United Kingdom

Brexit update

On 15 January 2019, UK MPs rejected the proposed Brexit agreement reached by EU Heads of State two months earlier. With 432 of the 634 votes going against the deal, this result has significantly weakened Prime Minister Theresa May in future discussions with the EU and with Members of Parliament. Today almost anything looks possible, starting with a delay in the official date of the UK's departure, currently scheduled for 29 March.

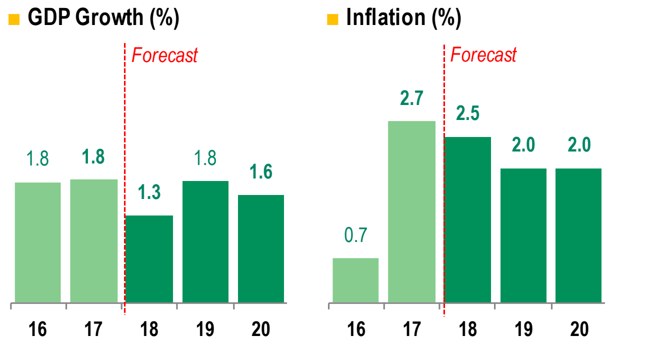
The extra month of talks – MPs were initially due to vote on the deal on 11 December 2018 – was not enough for Mrs May to win the support of her own party, nor any move by the EU to time-limit the 'backstop' [1] or remove it altogether. The backstop is the main sticking point for approval of the Withdrawal Agreement, but not the only one; support for a second referendum is becoming increasingly vocal, challenging the very principle of Brexit itself. Arguments for a second vote were strengthened by the European Court of Justice's ruling on 10 December 2018 that the UK is *"free unilaterally to revoke (...) the notification of its intention to withdraw from the European Union"*. However, in view of polling figures, the outcome of any second referendum would be highly uncertain.

If it is not cancelled, Brexit could be postponed at the UK government's request. The EU would consider such a request, while being restricted by the European parliamentary elections planned for 23 to 26 May 2019, as the Parliament will need to approve a withdrawal agreement (provided of course that there is an agreement to approve). Current Members of the European Parliament are due to hold their last plenary session from 16 to 18 April 2019, whilst the newly elected parliament – without any British members – will begin work at the beginning of July 2019. Under these circumstances, the EU may push back the 29 March Article 50 expiry date to give UK more time for its MPs to ratify an agreement, or call a general election, or a second referendum. It remains to be seen how much time would be allowed, and whether or not it would be enough to finally resolve the Brexit issue.

Continuation of financial activities

In case of Brexit, whether with a deal or without, the United Kingdom will become a third country and is likely to be subject to the equivalence regime with regard to its trade in financial services with the European Economic Area (EEA)[2] instead of by the passporting system currently in place. On this point, the adoption of the draft Withdrawal Agreement by MPs on 15 January would only have had the effect of delaying the loss of passporting rights to the end of the transition period, as the EU has refused to extend the benefits to British firms after withdrawal. The equivalence regime is significantly less advantageous and stable than passporting. Dependent on approval by the European authorities, equivalence can be granted for a limited time and covers a narrower range of geographical markets and business areas. Such restrictions threaten to impede access for European companies to the London market and for British companies to European markets. This change of regulatory regime will also require a change in the status of British and European companies seeking to continue to do business in the EEA, for the former, and the UK for the latter.

1- Growth and inflation



Source: National statistics, BNP Paribas

This said, the financial sector appears to be one of the best prepared, even in the event of a no-deal Brexit. In the latter event, the European Commission nevertheless believes that a sudden loss of access to London's clearing houses for European companies could affect the financial stability of the EU. For this reason, it is prepared to authorise such access for 12 months following a no-deal departure, to give European companies time to adapt and London's clearing houses a chance to obtain the equivalence needed for them to continue to do business in the EEA.

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[1] In order to avoid the reintroduction of a hard border between Northern Ireland and the Republic of Ireland, a safety net, or backstop, solution allows for the United Kingdom to remain in a customs union with the European Union beyond the end of the transitional period on 31 December 2020 if insufficient progress has been made on the future relationship between the two.

[2] Under a 1992 agreement, the EEA includes the EU and three members of EFTA: Iceland, Norway and Lichtenstein. Switzerland voted in a referendum not to join.