



BREXIT UPDATE: NO CONSENSUS, NO TIME AND THE LOOMING SPECTRE OF NO DEAL

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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 impacts of Brexit, including companies that have announced movement of operations and/or job losses in the UK.

BREXIT COUNTDOWN: 15 DAYS TO GO... OR 55 DAYS TO GO

Summary:

Following emergency Cabinet meetings (surrounded by rumours that UK Prime Minister Theresa May's time at the helm was at an end), May announced she would not be putting her deal forward for a third vote prior to the EU Summit on 20-21 March as had been expected. This was due to a lack of support for the deal. There would have been other hurdles to this vote: the Speaker of the House of Commons John Bercow ruled that the same vote could not be conducted for a third time, in light of a historic precedent from 1604 that prevents this. Members of Parliament ('MPs') held a series of indicative votes and whilst – predictably – there was no majority for any one option, there were two options that had high support. Interestingly, more MPs voted for these options than May's deal. The two options were: to remain in the Customs Union; or to hold a second confirmatory referendum – i.e. a public vote to ratify the deal. Both of these are not supported by the Conservative manifesto. Indeed, May had stated before the votes that the UK government would not support any options that went against the manifesto. May is ready to give her deal one last chance and has carved the deal in two in order to get around the speakers bloc. MPs will vote on the Withdrawal Agreement only and not the Political Declaration of the future relationship. It wouldn't be Brexit without each new move causing more issues, and this move is no exception. This is effectively asking MPs to agree to leave, but without any agreement on what the future relationship will look like. This, coupled with May promising to resign if her deal is passed and the high likelihood of her being replaced by a strongly pro-Brexit leader, could cause more moderate MPs to shy away from backing the deal. Complicating this further is that the EU agreed to two versions of an extension at the summit (22 May if her deal is passed by 29 March, or 12 April if it is not), so time has almost run out for

the deal to be approved. Developments and debates on different options and gauging the support from Parliament would have seemed a sensible way to move forward were we at the point just post the referendum and pre the issuing of the Article 50 notice. At this point, however, it remains to be seen whether this is too little too late (see **Westminster section**). The British Chamber of Commerce has provided the weakest forecast of investment into the UK since the financial crisis (see **Beyond Westminster Section**). Firms continue to prepare for a no-deal Brexit and the Alternative Investment Management Association ('AIMA') has issued some updated guidance and briefings on this (see **Asset Management Section**).

The quote of the moment comes from the France's minister for European Affairs Nathalie Loiseau, who gave the following reason for why she has called her cat "Brexit":

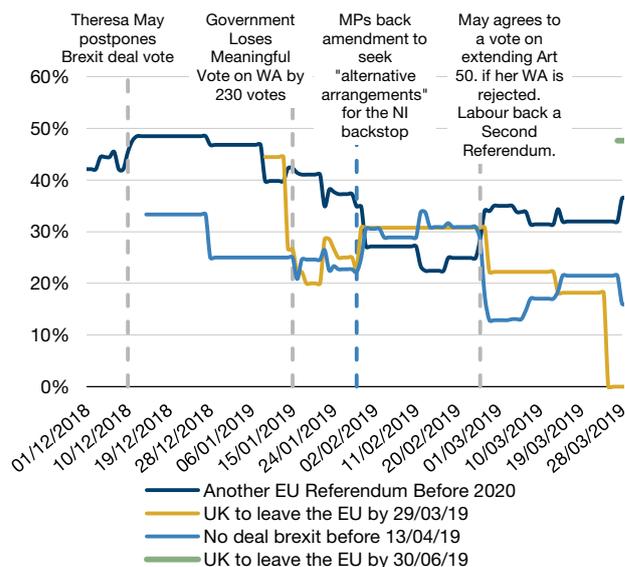
"He wakes me up every morning meowing to death because he wants to go out, then when I open the door he stays in the middle, undecided, and then gives me an evil look when I put him out."

WESTMINSTER:

Latest Implied Odds From Betting Markets:

A new implied odd has been added to the below, which is the odds of the UK leaving the EU before the end of June.

Figure 1. Implied Probabilities of Brexit Outcomes



Source: Man FRM; As of 15 March. 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?

- The intention had been for May to put her deal forward for a third “meaningful vote” in the week preceding the EU Summit of 20-21 March. There had already been implications that the deal would not be put for a vote, with speculation that post the EU summit, May’s threats of a long extension without her deal would have more weight behind them. The final nail in the coffin was when the Speaker of the House of Commons John Bercow ruled (based on a historical precedent from 1604) that there would need to be changes to the deal before another vote – the rule states that the same motion cannot be voted on more than twice in the same parliamentary session.
- May issued what has been described as a defiant televised statement to the UK on 20 March. In the statement, she blamed lawmakers (or politicians) for the current Brexit crisis – whilst (as noted by many commentators) seeming to forget that she is one of them – and telling the British public: “I am on your side”. The statement angered a lot of politicians, who felt that she was trying to put parliament against the people.
- May applied to the EU for an extension until 30 June and has been granted an option of two – neither of which are 30 June. If the Withdrawal Agreement is passed by Parliament, Brexit will be delayed until 22 May to allow for an orderly withdrawal. If it is not passed, however, then the extension becomes very short – 12 April. The EU has reiterated that any longer extension would require a change in approach and would also require the UK to take part in the European Parliament elections. There are concerns about granting a short extension that would pass the deadline for needing to take part in the EU parliament elections for two reasons:
 - The first is slightly more subjective: the UK has a history of electing anti-EU MEPs to the seats. The EU may be afraid this could become disruptive if the UK took part in the elections;
 - Secondly, if the UK did not take part in the elections while remaining a member state, this could have far-reaching implications. It could bring into question the legal validity of the parliament if not all member states were represented and leave the parliament decisions open to challenge through the courts. A report from the Financial Times surrounding an EU document that had been leaked stated that should the UK not participate; the EU would terminate the UK’s membership on 1 July.
- A “Revoke Article 50” petition was started on the UK parliament website (for background, parliament commits to debate any petition that receives more than 100,000 signatures – although is not obliged to debate if a similar debate has taken place recently). The petition went viral and currently stands at about six million signatures – reported to be the most popular petition since the creation of the process. An estimated one million people also marched in London calling for a second referendum. Parliament will debate this petition on 1 April.
- Over the weekend of 23-24 March, the media floated multiple stories of May being pushed to resign. In the end, following an emergency cabinet meeting on 24 March, senior cabinet members – including those who had been put forward as potential replacements – rallied around the PM.
- On 25 March (which should have been the start of the week that the UK was to leave the EU), it appeared that all options were back on the table with a series of votes. May announced on the evening of 24 March that she would not be putting her deal forward for a third “meaningful vote” as there was not yet enough support for it.
 - **25 March:** MPs voted on an amendment that would allow them to hold indicative votes in a Parliament session on 27 March on essentially all possible Brexit outcomes. It passed with 329 votes to 302 votes. The UK government has said that even if an option has majority support, it will not be implemented if it does not fit with the Conservative party manifesto;
 - **27 March:** May announced that she would resign earlier than anticipated – and in advance of the next stage of negotiations – if her deal was passed. This was seen as a last-ditch attempt to get support and it does not seem to have worked. Whilst the European Research Group (‘ERG’) has indicated that it would move to support her deal, it is conditional on the Democratic Unionist Party (‘DUP’) backing the deal. The DUP issued a letter on 27 March saying it will not back the deal;
 - **27 March:** MPs held the series of indicative votes on various options. Surprisingly, there was no majority for any of the options:
 - Two of the votes received more votes for than May’s deal (May had 242 votes for her deal in the last meaningful vote). Still, both were defeated:
 1. 1. Customs Union – 264 for and 272 against (defeated by a margin of eight);
 2. Confirmatory Public Vote on the deal – 268 for and 295 against (defeated by a margin of 27);
 - The remainder votes received less support than May’s deal and were all defeated:
 3. Labour’s alternative plan – 237 for and 307 against;
 4. Common Market 2.0 – 188 for and 283 against;
 5. European Free Trade Association (‘EFTA’) and European Economic Area (‘EEA’) – 65 for and 377 against;
 6. No Deal – 160 for and 400 against;
 7. Revoke Article 50 to prevent a no deal – 184 for and 293 against;
 8. Contingent Preferential Arrangements – 139 for and 422 against.
- In the latest twist as a final attempt to get her Withdrawal Agreement passed, the government has announced a debate and vote on just the Withdrawal Agreement section of the deal i.e. excluding the political declaration for the future relationship. This manages to avoid the speaker’s prohibition on putting the same motion for a vote; however, it is not without difficulties again. The DUP are still opposed. Additionally, it may struggle to win over Labour voters as it would be voting to leave with no indication of a future relationship. This, coupled with Labour’s fears of who would replace May should she resign, could mean Labour MPs that previously supported the deal may not this time.

What Happens Next?

- May needs to get her deal passed by 29 March in order to secure the 22 May exit date agreed by the EU. At the time of writing, it remains to be seen whether she will try to have a vote on it by this point. As mentioned above, this will be split into two votes – one on the withdrawal agreement and one on the political declaration of the future relationship in order to overcome the Speaker's bloc.
- Parliament has control of its own agenda on 1 April, which could be used to attempt to further narrow down the options in order to look for something that could attract a majority.
- The options are once again wide open – potentially a referendum or a general election, both of which may mean the EU would grant an extension. On the flip side, May could squeeze the vote in on time and it could pass due to Brexiteer fear of a long delay or referendum. At this stage, we appear to be almost right back at square one.

Preparations for a No-Deal Brexit:

- French customs officers completed a second “work to rule” event on 14 March to demonstrate the potential disruption that could occur in a no-deal Brexit.
- Norway and the UK reached a temporary deal to protect trade in the event of a no-deal Brexit. The deal includes prolonging zero tariffs on industrial goods and established quotas on seafood and agricultural products.
- The EU has stated that it has completed its no-deal Preparations and is now moving on to look at other options.

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

ASSET MANAGEMENT

Asset Management and Financial Markets

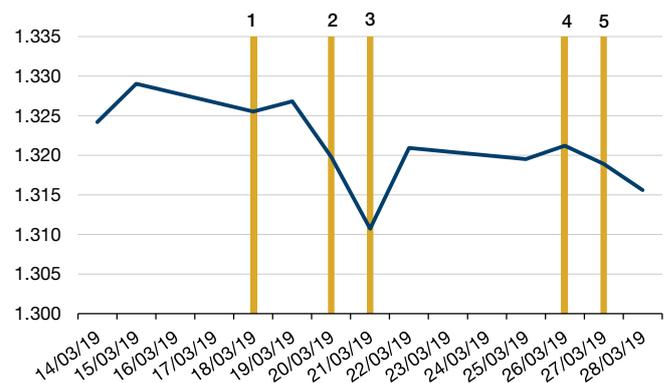
- There has been growing criticism from industry professionals within asset management regarding the disparity between regulatory solutions to distribution – in particular, that the FCA introduces a temporary permissions regime and this is not being reciprocated by EU regulators.
- AIMA has produced a number of new Brexit-related resources for its members in the anticipation of a possible no-deal Brexit. These include briefing notes on onshoring EU legislation in the UK and the contingency regimes being implemented by EU member states.
- EY has estimated that as financial services companies start to trigger their worst-case contingency plans given there is currently no deal in sight, approximately GBP1 trillion of assets could move out of the UK to Europe. This mainly covers client assets and cash moved by banks and fund managers and transferring of balance-sheet assets out of the UK. According to EY, this number is now GBP200 billion higher than its last survey in January.¹
- JPMorgan has asked approximately 300 London-based investment banking employees to sign contracts agreeing to leave the UK in the event of a no-deal Brexit.
- The London Stock Exchange ('LSE') has received regulatory approval to operate a repository in Amsterdam in the case of a

no-deal Brexit. This would allow it to offer trade reporting services in the EU.

- Hedge-fund manager Mark Mobius told the Financial Times that the UK increasingly resembles an “emerging market” and could be facing a currency crash in the event of a no-deal Brexit.

Interest and Exchange Rates:

Figure 2. GBP/ USD FX Rate Change Over 11 Days



Source: Bloomberg; as of 28 March 2019.

1. The Speaker of the House of Commons John Bercow indicates the Withdrawal Agreement cannot be voted on again in Parliament without substantial change.
2. UK PM Theresa May confirms she will only seek a short extension from the EU.
3. EU leaders announce the proposed extensions to either 12 April or 22 May.
4. Theresa May offers to resign sooner than expected if her deal is passed.
5. MPs vote on indicative options and do not manage to reach a consensus.

BEYOND WESTMINSTER:

- London house prices, as reported by Bloomberg, have been falling due to the uncertainty. However, the impact lessens as you move away from London.
- The British Chamber of Commerce has forecast that business investment in the UK could decline by 1% this year due to Brexit uncertainty. This would be the weakest since 2009 during the financial crisis.²

1. <https://www.ft.com/content/016171be-4a74-11e9-8b7f-d49067e0f50d?emailid=5c91fa7e621bab00045380bb&segmentid=2f40f9e8-c8d5-af4c-ecdd-78ad0b93926b>

2. <https://www.britishchambers.org.uk/news/2019/03/bcc-forecast-uk-economy-to-falter-further-as-brexit-uncertainty-bites>

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