Now the Hard Part: The Landscape post Brexit and the U.S. Elections

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OVERVIEW

- The UK / EU landscape
- A look forward to the U.S. elections
THE UK / EU LANDSCAPE

• The UK’s EU referendum
• Triggering Brexit
• Future models
• Impact on UK and EU political process
• Impact on UK and EU legislation
• Sounding from the other side of the Channel
• What can be done?
The UK’s EU Referendum
UK REFERENDUM RESULTS

• 72.2% Turnout
• Higher than at the 2015 General Election (66.2%) but lower than turnout at the 2014 Scottish independence referendum (84.6%)
• 17.4 million votes for ‘Leave’ (51.9%).
• 16.1 million votes for ‘Remain’ (48.1%).
<table>
<thead>
<tr>
<th></th>
<th>Leave</th>
<th>Remain</th>
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</thead>
<tbody>
<tr>
<td>England</td>
<td>53.4%</td>
<td>46.6%</td>
</tr>
<tr>
<td>Wales</td>
<td>52.5%</td>
<td>47.5%</td>
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<tr>
<td>Scotland</td>
<td>38.0%</td>
<td>62.0%</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>44.2%</td>
<td>55.8%</td>
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Triggering BREXIT
HOW DOES THE UK EXIT?

- Article 50 of the Lisbon Treaty
- When triggered?
- New Brexit task force being created under Oliver Letwin MP
- Oliver Robbins appointed as the Permanent Secretary to the new team
- EU split roles for exit (EC) and continued access (Council)
  - Didier Seeuws, former chief of staff to former European council president Herman Van Rompuy
  - Martin Selmayr, current EC president Juncker’s chief of staff
ARTICLE 50 PROCESS

- Art 50 of the Treaty on European Union (TEU).
- Notification in the hands of the UK.
  - Does it require an Act of Parliament?
  - Can it be deemed?
- Two year period for withdrawal to be negotiated and take effect.
- Negotiations between the UK and the European Commission, as EU negotiator, based on guidelines issued by the European Council and in accordance with article 218(3) of the Treaty on the Functioning of the European Union (TFEU).
- Can be extended by agreement of all EU member states.
- If no extension, UK automatically ceases to be a member of the EU at the end of two years.
MAIN IMPACT AREAS

- Trade
- Political
- Regulatory
They need each other
Exports of goods between Britain and EU, 2014, % of national totals

51.4% of British goods exports go to the EU

6.6% of EU goods exports go to Britain

Source: IMF Direction of Trade Statistics
Economist.com
Four Models for Britain’s Future

1. Norway has access to most of the EU's single market. But its agreement requires customs checks, contributions to the EU budget, and the free movement of people from EU countries—which Brits have said they don't want.

2. Switzerland's arrangement with the EU is similar to Norway's, but without equal access to the EU's single market. It's in the Schengen Area, which allows for border-free travel even of people not from EU countries.

3. Canada is in the final stages of a free-trade treaty with the EU that keeps tariffs on some manufactured goods and keeps quotas on some Canadian farm exports.

4. Turkey isn't technically a member of the EU Customs Union. It has a separate deal with the EU allowing for tariff-free trade of most goods. Turks can't travel freely in the EU and have no say on its laws and regulations.

This is where the U.K. is today.
How Could the UK’s Relationship With the EU Change?

The UK already opts out from parts of the EU. If it leaves, its future could look like Norway, Switzerland, or Turkey, nonmembers with partial participation in the EU.

<table>
<thead>
<tr>
<th>FULL PARTICIPATION</th>
<th>PARTIAL PARTICIPATION *Indicates a negotiated special arrangement.</th>
<th>SINGLE MARKET</th>
<th>FREE MOVEMENT OF PEOPLE</th>
<th>CONTRIBUTE TO EU BUDGET</th>
<th>VOTE ON EU LAW</th>
<th>EUROZONE</th>
<th>&quot;EVER CLOSER UNION&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EU</strong></td>
<td>STANDARD EU*</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td>CURRENT UK MEMBERSHIP</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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**POTENTIAL POST-BREXIT SCENARIOS**

| **EUROPEAN ECONOMIC AREA (NORWAY)** | ● | ● | ● |
| **BILATERAL DEAL (SWITZERLAND)**   | ● | ● |   |
| **CUSTOMS UNION (TURKEY)**         | ● |   |   |

*Except for the UK  Sources: UK Government, The Economist  Credits: James McBride, David Foster
Impact on UK and EU Political Process
PM’S RESIGNATION

- Conservative Party leadership contest
  - Runners and Riders
  - Process
  - Transition
ELECTING A CONSERVATIVE PARTY LEADER

**Stage 1**
Two MP proposers needed

3 or more candidates

Conservative MPs vote

Candidate with lowest vote eliminated until 2 remain

**Stage 2**
Postal ballot of wider Conservative Party

LEADER

Source: Westminsteradvisers
FURTHER COMPLICATIONS

• The Labour Party
• Future of the UK / Scotland, NI etc
• Others to follow?

Brexit Bandwagon
As U.K. Prime Minister David Cameron presses governments to accept his proposed EU overhaul, some of his fellow leaders may be mulling their own pet projects.
Impact on EU / UK Legislation
IMMEDIATE AND MEDIUM TERM UK IMPACT

- FCA statement 24.06.16
- BoE statement 5.07.16
- New government priorities
- New budget post reshuffle?
- Continuity of legislative provisions
  - Single market access / EEA model
  - Equivalence
  - Grandfathering

- Art 70 Vienna Convention on Law of Treaties
  - Acquired rights on withdrawal from treaty
  - States not persons!
- Choice of law
- Staff and Employment
- Data Protection
- Availability of passporting
  - MiFID
  - UCITS
  - AIFMD status
IMPACT ON EU INITIATIVES

- Acquis communautaire
  - EU Directives
  - EU Regulations
  - European Courts
- ESMA expectations
- Capital Markets Union
- Eurozone initiatives

- Policy influence
  - Resignation of Lord Hill
  - Other Commission task forces
  - Input of UK MEPs
- International standards
  - G20 / OECD Commitments
  - IOSCO
  - BCBS
Preparing for Brexit: Implications and Issues for Firms in the Financial Services Sector

Are you authorised in the UK by the FCA and/or the PRA?

NO

Are you authorised by a regulator in another EU country?

NO

NO ISSUES

YES

Do you do business with other EU countries on a passported basis?

NO

NO ISSUES

(NO issues assuming you do not have a separately authorised entity in other EU country(ies))

YES

Have you passported into the UK?

NO

NO ISSUES

YES

POTENTIAL ISSUES

Passporting: Unless the UK Government agrees to a replacement for the passporting regime, you will be unable to do business in the EU without obtaining separate local authorisations on a country-by-country basis

Local entity: Some EU countries may require you to incorporate a local subsidiary to apply for authorisation

Different laws: The laws and regulations that will apply to your UK and EU businesses may differ

Products: Firms with product types that are by definition European (for example, UCITS funds) will need to consider their structural model
A sounding from the other side of the Channel
A SOUNDING FROM THE OTHER SIDE OF THE CHANNEL (GERMANY)

VOICES IN THE POLITICAL ARENA
A "return to the national fortress of nationalism" is the wrong answer to the current challenges. "In my eyes it is grossly negligent to make people believe that problems such as terror, crisis' in neighbor states or the management of migration could sustainably be solved with national answers", says Walther Steinmeier* (FAZ, 13 May 2016)

WHAT THE GERMAN INDUSTRY SAYS
"The large majority of the German industry agrees that a BREXIT would have fatal implications... It is about lots of money and many jobs." (Süddeutsche Zeitung, 18 May 2016)

AND THE WINNER IS...*
- 70% of Banks and Financial Service Providers believe that Frankfurt would be the big winner of a BREXIT**
- The move of 20,000 bankers is realistic*** - a huge push for a city like Frankfurt with a workforce of only 60,000 people in the financial industry (i.e. app. 10% of the workforce).

Sources: *Südwest Presse Online, 6.5.2016; ** Survey by the Center for Financial Studies, Goethe University, Frankfurt; ***Professor at the Frankfurt School of Finance
What can be done?
SIX-POINT ACTION PLAN

1. Manage the immediate impact of the Brexit vote on your business and client accounts.
2. Identify potential disruptions to your asset management regulatory licenses, fund distribution strategy and business structure.
3. Communicate with employees, clients, fund shareholders and other asset management industry participants.
4. Develop longer-term strategic responses to address the disruptions and risks.
5. Consider lobbying governments and regulators in order to make sure voices are heard in the debate about the withdrawal process and on the related issues.
6. Create contingency plans and/or consider whether existing plans will remain appropriate once the UK moves into a “leave” trajectory, as these programs are likely to be expected by certain regulators.
HOW SHOULD THE INDUSTRY RESPOND?

- Raise awareness with EU/Eurozone of the importance of the UK as a partner outside of the EU.
- Build coalitions of stakeholders throughout the EU to communicate the importance of a balanced deal with the UK and to reinforce the above.
- Promote a set of policies to improve the UK’s competitive position (for example, tax, skilled migration, targeted removal of regulations etc).
- Propose solutions and options that remove uncertainty – what is realistically achievable?
- UK debate should recognise the very real concerns of Eurozone leaders of the risk of contagion from the Brexit result.
- The negotiations will be a multi-party process with no one party able to leverage its position.
- Work with industry trade groups.
- Get involved with the UK’s Brexit task force.
ADDITIONAL BREXIT RESOURCES

To fully prepare clients for the legal and business implications now that Britain has decided to exit from the EU, K&L Gates has launched a global client support initiative—a dedicated team of multidisciplinary lawyers, a 24-hour hotline reachable by e-mailing:

Brexit@klgates.com

Or go to our dedicated website page:
www.klgates.com/brexit/
U.S. Elections 2016
I plan to build on the success of the Obama administration.
1775

“Give me Liberty, or give me Death!”

2016

“Give me free stuff, or I’ll protest and cry!”
U.S. Presidential Candidates

Hillary Rodham Clinton
Presumptive Democratic Party Nominee

Donald J. Trump
Presumptive Republican Party Nominee
Senate Banking Committee

Republican
Mike Crapo (R-ID)

Democrat
Sherrod Brown (D-OH)
House Financial Services Committee

Republican
Jeb Hensarling (R-TX)

Democrat
Maxine Waters (D-CA)