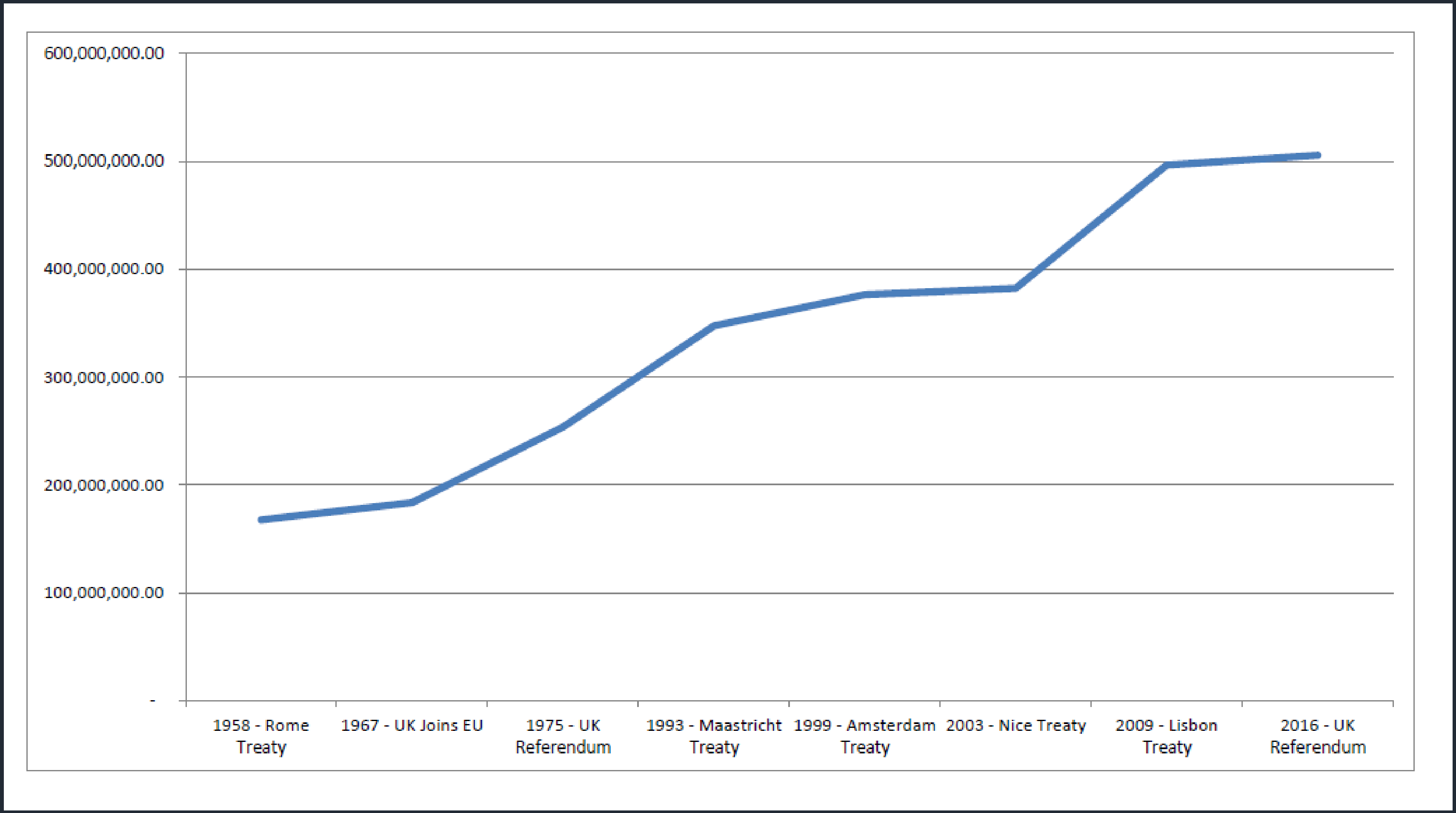
24 January 2017: UK Supreme Court upholds High Court Judgment that parliament must vote on triggering of Art 50. Official Labour (opposition) policy is to vote with the government but numerous opposition MP's have threatened to resign.

March 2017: Theresa May expected to trigger Art 50 which will be followed by a two year negotiation period

2 March 2017 - March 2019: Britain negotiates its exit from the EU, with final deal to be put to a vote of both Houses of Parliament

March 2019: If Art 50 is irrevocable, what happens if the Parliamentary vote to the proposed deal is a no? Theresa May has said no deal is better than a bad deal so the UK will come out of the EU without a deal and its relationship with EU members will be based on WTO Rules / Tariffs.

Eu population chart



UK's CURRENT RELATIONSHIP WITH EU - FULL MEMBERSHIP

Benefit vs Burden Analysis

- General

Benefit	Burden
- Full access to the Single Market; - Free movement of goods, workers, services and capital.	- Political cost of giving up sovereignty; - Membership costs.

- Specific to UK financial / credit services

Benefit	Burden
Passporting rights and market access: currently UK authorised Banks (and other financial services providers) have the right to carry on business in another EEA state without further authorisation.	Whilst the UK has a direct influence over the decision making process and can ensure that directives provide protection for investors, it is subject to overregulation in many areas such as regulatory capital, remuneration or investor/customer protection.

OPTIONS AVAILABLE TO THE UK……

1. The NORWEGIAN MODEL - Join the European Economic Area

Benefit vs Burden Analysis

- General

Benefit	Burden
Norway is a member of the EEA and part of the Single Market but does not participate in other forms of European integration and is therefore able to negotiate trade deals independently of the EU.	Required to implement single market policies(without representation in the European Parliament). Norway does not belong to EU's customs union, meaning exports must satisfy 'rules of origin' requirements to enter the EU duty free

- Specific to Norwegian financial services / credit services

Benefit	Burden
Access to 'passporting' regime for cross border financial services trade	Must pay a fee to be a part of the Single Market in 2011, Norway's contribution to the EU budget was £106 per capita, only 17% lower than the UK's net contribution of £128 per capita.

2. The SWISS MODEL - Bilateral treaties

Benefit vs Burden Analysis

- General

Benefit	Burden
A la carte approach permits opting out of EU programmes on a case-by- case basis.	Must pay a fee to participate in EU programmes, but contribution likely to be lower than if in EEA.

- Specific to Swiss financial / credit services

Benefit	Burden
Banks can do most of their EU capital markets business from their London subsidiaries without having to be a member of the EU or the EEA.	Does not have full access to the single market for its banking sector and other parts of the services sector (which together make up almost 80% of the UK economy!). Its banks, therefore do not enjoy a passport allowing them to offer their services anywhere in the EU. That's why so many of them have large operations in London – this could change following Brexit.

3. JERSEY - BECOME A REAL THIRD COUNTRY

Benefit vs Burden Analysis

- General

Can negotiate its own trade deals with non-EU countries and independently of the EU, with no obligation to contribute to EU budget.	No freedom of movement of people with the EU and no right of access to EU markets for service providers.

- Specific to Jersey financial services / credit services

Jersey's finance industry typically gains access to EU markets by means of EU legislation providing for third country access in respect of which it can demonstrate equivalent standards.	Market access: each right of access needs to be individually negotiated at government level with the EU. Negotiations can be difficult and protracted. Jersey must implement and abide by an array of EU legislation under third country access rules.

4. CANADA – STRIKE A FREE TRADE DEAL (CETA)

- Benefit vs Burden Analysis
- General

Benefit	Burden
Once in place, this deal will give Canada preferential access to the EU single market without all the obligations that Norway and Switzerland face, eliminating most trade tariffs.	Goods exported to the EU must meet EU product standards and exporters must prove that their goods are entirely "made in Canada", which imposes extra costs, to prevent imports entering the EU through a "back door".

- Specific to Canadian financial services / credit services

Benefit	Burden
	It would be very difficult for Canadian-based banks to get "passporting" rights for their services in the EU. A Free Trade agreement is not sufficient, especially for the financial sector. Maintaining access to European capital markets necessitates formal agreements and parallel legislation to that of the EU.

5. RELY ON World trade organisation

- Benefit vs. Burden Analysis
- General

Benefit	Burden
161 members comprising all major economies. Under WTO rules, each member must grant the same 'most favoured nation' (MFN) market access.	As a WTO member, the UK's exports to the EU and other WTO members would be subject to the importing countries' 'most favoured nation' tariffs.

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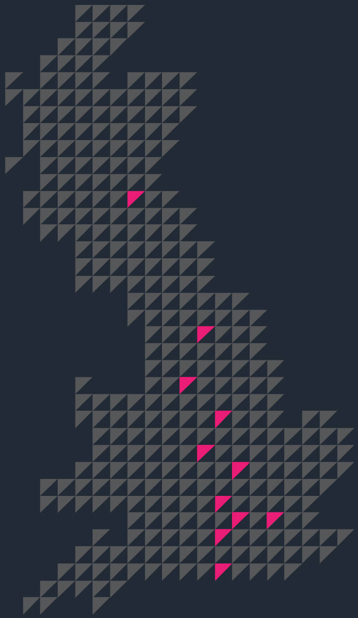

- 166 partners and 752 legal advisers
- Turnover of £107m to end April 2016
- Real Estate Legal team of the Year finalist - Estates Gazette Awards 2016
- UK's leading legal adviser by deal volume in 2016 - Experian Market IQ's M&A Review
- #1 in Employee Satisfaction Survey and rated a 'Best Employer' for twelfth consecutive year in 2016 - Legal Week
- Recognised twice in the 50 Most Innovative Law Firms report, for the eighth consecutive year - Financial Times
- Gold Standard status - Investors in People
- Best talent initiative - Business Leadership Summit & Awards 2016 finalist
- Authorised by the Financial Conduct Authority (FCA)
- Ranked 13th in the UK by real estate revenue - The Lawyer Top 100 2016

Get in Touch

Adam Chamberlain
Partner
Shoosmiths LLP

20th Floor, Tower 42
25 Old Broad Street
London
EC2N 1HQ

adam.chamberlain@shoosmiths.co.uk

+44 (0) 207 205 7029