SIFMA Insights

Spotlight: The History of the EU & Brexit Timeline

May 2019

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Recently, SIFMA hosted its annual Operations Conference & Exhibition,[1] which included a panel of U.S. and European global investment banks and a consultant discussing the current state of Brexit. Inside this note we update the state of Brexit and provide a history of the EU, the U.K.'s entry to the EU and the latest Brexit timeline.

Where We Are

After delaying the original March 29 deadline for exiting the European Union, the U.K. is now on its second extension, running through October 31, 2019. U.K. Prime Minister Theresa May was trying to win enough votes in Parliament to pass the withdrawal agreement, which the EU Council has already approved. This is politically challenging: the bill has already been voted down three times and there are no significant changes to terms in this go around. Further, both May's Conservative party and the Labour party remain split within between Brexit (leave the EU) and Bremain (remain in the EU). The Prime Minister was in talks with Labour party leader Jeremy Corbyn to attempt to secure votes, but these talks ended without resolution. As with any negotiation, no leader can be seen giving up too much to the other side.

Adding another level of complexity, Prime Minister May has announced that she will resign as Conservative party leader on June 7. The Tory leadership contest will start the following week, with a number of MPs ready to run. Theresa May will remain in her post until a successor has been found. Regardless, our panelists indicated they expect the stalemate to continue. If there is no withdrawal agreement by October 31, the U.K. could request another extension but uncertainties and risks, including a hard Brexit, remain.

What Is/Isn't in the Agreement and What Comes After It

The Withdrawal Agreement deals with the terms under which the U.K. leaves the EU including issues such as transition, citizens' rights and money. Once the terms of withdrawal are approved, the two sides will turn to defining their post-Brexit trade and investment relationship.

In theory, a trade deal should start from a relatively "easy" place, i.e. taking terms from the World Trade Organization (WTO) that are designed to ensure no country gives more favorable terms to any one nation. (Of note, there are no WTO rules for services.) One of the main sticking points, both dogging efforts to secure withdrawal and overshadowing future relations, is the treatment of Northern Ireland. The Labour party wants to remain within the customs union. On the other side, the Conservative party, while not as focused on the customs union, is concerned about maintaining an open north-south Irish border, a key part in any potential withdrawal deal.

According to our panelists, the Irish border counts 70 million border crossings per month, and 80% of Irish physical goods/exports travel through the U.K. If there is no customs union, these goods will be hit with tariffs two times. In this scenario, Ireland, an EU member state, will be disproportionately harmed. The Netherlands also stand to lose in

[1] SIFMA Insights: Operations Conference & Exhibition Debrief at: https://www.sifma.org/resources/archive/research/sifma-insights-ops-debrief-2019/

a no customs union scenario. They export a significant amount of fresh fruit and flowers to the U.K., with thousands of Dutch people's livelihood reliant on this trade.

Brexit's Impact on Financial Services

"You don't know what you don't know, but at least you can plan for it." This encapsulates the basic theme of the panel at SIFMA Ops. While financial institutions still do not know what Brexit will mean (or when it will happen), firms have no choice but to continue to prepare for the unknown. In fact, European regulators had informed firms that they needed to be ready by the March 29 (original) deadline. U.K. authorities had not made a similar statement. Our panelists indicated most global firms are operationally ready.

As panelists noted, Brexit is not just a concern for non-EU firms, it is impactful for European financial institutions as well. For example, both the prime services and commodities businesses were predominantly based in the U.K. for many of these firms. These institutions had to relocate these units in the EU. Firms of all nationalities must repaper thousands of client accounts and documents. Any relocating firm or legal subsidiary needs to apply for new memberships with exchanges and clearing houses. All firms are focused on maintaining continuity of service to their clients, not matter where they are located. As such, firms have worked to ensure operational readiness and minimize risk, whether it be in: end-to-end infrastructure; connectivity to market infrastructures and other market participants; legal entities and branch readiness; maintaining appropriate staffing across all entities; etc.

Additional nuggets of information from our panelists include:

- Firms spent ~100 million each on Brexit to find and prepare (new licenses, etc.) new subsidiary and/or branch locations; yet, the industry does not want to overcommit to moving to the EU
- European regulators have indicated all EU entities must be self-sufficient, but what does that mean? (They have recognized that sufficiency will vary from day one and a date further out in the future)
- The U.K. has granted European firms temporary permission to continue operating in the U.K. for three years; the EU has not made a formal reciprocal offer
- U.K. firms' internal models for stress testing have been approved by U.K. regulators, not EU regulators
- EU regulators could force trades of dual listed stocks (U.K and EU country) to the EU, even if those trading venues have less liquidity

European Union History & Brexit Timeline

- 1951 – European trade area for coal and steel products formed with the European Coal and Steel Community (ECSC)
- 1957 – Treaty of Rome established a European common market, or the European Economic Community (ECC)
- 1957 – Euratom Treaty established the European Atomic Energy Community (EURATOM), creating a specialist market for nuclear power in Europe
- 1961 – U.K. applied to join the ECSC
- 1963 – France rejects the U.K.'s application to join the ECSC
- 1967 – Merger Treaty or Treaty of Brussels (came into effect in 1967) merged EEC, EURATOM and ECSC
- 1967 – France rejects the U.K.'s application to join the ECSC
- 1968 – Customs barriers and duties eliminated, and standard policies put in place (trade and agriculture) to establish a common customs tariff that would be applied to all goods from non-community countries
- 1969 – U.K. gets the green light to negotiate its membership of the ECSC
- 1973 – U.K. joins the ECSC
- 1975 – U.K. holds a referendum on whether or not to remain a member of the ECSC; 67% voted to remain
- 1979 – First ECSC Parliament established
- 1979 – Exchange Rate Mechanism (ERM) was established as part of the European Monetary System to reduce exchange rate variability and achieve stability before member countries moved to a single currency
- 1986 – Single European Act listed factors to eliminate within seven years, including all physical, technical and tax barriers restricting free movement within the EEC, to promote industrial and commercial expansion within a large, single market
- 1986 – U.K. Prime Minister Margaret Thatcher negotiated the U.K. rebate, a financial mechanism that reduces the U.K.'s contribution to the EU budget (a reduction of ~66% of the U.K.'s net contribution, amount paid into less receipts from the EU budget)
- 1992 – Black Wednesday occurred as the British Pound (GBP, £) crashed out of the ERM, as the U.K. failed to keep the £ above the lower limit in the ERM[2]; the U.K. Treasury estimated the cost at £3.4 billion
- 1993 – Treaty of Maastricht, or the Treaty on European Union, established the European Union common market; EU becomes a true political party, not just an economic union
- 1999 – Treaty of Amsterdam sought to reform EU institutions in preparation for the arrival of new countries, such as those from Central and Eastern Europe, as well as base decisions on the vote of the majority of the members of the EU Council
- 1999 – Launch of the Euro (EUR, €), adopted by 11 member states
- 1999 – ERM II was established to ensure exchange rate fluctuations between the € and other EU currencies did not disrupt economic stability in the single market

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[2] Investor George Soros built up a significant £ short position which would be profitable if the £ fell below the lower band of the ERM, as Soros recognized that Britain entered the ERM under unfavorable conditions, the rate was too high and economic conditions were fragile. In September 1992 Soros sold off a large portion of his short position. The Bank of England tried to support the £.

- 2002 – The 12 EU member states using the € officially introduced € banknotes and coins as legal tender
- 2003 – Treaty of Nice tried to reform EU institutions to enable the EU to work efficiently following the entry of Central and Eastern European countries (modified the number of votes given to each member state and the number of elected representatives in the European Parliament, changed the composition of the European Commission)
- 2009 – Treaty of Lisbon, or the Treaty on European Union and Treaty on the Functioning of the European Union, increased the powers of the European Parliament, giving the EU legal authority to negotiate and sign international treaties and increasing EU powers (border control, immigration, judicial cooperation in civil and criminal matters and police cooperation). The idea of a European Constitution was abandoned, with European law established by international treaties. The European Council was also formalized (established informally in 1975) as a collective body defining EU's political direction and priorities.
- **June 2016 – U.K. Referendum:**
  - 71.8% turnout, or >30 million people voting
  - Brexit passed with a slim margin; 51.9% voted Brexit, 48.1% voted Bremain
  - England and Wales voted Brexit, Northern Ireland and Scotland voted Bremain (only 38% of Scottish voters chose Brexit, leading to renewed calls for another referendum on Scottish independence)
- October 2016 – The U.K. announced its intention to invoke Article 50 of the Treaty on European Union, formally giving notice of its intent to leave the EU
- March 2017 – the leave order was delivered to the Council of the European Union, officially starting the two-year countdown to the U.K.'s EU departure
- March 29, 2019 – original Brexit Day, until an extension was granted
- April 12, 2019 – second Brexit Day, until another extension was granted
- May 23, 2019 – European Parliament elections
- June 3, 2019 – U.K. House of Commons vote (subject to change)
  - If the U.K. votes to approve the withdrawal agreement on this or any other date prior to the Brexit deadline, they will leave the EU at the start of the following month
- June 20-21, 2019 – EU Summit
- September 29-October 2, 2019 – U.K. Conservative Party Conference
- October 17-18, 2019 – EU Summit
- **October 31, 2019 – current Brexit Day**
- **December 31, 2020** – end of the transition period (the treaty also establishes that the transition can be extended up to December 31, 2022); current Brexit Day, when the **U.K. officially leaves the EU**

European Union Country List & Special Relationships with Non-EU Countries

Country	Year	EU 28	€ 19	Schengen	Candidate	Potential
EU Member State						
Belgium	1958	X	X	X		
France		X	X	X		
Germany		X	X	X		
Italy		X	X	X		
Luxembourg		X	X	X		
Netherlands		X	X	X		
Denmark	1978	X		X		
Ireland		X	X			
UK		X				
Greece	1981	X	X	X		
Portugal	1986	X	X	X		
Spain		X	X	X		
Austria	1995	X	X	X		
Finland		X	X	X		
Sweden		X		X		
Cyprus	2004	X	X			
Czechia		X		X		
Estonia		X	X	X		
Hungary		X		X		
Latvia		X	X	X		
Lithuania		X	X	X		
Malta		X	X	X		
Poland		X		X		
Slovakia		X	X	X		
Slovenia		X	X	X		
Bulgaria	2007	X				
Romania		X				
Croatia	2013	X				
Non EU Countries						
Albania					X	
Montenegro					X	
North Macedonia					X	
Serbia					X	
Turkey					X	
Bosnia & Herzegovina						X
Kosovo*						X
Iceland				X		
Liechtenstein				X		
Norway				X		
Switzerland				X		

Source: EU website

Note: EU 28 = EU member states, UK included. €19 = use the Euro as currency. Schengen Area = no internal borders within which citizens & non-EU nationals can freely circulate without being subjected to border checks (has tightened controls at the common external border). Candidate country = in process of transposing (integrating) EU legislation into national law. Potential candidates = do not yet fulfil requirements for EU membership. *Kosovo designation is "without prejudice to positions on status in line with UNSCR 1244/99 & the ICJ Opinion on the Kosovo declaration of independence"

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