Post Referendum Scenarios

The impact of the UK referendum on EU membership
Risk Assessment Issues – Brexit: How We Got Here

- In the build-up to the UK General Election of 2015, Prime Minister David Cameron used the Conservative Party manifesto to pledge a referendum on the UK’s EU membership if he was re-elected Prime Minister.

- Upon victory, the Prime Minister made good on this promise and announced that a referendum would be held by the end of 2017.

- At the same time, he started a push to revise the terms of the UK’s membership of the EU, touring the different Member States in an attempt to garner support.

- During this process, freedom of movement emerged as a key issue, with the majority of Member States unwilling to agree to any changes that would block the free movement of European citizens.

- In February 2016, EU heads of state successfully negotiated a new settlement for the UK in the EU centering on economic governance, competitiveness, sovereignty, and immigration.

- In view of the 23 June referendum date, the UK government has issued an array of documents focusing on the process of a Brexit, the possible alternatives to EU membership, and the likely impact on the UK economy.

### Odds

<table>
<thead>
<tr>
<th>Remain 4/9</th>
<th>Leave 7/4</th>
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<tbody>
<tr>
<td>A £5 bet wins £7.22</td>
<td>A £5 bet wins £13.75</td>
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</table>

*William Hill, 17 June 2016

### Polls

- Remain 43%*
- Leave 48%*

*Financial Times, 17 June 2016

50%
## Post Referendum Scenario Planning – Remain

### Political UK
- Cameron vindicated but must seek to reunite party; challenges likely if close.
- Implementation of new settlement deal
- Build bridges with EU Member States and Institutions ahead of UK Presidency

### Political EU
- Relief: precedent-setting exit averted.
- Implementation of Decision but UK weakened influence
- More Europe to counter ‘two-speed Europe’

### Macro-economic
- GBP recovers some/all losses
- Spreads on FX hedging reduce
- FDI starts to flow but remains affected

### FS regulatory
- UK uses Decision to protect City
- UK influences agenda via EU Presidency
- UK delivers on FS legislation

### Political UK
- Cameron legacy planning/successor?
- Party unity vs. EU effectiveness?
- Shape/influence EU but resist more integration – how?

### Political EU
- Manage UK demands vs. tangible integration push
- New treaty?
- Single market unity vs. deeper EMU

### Macro-economic
- Return to pre-referendum status quo?
- UK remains attractive market.
- UK gains from weak Eurozone

### FS regulatory
- Post EU Presidency bounce – UK influence high
- UK supports further Eurozone integration in exchange for FS ‘wins’
- Good outcomes on CMU, CRR, BSR

### Political UK
- New leader, new government - new EU policy?
- EU member, clarity on relationship
- Push for another referendum or satisfied with relationship?

### Political EU
- New EU institutional set up
- Still EU 28? Or more? Or less?
- Still same EU policy and powers?

### Macro-economic
- UK thrives as peripheral member
- UK more attractive than Eurozone?
- Benefits from single market combined with EU economic recovery

### FS Regulatory
- City reaffirmed as a global FS capital
- Positive outcomes from EU legislation
- UK benefits from EU/3C trade deals

### Short term: 2016-2017
- Implementation of new settlement deal
- Build bridges with EU Member States and Institutions ahead of UK Presidency
- GBP recovers some/all losses
- Spreads on FX hedging reduce
- FDI starts to flow but remains affected
- Post EU Presidency bounce – UK influence high
- UK supports further Eurozone integration in exchange for FS ‘wins’
- Good outcomes on CMU, CRR, BSR

### Medium term 2018-2019
- Cameron legacy planning/successor?
- Party unity vs. EU effectiveness?
- Shape/influence EU but resist more integration – how?
- Manage UK demands vs. tangible integration push
- New treaty?
- Single market unity vs. deeper EMU
- Return to pre-referendum status quo?
- UK remains attractive market.
- UK gains from weak Eurozone
- Post EU Presidency bounce – UK influence high
- UK supports further Eurozone integration in exchange for FS ‘wins’
- Good outcomes on CMU, CRR, BSR

### Long term: 2020 and beyond
- Cameron vindicated but must seek to reunite party; challenges likely if close.
- Implementation of new settlement deal
- Build bridges with EU Member States and Institutions ahead of UK Presidency
- New leader, new government - new EU policy?
- EU member, clarity on relationship
- Push for another referendum or satisfied with relationship?
- New EU institutional set up
- Still EU 28? Or more? Or less?
- Still same EU policy and powers?
- UK thrives as peripheral member
- UK more attractive than Eurozone?
- Benefits from single market combined with EU economic recovery
- City reaffirmed as a global FS capital
- Positive outcomes from EU legislation
- UK benefits from EU/3C trade deals
# Post Referendum Scenario Planning – Leave

## Political UK
- Cameron under pressure to go; uncertainty on new leader/next steps as party divided
- UK formally request to leave EU; divorce proceedings start (2 years min)
- New leader must establish relations with EU – sticks or carrots?

## Political EU
- Precedent-set; potential lethal blow to project?
- Punish vs. good neighbour?
- More Europe to counter ‘two-speed Europe’

## Macro-economic
- GBP falls
- Market volatility spikes
- Investment/FDI suffers

## FS regulatory
- Mitigate UK loss of influence from day 1
- How to protect City given uncertainty?
- Repeal EU FS law? G20 commitments?

## Political UK
- Respect mandate to leave; unite party
- Secure ‘fair deal’ for UK with EU
- Negotiate and establish post-divorce relationship

## Political EU
- Mitigate risk of further referenda/exit
- Broker deal with UK to benefit EU 27?
- Push on with deeper integration (EMU)

## Macro-economic
- Instability/uncertainty reduced?
- Market reaction to UK exit limited?
- UK gains from weak Eurozone?

## FS regulatory
- UK establishes transition rules?
- UK implements G20 unilaterally
- UK as third country gains passport/equivalence?

## Political UK
- New PM, new government – new EU policy – more eurosceptic
- Control over sovereignty, borders, budget – free to set new path?
- Establish trade deals/economic ties with EU and third countries?

## Political EU
- New treaty, new institutions, no UK
- Push for more integrated core
- Still same EU members, policy and powers?

## Macro-economic
- UK thrives as non-member?
- UK more attractive than EU?
- Better deal out than in?

## FS Regulatory
- City reaffirmed as a global FS capital?
- UK bi-lateral deals with countries
- Secures favourable trade deals unilaterally?

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### Short term: 2016-2017

### Medium term 2018-2019

### Long term: 2020 and beyond
## Post-Referendum Scenarios

<table>
<thead>
<tr>
<th></th>
<th>Remain</th>
<th>Leave</th>
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</thead>
<tbody>
<tr>
<td><strong>Voting</strong></td>
<td>&gt;60%</td>
<td>&gt;50%</td>
<td>&gt;60%</td>
<td>&gt;50%</td>
</tr>
<tr>
<td><strong>UK direction</strong></td>
<td>Focus on implementation of February 2016 UK Settlement (with four main areas of reform)</td>
<td>No legal obligation to leave, but political obligation to leave. Need to outline a new long term vision</td>
<td></td>
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</tr>
<tr>
<td><strong>EU reaction</strong></td>
<td>Relief. Negative sentiment momentum to EU halted</td>
<td>Resentful and fearful issue not resolved</td>
<td>Major blow to EU project credibility</td>
<td>Risk of reprisals but UK without clear mandate</td>
</tr>
<tr>
<td><strong>EU direction</strong></td>
<td>Wider multi-speed EU viewed as important as deeper integrated EU. Positive boost to EU project.</td>
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</tr>
<tr>
<td><strong>EU Treaty</strong></td>
<td>EU Treaties change in 2020 to implement UK settlement (failures here reignites leave camp)</td>
<td>Rapid invocation of Article 50 exit, by 2017</td>
<td>Slower invocation of Article 50 exit clause</td>
<td></td>
</tr>
<tr>
<td><strong>UK influence</strong></td>
<td>UK strongest hand to play. €/non€ features prominently</td>
<td>Ambiguous hand. hard to accept the UK agenda</td>
<td>Strong hand. Migration features prominently</td>
<td>Terrible hand! Especially if low voter turnout</td>
</tr>
<tr>
<td><strong>EU “Presidency”</strong></td>
<td>Planning for 2017 H2 EU Presidency starts, as first of the next trio of Presidencies</td>
<td></td>
<td>UK will not hold its 2017 H2 EU Presidency and will shift to next in line, Estonia</td>
<td></td>
</tr>
<tr>
<td><strong>UK incumbents</strong></td>
<td>Cameron and Osborne hailed as champions</td>
<td>Cameron limps to victory but weakened</td>
<td>Cameron (resigns) and Osborne defeated</td>
<td>Cameron and Osborne untenable beyond 2016</td>
</tr>
<tr>
<td><strong>UK cabinet</strong></td>
<td>Government emboldened</td>
<td>Reshuffle inevitable and news posts for Brexiteers</td>
<td>Reshuffle and leadership challenge</td>
<td>Reshuffle inevitable and posts to Remainers</td>
</tr>
<tr>
<td><strong>UK challengers</strong></td>
<td>Johnson and Gove sidelined</td>
<td>May strengthened</td>
<td>Johnson and Gove inherit. May sidelined</td>
<td>Johnson and Gove inherit. May survives</td>
</tr>
</tbody>
</table>
Alternatives to EU Membership

For:
- Single market access

Against:
- Partial single market access
- Bi-lateral agreements

For:
- Free trade deal/limited access to single market
- Control over borders
- No EU budget contributions

Against:
- Limited access for financial services (branch requirement)
- Free movement applies
- EU budget contributions

For:
- Customs Union (free movement of goods)
- Control over borders
- No EU budget contributions

Against:
- No single market access (no free movement services, capital, people)

For:
- Control over borders
- No EU budget contributions

Against:
- Tariff barriers
- No single market access
- No passport for FS

For:
- Hybrid solution could see UK attempt to create ‘alternative’ model

Against:
- Lengthy negotiations
- Uncertainty of outcome
- Resistance from EU 27/EEA

For:
- Single market access

Against:
- Taxation without representation
- Free movement applies
- EU budget contributions
### Risk Assessment Issues – Global

#### Political Risk
- Rise of populism and right-wing political parties affecting EU policy
- Important elections in Spain, France and Germany influence future leaders’ domestic and EU positions
- Further fragmentation of single market
- ‘Two-speed EU’ sees political disintegration as other countries hold referenda and question the EU project
- ‘Core’ around Eurozone integrates further (deepening)
- Possible slowdown of further EU enlargement (widening)

#### Macro-Economic Risk
- FX risk and market volatility, hitting highly exposed sectors and countries in particular (Ireland, Netherlands, Germany)
- Downside risk to EU/Eurozone growth; longer period of low interest rates, low inflation and QE
- Concerns on strength of Eurozone (Grexit risk; spreads for Italy, Spain, Portugal, France)
- Downside risk to global and Japanese economy

#### Regulatory Risk
- EU inconsistent international implementation of G20/FSB commitments (TLAC, Basel III, CCP resolution etc)
- Divergent implementation and interpretation of EU prudential law between EU Member States leading to different treatment for third country banks.
- More restrictive visa/free movement/migration/immigration policy
- Trade and Competition issues (TTIP, completion of the single market in goods and services, including digital)