

BDO KNOWS: FINANCIAL SERVICES



SUBJECT

BREXIT: FALLOUT FOR FINANCIAL SERVICES

SUMMARY

As the aftershocks of the United Kingdom's June 23 vote to leave the European Union continue to be assessed, it appears it isn't over until - in this case - the High Court sings.

The initial shock of "Brexit" has eased, with Theresa May's appointment to prime minister helping to calm volatile markets. However, the July 19 announcement that the High Court will hear a legal challenge over the UK's separation from the 28-country bloc in October underlines just how fluid the situation is.

Bottom line? Official Brexit negotiations won't happen in 2016. But the potential repercussions are too big for financial services firms to ignore in the interim.

BDO INSIGHTS

Here are the top developments to monitor while details of the Brexit are ironed out:

- ▶ **Is Brexit set in stone?** Before any changes can take place, the UK must determine whether May can trigger Article 50 of the Lisbon Treaty (which would set in motion the two-year divorce process from the EU) without Parliament's approval. Exactly how the separation will look - and if that separation will indeed take place - depends first on the outcome of the October legal challenge.
- ▶ **Will the UK upend its financial regulatory framework?** Until Britain's exit from the EU is complete, the current EU directives aren't going anywhere, and technically, the UK must still work towards the implementation of pending legislation, like MiFID II and MIFIR, effective in January 2018.

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- ▶ **Will UK firms retain access to the EU single market?** Under the passport system, financial firms authorized in one member state have authorization to conduct business throughout the region. What happens if the UK loses its passport privileges? Firms with European headquarters in London may need to relocate, or at the very least expand, their operations.
- ▶ **What's the deal with regulatory equivalence?** Even if the separation moves forward, it's worth noting that EU regulations are largely based on UK common law. But unless it is granted special status, the UK would need to obtain a regulatory equivalence decision from the European Commission to get full access to the single market and sustain current trading, clearing and settlement operations.
- ▶ **What single market provisions should you watch?** The big question is whether UK managers will continue to benefit from the MiFID, AIFMD and UCITS platforms for distribution—a possibility if the UK becomes a member of the European Economic Area, or if the UK can negotiate grandfathering provisions.

Clients with concerns or questions about the impact of Brexit should contact [Gary Swiman](#), partner in BDO's Financial Services Advisory practice and head of Regulatory & Compliance Consulting, at gswiman@bdo.com.