

EU referendum result – a background note

Summary

On 23 June, the UK voted to leave the European Union (EU). This has significant implications for the UK – not least combining a change in the country's constitution, and following David Cameron's decision to step down as leader of the Conservative Party, a new Prime Minister, and with many issues uncertain for the months ahead. In Scotland, First Minister Nicola Sturgeon confirmed a second referendum on independence was now "highly likely". This short briefing provides a summary of what the EU referendum result means for CII members.

The impact of the EU referendum result on the economy is uncertain - at least in the short-term - until things stabilise. There is a degree of flux in currency and stock markets, which is likely to continue for some time. Every company in every sector will likely be affected in terms of regulatory environment, trade and sales. Whether this impact is short term or much longer is impossible to tell at this stage.

While there is uncertainty, the Prime Minister resolved some immediate things on the morning of his resignation. He has said that it is for the new PM to decide when (and if) to invoke Article 50 of the Treaty of Lisbon. That is the only legal mechanism for withdrawal and has to be completed within two years unless an extension is agreed unanimously by other member states.

For the next few months, while the legislative process may roll on, government more generally will focus on the EU negotiations. Pending decisions such as Heathrow expansion may be shelved for the foreseeable future. Constitutional matters will dominate politics, almost to the exclusion of all else, for the next year. The UK's exact future relationship with the EU will be the prime concern; but the future of the UK itself is again in doubt with renewed calls for a second Scottish referendum. The UK Government has set up a cross-departmental civil service unit to spearhead the preparations for negotiating withdrawal from the EU.

The Governor of the Bank of England moved quickly to address with economic uncertainty by giving a statement the morning of the referendum result to project confidence and stability by reassuring investors that the UK was 'well prepared' for expected market and economic volatility. He then followed up that message 3 days later to calm markets, households and businesses:

“Uncertainty over the pace, breadth and scale of these changes could weigh on our economic prospects for some time. While some of the necessary adjustments may prove difficult and many will take time, the transition from the initial shock to the restructuring and then building of the UK economy will be much easier because of our solid policy frameworks.”

What does leaving the EU actually mean?

Of most consequence to business, what does withdrawal actually mean? The exact shape of exit remains to be defined with a number of options possible. But as all businesses know from their everyday activities, disentangling the UK from the Single Market will be complicated.

Brexit - what happens next?

The clear message from the Prime Minister that will echo through Government is that “the people have spoken so let’s make this work”.

- *From a legal perspective the UK’s relationship with the EU does not automatically change. EU laws still apply, the UK retains access to the Single Market and the UK will participate in the EU as normal, although it is barred from participating in discussions or decisions related to withdrawal.*
- *A lengthy negotiation now takes place to agree the terms of withdrawal, plus a new agreement with the EU needs to be established.*
- *David Cameron has handed the decision on triggering Article 50 of the Lisbon Treaty, which formally sanctions the UK’s withdrawal, to his successor as Prime Minister.*

Two separate but related processes are likely to follow:

1. Article 50 provides for the UK’s legal withdrawal from the EU. This is specifically triggered by the UK, not the EU and is expected to take two years. A debate is now taking place concerning when it would be in the UK’s best interests to invoke Article 50, and indeed whether to invoke it at all.
2. The UK and EU must agree a new relationship that replaces the UK’s formal membership of the EU. There is a question mark about how long this process could take but this will be a highly complex process with huge implications for business.

What is Article 50?

The ‘Article 50’ process refers to the clause within the Lisbon Treaty that is the legal mechanism for withdrawing from the European Union - talks on alternative UK-EU arrangements could take place in parallel but separately agreed. Negotiation takes place between the UK Government and the European Commission, and the final deal is concluded by the EU Council. EU treaties would no longer be applicable once the ‘withdrawal agreement’ is entered into force, which could take up to **two years** from when Article 50 is invoked. If there is no agreement within two years, EU rules and membership of the Single Market automatically cease to apply, unless all other 27 member states agree to an extension. A new, separate agreement will need to be reached between the UK and EU. It is a matter for negotiation whether this process should happen in parallel with Article 50.

EU referendum: some key statements

The Chancellor **George Osborne** moved to reassure the global community that Britain will confront upcoming challenges from a position of strength (27th June): <http://bit.ly/28Xbttz>

The Governor of the **Bank of England** Mark Carney described the concrete steps the Bank has taken to address uncertainty in the UK economy – in addition to how it can be expected to act in the weeks and months ahead (30th June): <http://bit.ly/29qyiuC>, following his announcement of the creation of a £250bn fund to deal with short-term volatility stemming from the vote (24th June): <http://bit.ly/29fXXSU>

Director General of the **Association of British Insurers** Huw Evans asked customers to avoid any hasty decisions, as the UK “remains part of the EU until the process of leaving is complete”: <http://bit.ly/293FusB>

The **Financial Conduct Authority** said firms in the sector would have to continue to abide by UK and EU rules until the transition was formalised: <http://bit.ly/28USzlm>

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