



Brexit:

Implications for Singapore and the ASEAN region

Friday, 3 June 2016



Planning for all eventualities

“

Brexit is a once-in-a-generation question, yet in another sense it is merely the latest in a line of issues to which businesses must respond at lightning pace



If you knew the UK would vote OUT, what would you do today?

Why a Brexit vote? And why a vote now?



“Black Wednesday 1992”

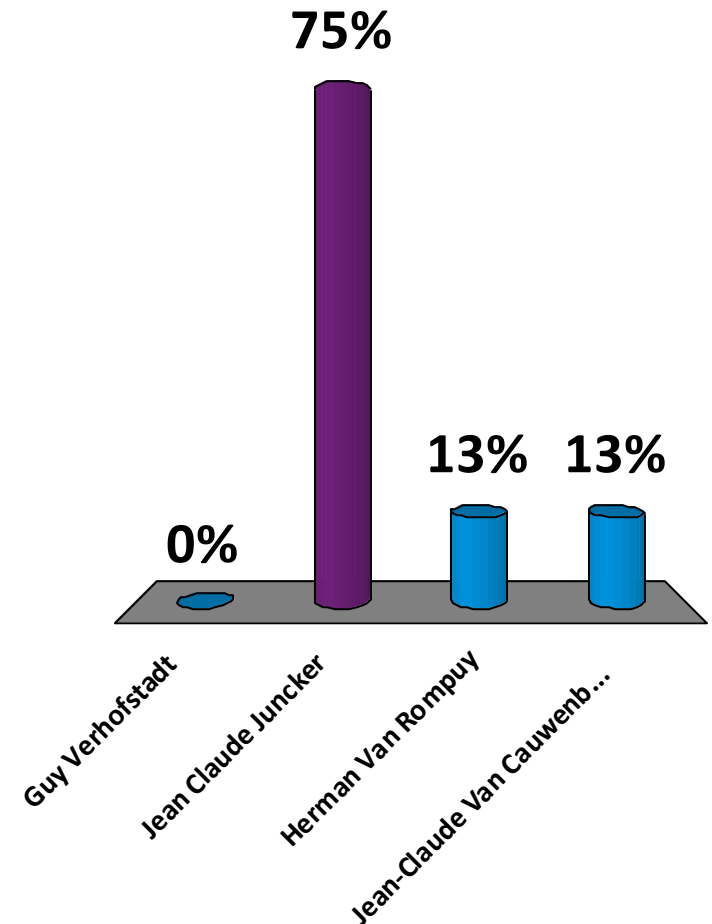
- UK crashes out of EU exchange rate mechanism, preparation for Euro single currency. Bank of England sells gold to prop up currency, interest rates spike.
- Currency speculator George Soros makes **£6bn** for his Quantum Fund betting against sterling. A loss of **£120** for every UK citizen.
- UK economy and property market de-couples from continental EU economy.
- UK does not join the “Schengen” free movement zone in 1995 nor the Euro in 1999.

George Soros - “the man who broke the Bank of England”

Question 1

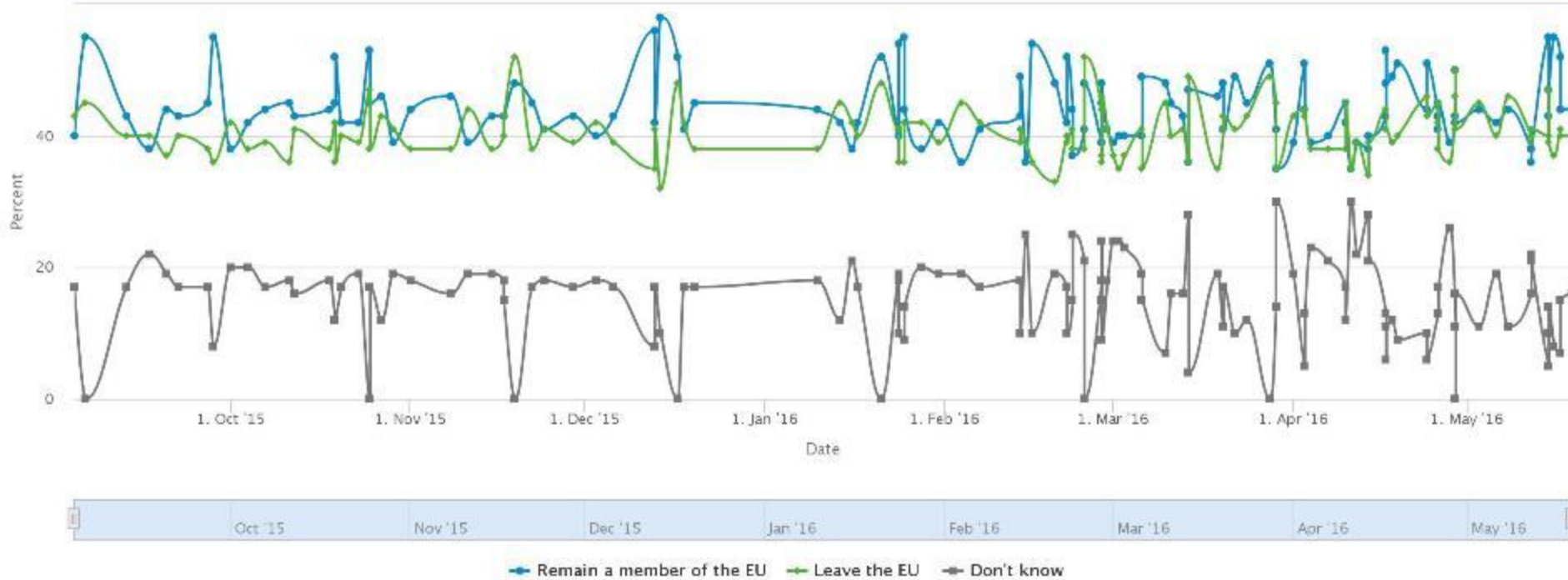
Who is the President of the EU?

- A. Guy Verhofstadt
- B. Jean Claude Juncker
- C. Herman Van Rompuy
- D. Jean-Claude Van Cauwenberghe



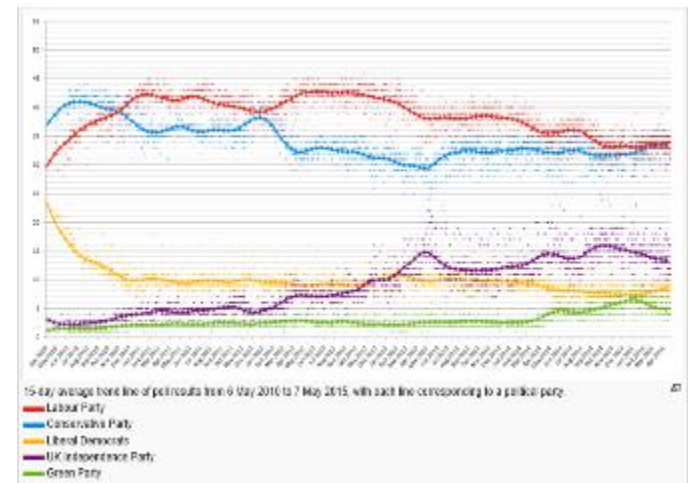
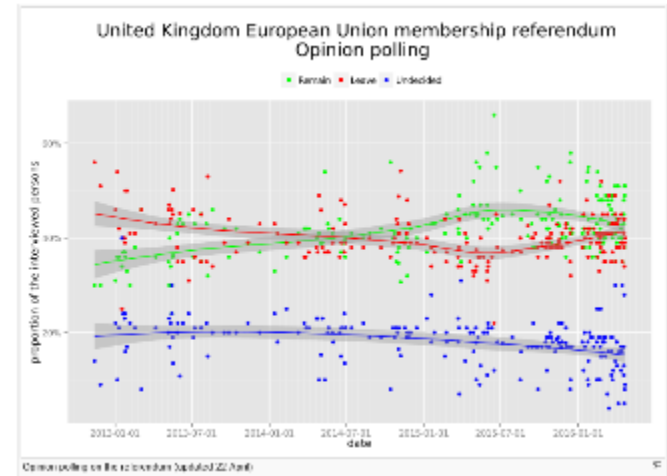
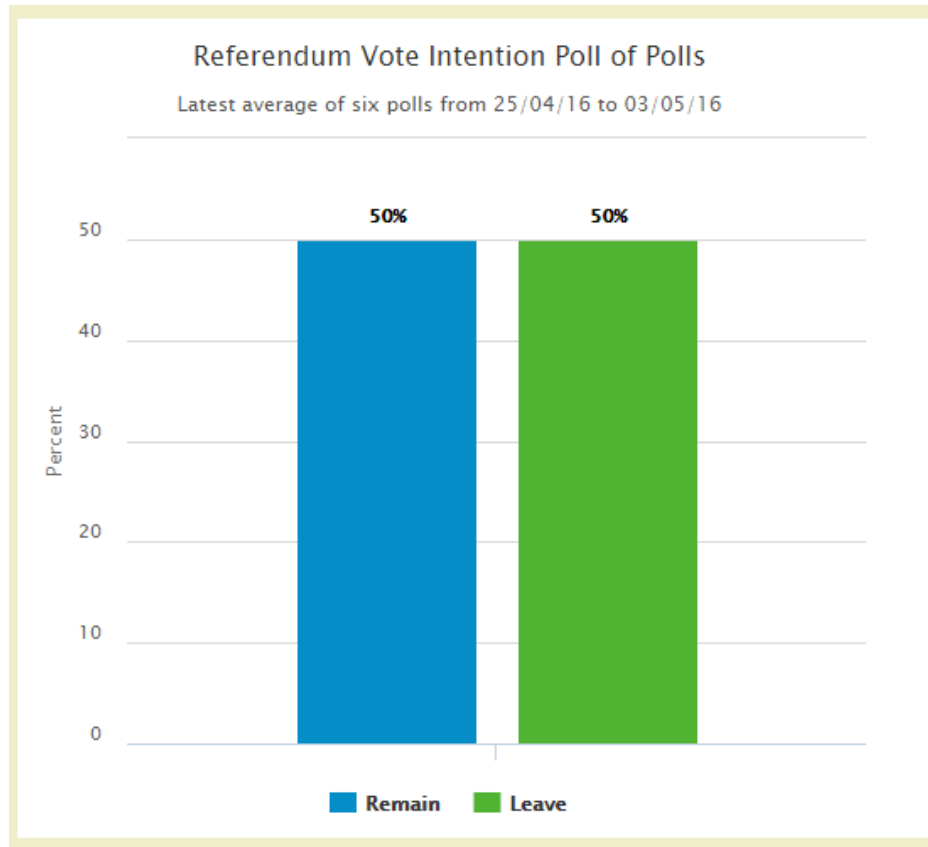
What is going to happen?

Should the United Kingdom remain a member of the European Union or leave the European Union?



Source data at www.WhatUKThinks.org/EU run by NatCen Social Research

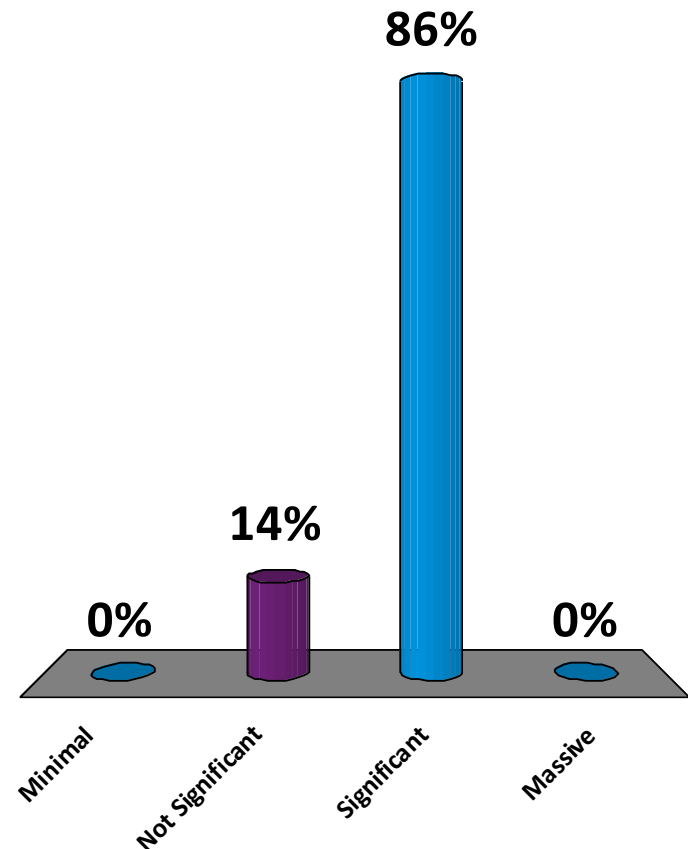
What is going to happen?



Question 2

What do you think the economic impact of a Brexit would be?

- A. Minimal
- B. Not Significant
- C. Significant
- D. Massive



Tax – why does it matter?

The Facts

- Fiscal matters were at the heart of the formation of the original EEC and remain important today.
- Around 50% of UK exports are to the EU.
- Only 10% of EU exports are to the UK.
- A lot of important EU countries have trade surpluses with the UK including most of the “big” countries.
- Half the EU HQ’s of third party MNCs are based in the UK.
- Capital flows have declined from 8.5trn (2007) to 3.5trn (2010-13 average) with Western Europe accounting for 70% of this.
- EU restricts fiscal sovereignty of Member States.

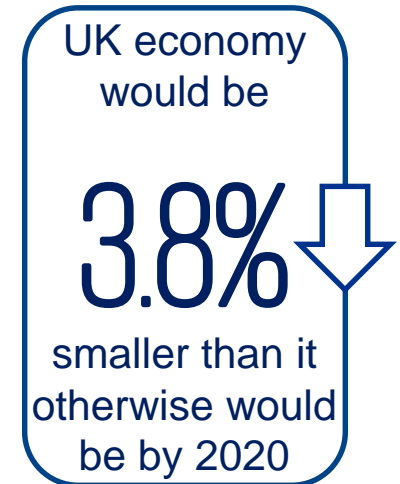
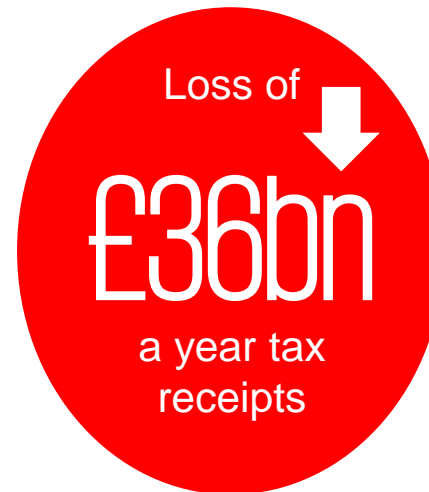
The Tax

- Customs Union – no customs duties.
- Harmonised VAT System.
- Corporate tax – no common tax base yet (Brexite might help this happen) but important PSD’s for withholding tax.
- Other directives...merger, capital.
- BEPS – bother OECD and the EC variety.
- State Aid – control of subsidies to firms.

THE OUTCOME

All depends on the form of exit... but there are important restrictions on the UK’s ability to move its tax systems too far from current settings...

BREXIT: UK Treasury Economic Impact Assessment



BREXIT: Bank of England Forecast

- “Uncertainty spike” at vote - banks to be offered extra liquidity to avoid another credit crunch.
- If Brexit wins, a longer-term risk that some banks could consider re-locating away from London.
- But if Breain wins, a risk of implementation of an EU “financial transaction tax”.



“A vote to leave the European Union could have material economic effects...”

BREXIT: Understanding your exposure

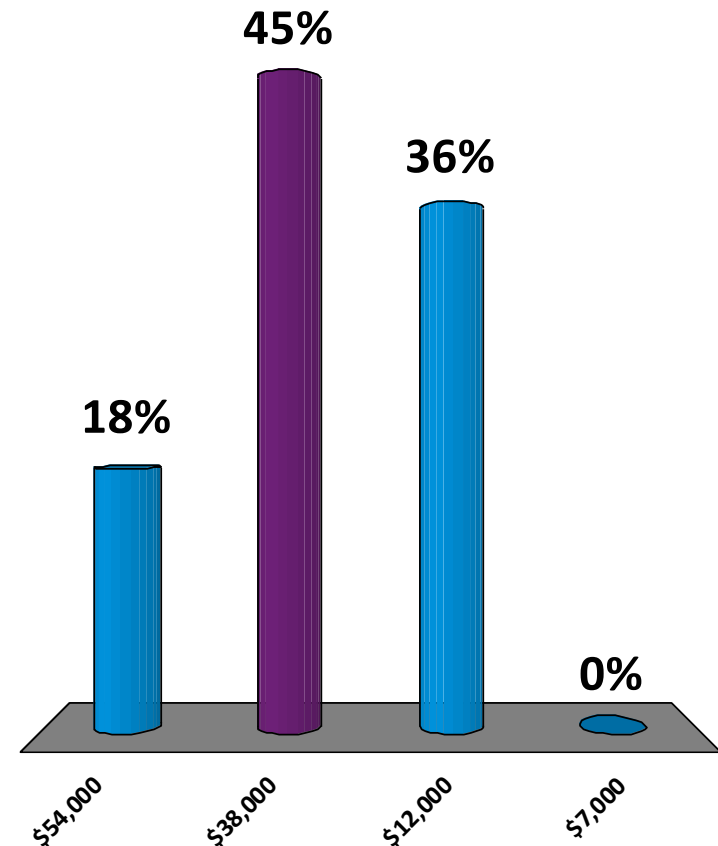
- On 23 June the Referendum on Britain's continued membership of the EU takes place.
- The potential risks and opportunities posed by a vote to leave must be considered by all commercial organisations.
- No two organisations will have the same exposure.
- Using KPMG's "9 Levers of Value" framework, some questions business leaders should be asking to consider the impact on their business of a 'leave' vote. (See Appendix.)

Question 3

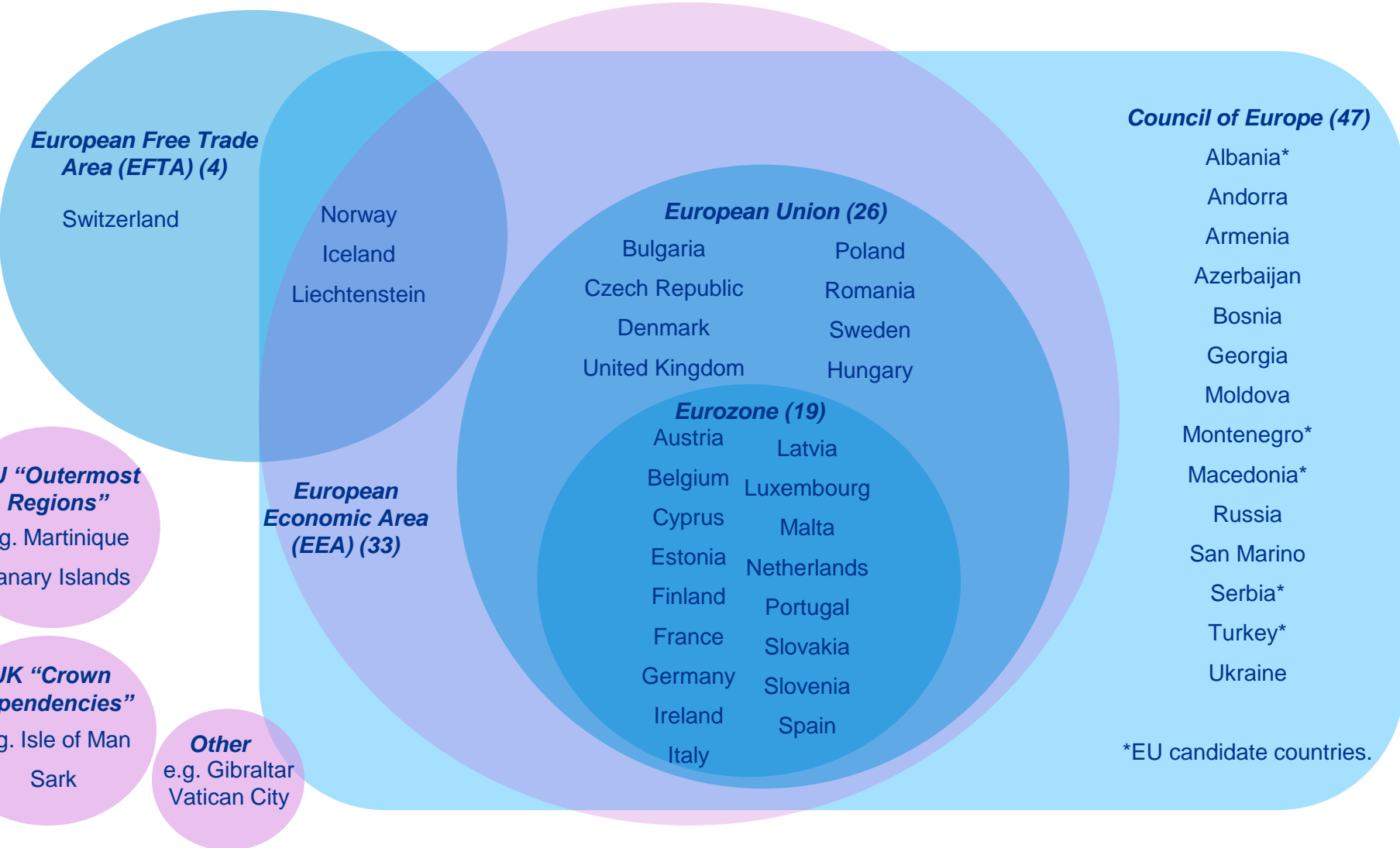
What is the monthly salary of a Member of the European Parliament in SGD?

- A. \$54,000
- B. \$38,000
- C. \$12,000
- D. \$7,000

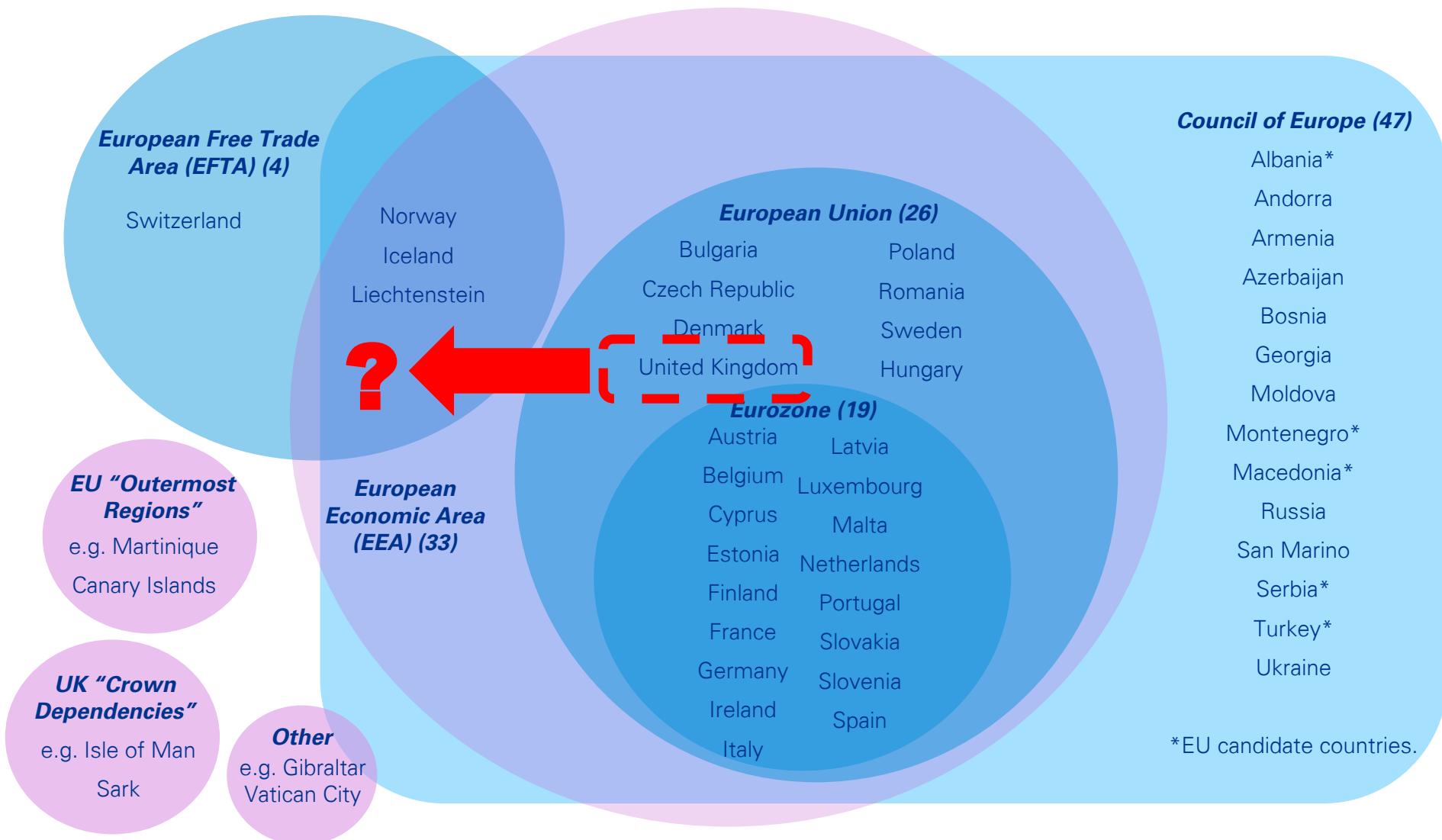
Bonus Question!
How much does a Singapore
parliamentarian earn?
Answer:
\$192,000 p.a.
\$13,700 p.c.m.








Post-Brexit Models of Independence for the UK?



Post-Brexit Models of Independence for the UK?



Post-Brexit Models of Independence for the UK?

Model	Example		Likelihood?
EEA (i.e. EFTA and EEA membership)		Norway	Highly Unlikely
Bilateral Partner		Switzerland	Unlikely
Customs Union		Turkey	Highly Unlikely
Regional Free Trade Agreement		Canada	Likely, over time
General International Trading Rules		WTO	Unlikely

Would UK independence be a success or failure?



SINGAPORE

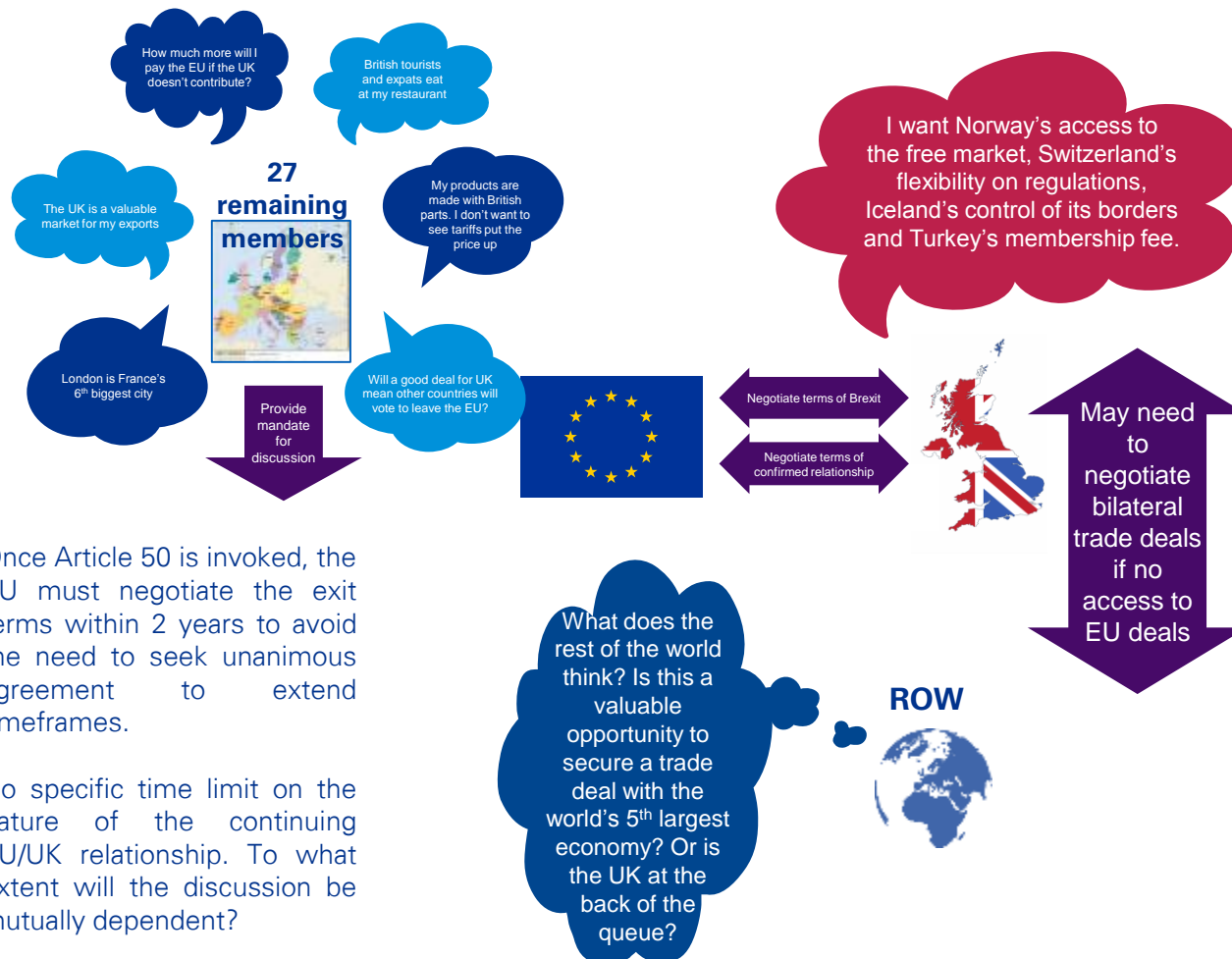
- Thrived since independence in 1965 from Malaysia. Regional outlier.
- Diversified, export-based economy, multi-cultural population, high levels of human capital with a highly-educated population.
- A geographically small City-State (unlike UK). Integrating in ASEAN economic community (similar to EU).



TEXAS

- Popular referendum of 1860 (75% in favour of leave) caused unilateral secession from the USA, fanning the flames of the U.S. Civil War. (700k-900k casualties).
- Poorly diversified, economically backwards economy (pre-oil; cotton export based on slave labour).
- Independence an economic and political failure; restored to Union in 1865.

No-one knows what a Brexit looks like. There are, simply, too many moving parts



There are tensions within and between these states. Their relationship with the UK is not uniform. Some are net exporters to UK, some are net recipients of EU funds, some have diaspora in UK, some have UK expat residents. To reach consensus each state will be considering its interest and their own combination of bilateral politics. It is very difficult to predict the negotiations around conditions of Brexit.

Once Article 50 is invoked, the EU must negotiate the exit terms within 2 years to avoid the need to seek unanimous agreement to extend timeframes.

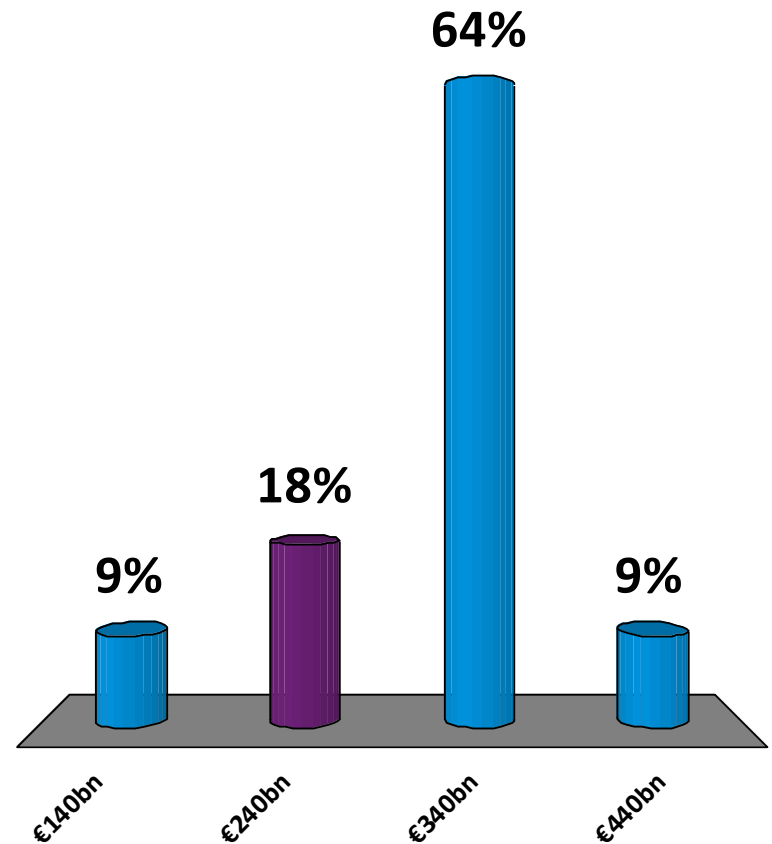
No specific time limit on the nature of the continuing EU/UK relationship. To what extent will the discussion be mutually dependent?

UK cannot automatically rely on EU/Row trade deals. Depending on the UK/EU negotiation, UK needs to negotiate up to 120 bilateral trade deals, or credibility represent the ability to do so.

Question 4

How much money has been spent on bailing out Greece since 2008?

- A. €140bn
- B. €240bn
- C. €340bn
- D. €440bn



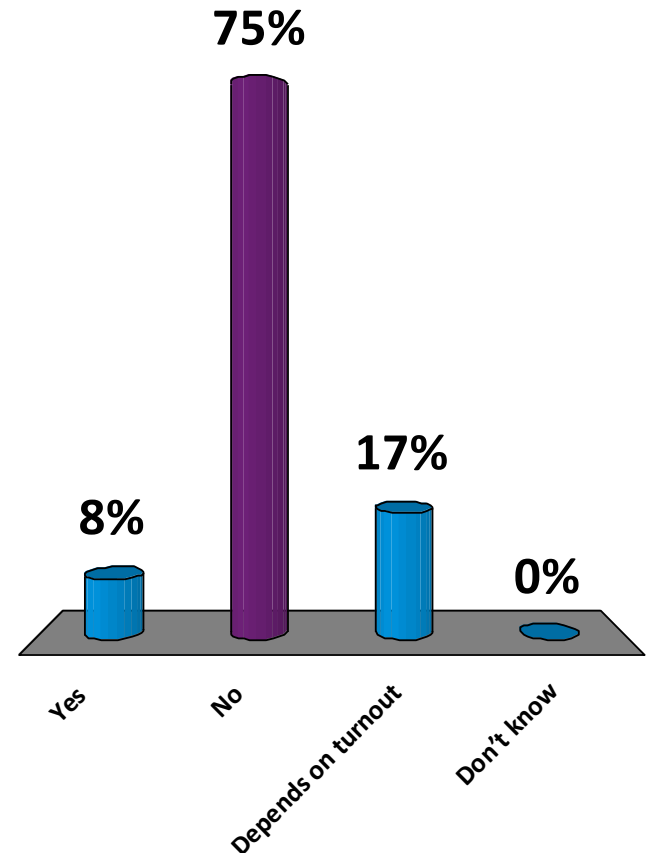
What should I do?

- No “one size fits all answer”
- How exposed are you?
- How exposed are your competitors?
- Look for commercial upsides.
- Prepare stakeholder / customer / employee / investor communications and statements in event of a Brexit being announced on June 24.

Question 5

Do you think there will be a Brexit?

- A. Yes
- B. No
- C. Depends on turnout
- D. Don't know





Contact

Satyanarayan Ramamurthy

Head of Strategy, Government and Sectors

KPMG in Singapore

T: +65 6213 2060

E: sramamurthy@kpmg.com.sg



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Resources

[Client EU referendum portal](#)

[KPMG intranet portal](#)

The Brexit Team

BREXIT: Understanding your exposure

