BREXIT UPDATE:
CRUNCH TIME – D-DAY OR A DEADLINE DISAPPEARING INTO THE DISTANCE?

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This update contains three different sections which can be treated as a pick 'n' mix depending on your interests:

1. **Westminster:** An update on what is going on in Parliament and the decisions being made on how the Brexit process will progress;
2. **Asset Management:** Any updates in the period from regulators, government bodies, etc, that have a direct impact on the asset-management industry – including GBP/USD movements;
3. **Beyond Westminster:** Any updates in the period from wider business groups and the like on the impact of Brexit, including companies that have announced movement of operations and/or job losses in the UK.

BREXIT COUNTDOWN: THREE DAYS TO GO … OR AN UNDEFINED NUMBER OF DAYS TO GO

Summary:
On the face of it, at the time of writing, the situation doesn't seem much different than it has been in previous updates – the UK still cannot agree on what it wants and all options (including an accidental no-deal Brexit this week) are on the table. There have, however, been some subtle changes and some historic moments for both the UK government and the Houses of Parliament. UK Prime Minister Theresa May appears to have abandoned her deal following its third convincing defeat in the House of Commons. May announced a willingness to find a compromise with leader of the opposition Jeremy Corbyn that could indicate a move towards a softer version of Brexit. Predictably, Members of Parliament ('MPs') from the extreme ends of both parties are up in arms about these talks. Indeed, to date, the talks have not achieved anything. Cynics could argue the talks were never intended to produce anything other than demonstrate to the EU that new courses were being considered in an effort to garner support for an extension to be granted at the EU Council summit scheduled for 10 April – two days before the UK is due to leave the EU. In parliament, a vote on a motion for more indicative votes – which followed two prior attempts at indicative votes, both of which failed to agree a majority for any alternative Brexit options – resulted in the first tied vote in parliament in more than 25 years. The Speaker of the House John Bercow used his casting vote to reject the motion. In another historic twist on the same day, for the first time in history, a new law was debated, voted on and passed, against the wishes of the government. The law will force May to request an extension and allow MPs to vote on how long that extension should be for. Whilst it could be celebrated that Parliament is taking back control when the government appears paralysed, it is worth remembering that the UK does not have a written constitution. The UK's constitution is based on customs and precedents, and any precedents set during this process will remain when Brexit is but a distant memory – whether this is a good or a bad thing, only time will tell. May has taken the wind out of parliament's sails on this law by pre-emptively asking the EU for an extension to 30 June. The EU is unlikely to support a short extension that would go beyond the date of the European Council elections and, in all likelihood, will grant only a longer extension with terms and conditions attached. Still, at least May will be able to say she tried and any long extension was the fault of the EU and not at her request – an important distinction when facing her party. The section on 'What Happens Next?' explores some of the options available should this long extension be granted (**see Westminster section**). There are continuing announcements from companies on reductions in earnings forecasts – mostly caused by the uncertainty over the process as opposed to Brexit itself (**see Beyond Westminster Section**). Outflows from both UK and European equity funds continue. Regulators formalise the processes for continuing business in the event of a no-deal Brexit, but complications remain with the impact on liquidity of dual listed stocks – a potential concern for ETFs (**see Asset Management Section**).

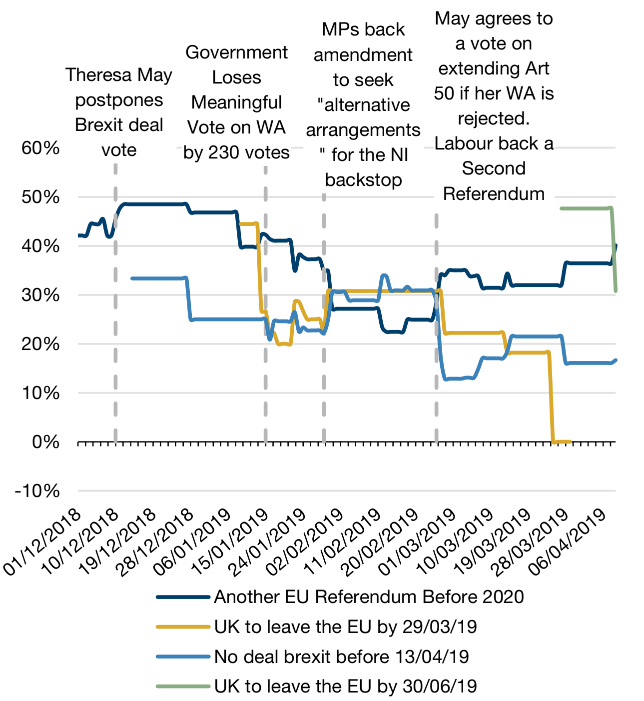
The quote of the moment comes from Germany's *Die Zeit* discussing May's change in strategy:

"But May knows full well that any softening of Brexit risks a deep split in her party: 'That is why she waited so long. She would never have taken this step if Britain was not about to crash out in a few days' time. She had, finally, no other choice'."

WESTMINSTER:

Latest Implied Odds From Betting Markets:

Figure 1. Implied Probabilities of Brexit Outcomes



Source: Man FRM; As of 9 April. Man FRM calculates the implied probabilities of Brexit outcomes using prevailing odds as priced by UK bookmakers, which are collated on a daily basis. The graph presents the implied probabilities of Brexit outcomes averaged across all UK bookmakers for which data is available, over time. This data analysis is based upon information obtained from third-party sources not affiliated with Man FRM. Man FRM cannot guarantee the accuracy of this data and it should not be relied upon by investors.

What Happened Recently?

- On 29 March – the day the UK was originally scheduled to leave the EU – May played what could be considered her last card in order to attempt to get her Withdrawal Agreement: she offered to resign before the next stage of the Brexit negotiations should her deal be passed. In order to work around the Speaker's ruling that the same motion could not be put to a vote for the third time, the UK Parliament voted only on the Withdrawal Agreement and not on the associated political declaration on the future relationship. It was not a case of third-time lucky and the Withdrawal Agreement was once again defeated – albeit by a smaller margin of 58 votes. This removed the option provided by the EU of an extension to 22 May, which was contingent on the UK passing the Withdrawal Agreement. The new Brexit deadline day became 12 April, 2019.
- Immediately following the vote, European Council President Donald Tusk issued a statement calling for an EU summit on 10 April in order to decide the way forward. It is widely expected that discussions on an extension – and the terms and conditions attached – will be the subject of this summit. May will need to be able to present a plan to the EU in order to avoid the UK leaving on a no-deal basis two days later.
- On 1 April, MPs debated and voted on a series of Brexit alternatives. Four motions were selected for voting and none managed to get a majority. A customs union came the closest to being passed – defeated by just three votes. Notably, there is still strong opposition against this within the Conservative party, with only 37 voting for it and 236 against. The voting was as follows:
  - Customs Union: 273 for, 276 against – Defeated by a margin of three;
  - Second Referendum: 280 for, 292 against – Defeated by a margin 12;
  - Common Market 2.0 (a Norway style arrangement) – 261 for, 282 against – Defeated by a margin of 21;
  - Give Parliament the power to stop no-deal Brexit – 191 for, 292 against – Defeated by a margin of 101.
- Immediately following the vote, Conservative MP Nick Boles – who had authored the Common Market motion voted on above – quit the Conservative party. He blamed his own party for refusing to compromise. He continues to sit in parliament as an independent.
- On 2 April, May offered to work with Labour leader Corbyn in cross-party talks designed to help end the deadlock in parliament. She also announced that a further short extension would be required (something the EU has remained firm it would not provide due to the deadlines for the European Parliament elections). May further stated that if a new plan could be agreed with Corbyn, then MPs would be able to vote on it in advance of the EU summit on 10 April; and if it was rejected, a number of Brexit alternatives could be put to a vote (again) in the House of Commons. The cross-party talks have strong opposition from both Conservative and Labour MPs, with Conservatives worried about a softer Brexit and Labour worried about losing the option of a second referendum. At the time of writing, these talks have not been successful in reaching any form of compromise. In our opinion, both May and Corbyn are caught between the two extreme ends of their parties, making the chance of any progress slim to begin with.
- In a historic moment, on 3 April, the House of Commons proposed and approved new laws against the wishes of the UK government – the first time in history this has occurred. Labour MP Yvette Cooper put forward a backbench bill that would force an extension of Article 50. After a few hours of debate (again unheard of), the bill passed 313 for and 312 against – a majority of just one vote. The bill will now need to be debated in the House of Lords, but is expected to pass. The law will force May to propose a motion in parliament during the week commencing 8 April for an extension to Article 50. May can specify a time period; however, MPs will have a chance to amend this. If the motion passes, May will be required to ask the EU for this extension. The bill was initially debated in the House of Lords on 4 April but got held up. It continued on 8 April, but with an amendment that would allow May to accept a different length of extension than that selected by Parliament (on the condition that it would not be before 22 May). The bill was passed into law in that session.
- There had been further drama in the House of Commons earlier that day: a vote on whether to hold more indicative votes on alternative Brexit options was tied – the first time this has happened in more than 25 years. It was then left to the Speaker to make the casting vote – he voted against the proposals, stating motions should be passed on a majority and not by the Speaker.
- On 5 April, May went ahead and asked for an extension – to 30 June. Not only are her own ministers not in support of this (with some arguing a much longer extension is needed), but it

is the same request that was previously revised by the EU to the current extension terms. It is hard to see any scenario where the EU would agree to a short extension that would leave the UK a member state at the time of the European Parliament elections – the UK would need to be in this for a much longer period of time.

- May is due to travel to Berlin and Paris on 9 April to discuss the UK's request for an extension in advance of the summit on 10 April.

What Happens Next?

- Assuming the bill in the House of Lords is passed, May will present a motion to the House of Commons to apply for an extension (which, remember, she has already done) and MPs will be able to vote on amendments to the length of the extension. This vote is all somewhat superficial now given May has already asked for the extension and the final decision rests with the EU.
- The EU Council Summit on 10 April will be the decision point for what length of extension (if any) the EU will grant the UK for the Article 50 withdrawal process. It will also define any terms and conditions attached to an extension. Tusk has indicated a compromise solution of an extension by one year, which could be shortened if the UK agrees an exit treaty. With concerns about the upcoming EU elections and an effort to avoid invalidating the composition of the parliament, in our opinion, it feels likely that there will be a time limit on the UK being able to withdraw from the extension period. In our view, EU members are likely to want to avoid the UK taking part in the elections and then almost immediately leaving the EU. In addition, in line with comments from French President Emmanuel Macron, there are likely to be other conditions preventing the UK from disrupting key decisions on the future of the EU.
- If a long extension is granted, there are several ways forward. It seems to us the initial focus will likely be on the period leading up to 22 May – the day before the European Parliament elections. May will continue to try and pass an exit deal in Parliament (perhaps with a fourth meaningful vote that appears to be getting less and less 'meaningful'). This will be difficult as the Withdrawal Agreement is unlikely to change. Thus, the key will be agreeing a future relationship that parliament can get behind. Should this fail, the options start to become more dangerous for the political parties – in reality, all that is left is a general election or a second referendum. There is, of course, one further option – to revoke Article 50. However, it is hard to see any government going ahead with this without a mandate for it either via an election or a referendum.
  - General Election: Although there are hints that the government is preparing for this, in our opinion, this is the least attractive option to the Conservative party. It would need to declare a position on Brexit in order to go into the election and on this issue, there are two Conservative parties rather than one. Coming down on one side or the other could spark resignations and finally rip off the sticky tape that is loosely holding the party together. To be fair, Labour has a similar problem: Corbyn may be pushed into backing a second referendum in an election campaign which will alienate the members of his party representing 'Leave' constituencies. The end result seems unlikely to be a strong majority with a clear Brexit plan, which begs the question: does it really change where we are right now? There are two ways a general election might occur: first, the UK government puts a motion forward which needs to be supported by two-thirds of the *total number of seats* in the house of commons (i.e. not just of those who vote); or secondly, a vote of no confidence could be initiated in the government which could win by a simple majority.
  - Second Referendum: Whilst this has been gaining momentum, there is still no clear majority in parliament for this option. If the referendum was a repeat of the 2016 question, it is not clear that the answer would have changed; or if remain did win, whether this would be conclusive enough to avoid the divisions in the country. Should this occur, in our opinion, it would be more likely that this will be an addition to an exit deal in order to secure support for it. The choice would then likely be to leave with the deal on the table or remain. This would garner opposition from hard-line Euro-sceptics who would no doubt campaign for leaving without a deal to be on the ballot sheet.

Preparations for a No-Deal Brexit:

- A letter from Mark Sedwill – cabinet secretary and head of the civil service – to senior government ministers on the implications of a no-deal Brexit was leaked to the press on 2 April. It predicted a 10% rise in food prices along with intense pressure on the government to bail out businesses on the brink. He also detailed a forecast that a recession and sterling depreciation would follow that would be worse than 2008.

ASSET MANAGEMENT:

Recent updates below regarding the asset management and financial services industry in relation to Brexit:

Asset Management and Financial Markets:

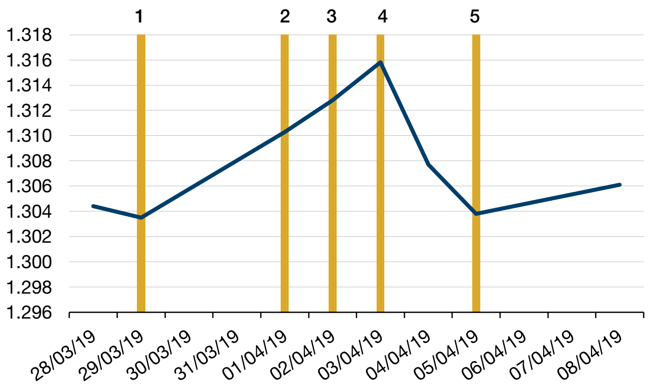
- The European Securities and Markets Authority ('ESMA') ruled in mid-March that 14 UK stocks (including Vodafone, BP, AstraZeneca, GlaxoSmithKline and Rio Tinto) must be traded on EU-approved venues by European institutional investors, brokers and market makers. In the event of a no-deal Brexit, the London Stock Exchange ('LSE') would not be an approved EU venue. The LSE has warned of the impact on this on the underlying shares held by ETFs due to liquidity issues.
- The LSE has gained regulatory approval to operate a trade repository in Amsterdam in case of a no-deal Brexit. This will allow it to continue to maintain regulatory reporting under The European Market Infrastructure Regulation ('EMIR') and MiFID II.
- The Financial Conduct Authority ('FCA') and the Securities and Exchange Commission ('SEC') have signed a memoranda of understanding designed to safeguard their cooperation in the oversight of regulated firms that engage in cross border activity. The agreement essentially updates a prior agreement from 2006 – to include changes under the US Dodd Frank Act and EMIR – by extending the range of firms covered to include those engaging in derivatives, credit ratings and derivatives trade repository businesses amongst other regulatory updates.
- The FCA has extended the deadline for firms to apply for its Temporary Permissions Regime from 28 March to 11 April, reflecting the new Brexit deadline date.
- There have been continued UK retail withdrawals from UK-regulated fund products for the fifth consecutive month, according to Funds Europe. European and UK equity funds

had net outflows of GBP453 million and GBP236 million, respectively, during February.

- Research by the Financial Times shows that London's biggest banks have moved fewer than 1,500 jobs out of the UK so far – banks seem to want to maintain optionality given the current uncertainties.

Interest and Exchange Rates:

Figure 2. GBP/USD Exchange Rate – 11 Days



Source: Bloomberg; Between 28 March and 8 April 2019.

1. May's Withdrawal Agreement is defeated for the third time, by a margin of 58 votes.
2. MPs fail to agree a majority for any of the proposed Brexit alternative plans.
3. May announces cross party talks with Corbyn to look for a compromise.
4. Parliament debates and approves a new law against the government's wishes for the first time in history. The law forces May to seek an extension.
5. May announces she will ask the EU for an extension to 30 June.

BEYOND WESTMINSTER:

- On 29 March, the Office for National Statistics released UK figures, which noted a slowdown in economic growth in the fourth quarter of 2018. Output expanded by 0.2% in the final quarter, down from 0.7% in the third quarter of 2018.
- The Financial Times reports the following in summarising company announcements on the impact of Brexit so far, also noting that one firm has decided it is the optimal time for a listing on the LSE:
  - EasyJet has warned it expects a worse first-half loss of GBP275 million as "unanswered questions surrounding Brexit" have hit demand for flights;
  - Thomas Cook has cut its TV spend by 75% so far this year, having warned of "consumer uncertainty, particularly in the UK";
  - The general reduction in advertising will hit channels, with ITV's earnings predicted to fall faster than forecasted, according to analysts at Liberum;
  - Clothing retailer Moss Bros has admitted that "Brexit negotiations have created a prolonged period of uncertainty";
  - Accountants UHY Hacker Young noted that Prosecco sales are down – perhaps because Brexit gives "fewer reasons to celebrate";
  - A café-dining chain Loungers has decided that it is an optimal time to list on the LSE, announcing a share price which values it at GBP300 million.

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