EFPA UK thoughts about BREXIT

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The result of the referendum vote is clearly the major issue for the UK but also for the rest of the EU. There has been much talk about the vote, how it was organised, why there was so much strategic voting and whether or not there should be another vote on the subject.

In Scotland and Northern Ireland (also in Gibraltar) the vote was clearly to remain in the EU and politicians in these places have been making noises about this outcome. There has been much talk about democratic deficits and the possibility of another independence referendum (at least in Scotland). It is clearly the wish of politicians in the Scottish and Northern Ireland Parliaments that some kind of special deal can be done with the EU, which reflects the wishes of the people in these parts of the UK. At this juncture it is quite impossible to imagine what shape or form such deals might take. (The Mayor of London has been making similar noises as London voted to remain in the EU). Nonetheless it is highly significant that the new Prime Minister visited the leaders of the regional parliaments and assemblies before embarking on a round trip of European capitals. She has given assurances that the position of all parts of the UK will be taken into account when negotiations take place.

There are still many uncertainties - political, economic and regulatory - never mind the specific business impact on financial advice - which stem from this decision - but there are some clear certainties.

1. The UK has - narrowly but clearly - voted to exit the EU – and currently there is no political appetite to rerun the verdict of the referendum. The New Prime Minster -Theresa May – has clearly said **“Brexit means Brexit”**, but the Houses of Parliament still have to vote on the subject, before Article 50 can be invoked, and it may be rather challenging to get a majority of MPs in favour of leaving.

2. The new Prime Minister – having had a shortened election – will start to give a clearer direction of travel from now (rather than in September when the original election was due to be completed).

3. Despite no 2 - The timetable is unlikely to be swift - even with political will on both sides (UK and EU) as there are a number of options for how the process will proceed. But if and when Article 50 is invoked, then there is a clear 2 year timetable to leave.

4. A UK Government '**Brexit Unit'** has been established within the Government to pull everything together. This will require time to get up to speed both in the UK and establishing discussions both in Brussels as well as with all 27 member states.

It is worth while making a few general points:

• We are in uncharted waters. No major State has left the EU and the

process - both legal and constitutional is road-mined by political and economic factors all of which can change the direction of the debate over the next couple of years. The most important point to make in terms of the business and regulatory environment is that all existing regulatory requirements [as well as new ones in the pipeline] remain in place until the UK formally leaves. Anybody who is suggesting a clear roadmap at this stage is doing so on the basis of too many imponderables. Of course organisations are planning risk scenarios but there remain a large potential set of outcomes. While financial are a clear and distinct sector of importance in the negotiations they only constitute part of a very complex set of negotiations and there is no guarantee of a positive outcome from a sector point of view.

• Political risk: driven by an unclear timetable for engaging in formal (Article 50) negotiations; short-term political vacuum caused by the need for a new Prime Minister to agree the priorities and approach to be taken; the issue of a possible renewal of the Scottish independence debate (another referendum?); uncertainty over another General Election; and finally the lack of clarity currently about what is the preferred option for Brexit (Norway EEA option, WTO option, Customs Union, Bilateral option, e.g. EFTA).

As Investment company Standard Life put it:

“The full implications of the UK vote will only become apparent over time. There are several important time-frames ranging from the immediate market and corporate reactions, several central bank decisions in July through to October/November when elections are scheduled in several key countries. The often referenced ‘Article 50’ simply starts a two-year period for the UK to arrange exit from the EU. Negotiations covering new UK/EU trading agreements (e.g. access to the single market) are not covered by this initial two-year period and will almost certainly take considerably longer. “The political ramifications for the UK are already becoming apparent. The wider implications for Europe will appear over time. In such a fluid situation it is impossible to accurately predict what the final political consequences will be. A framework of examining how politics influences economic activity, policy responses and what is priced into markets will help investors navigate their way”.

Bank of England Governor Mark Carney provided a useful overview:

“Uncertainty over the pace, breadth and scale of these changes could weigh on our economic prospects for some time. While some of the necessary adjustments may prove difficult and many will take time, the transition from the initial shock to the restructuring and then building of the UK economy will be much easier because of our solid policy frameworks”.

From a European perspective looking in to the UK

From the perspective of other Member States trying to make sense of what the implications are, then it is worth saying that it will be difficult to be clear about the effect of this member until:

1) The UK stance and preference becomes clearer and

2) In parallel, how the European Commission and also individual Member States react. The reality is that while there is a legal process (Article 50 of the Treaty of Lisbon) it is likely the political process will be

to be more important in determining both the timetable and whether this is a harmonious or lengthy and bitter divorce.

There is no suggestion that the UK is retreating into its island redoubt. The UK will remain an active member of many European organisations whether at government or non-governmental levels. For example, earlier this week the UK Parliament voted, by a large majority, to renew the Trident project- aware that many European countries acknowledge the British nuclear capability is a vital component of their own defence strategies. The commitment to NATO will remain firm as it will to a myriad of other organisations operating in the political, economic and cultural aspects of our lives.

There is a lot of sympathy in the hearts and minds of British people for European ideas and ideals. What has been rejected, albeit by a relatively small majority, is the trend towards a single state of Europe. What will now be interesting to see will be how the British move is reflected in the thinking of politicians in other European countries.

Being a member of EFPA is considered all the more important and relevant in light of these developments and we remain committed to working with the board and our colleagues from other member countries for the greater good of the professional advice community and the clients they serve.

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