KPMG

Brexit: Implications for Singapore and the ASEAN region

Friday, 3 June 2016

Planning for all eventualities





IN

Why a Brexit vote? And why a vote now?





"Black Wednesday 1992"

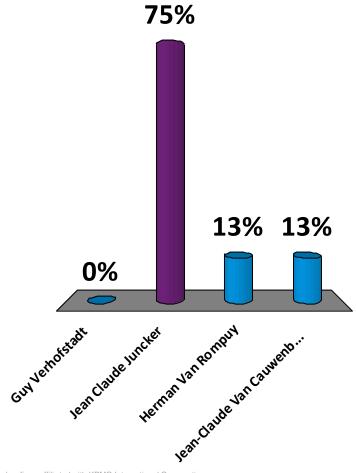
- UK crashes out of EU exchange rate mechanism, preparation for Euro single currency. Bank of England sells gold to prop up currency, interest rates spike.
- Currency speculator George Soros makes £6bn for his Quantum Fund betting against sterling. A loss of £120 for every UK citizen.
- UK economy and 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"



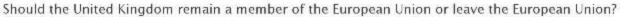
Who is the President of the EU?

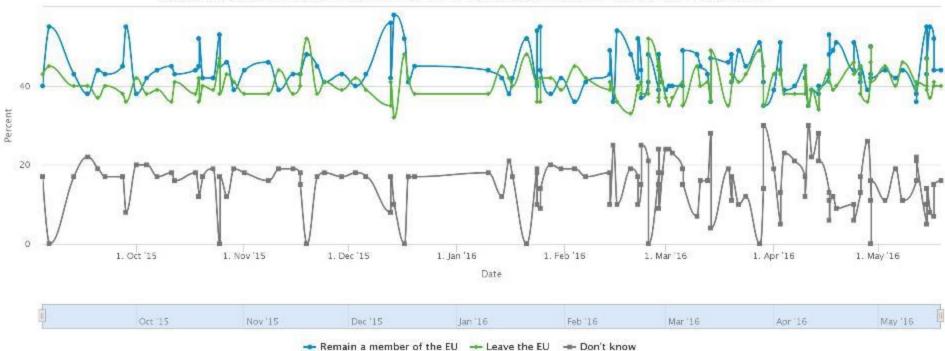
- A. Guy Verhofstadt
- B. Jean Claude Juncker
- C. Herman Van Rompuy
- D. Jean-Claude Van Cauwenberghe





What is going to happen?

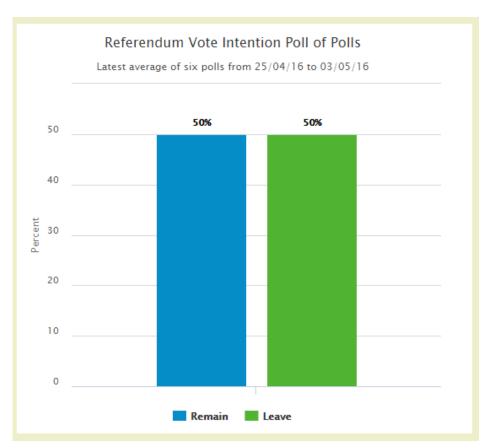


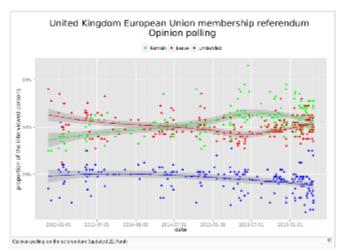


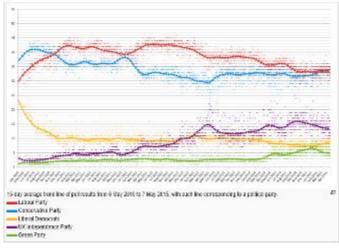
Source data at www.WhatUKThinks.org/EU run by NatCen Social Research



What is going to happen?



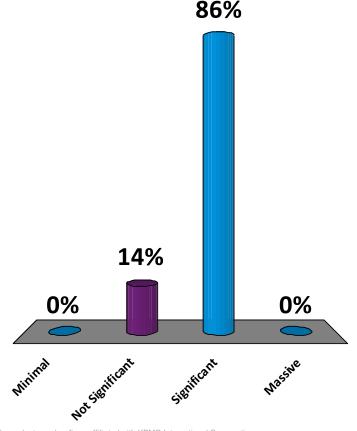






What do you think the economic impact of a Brexit would be?

- 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 (Brexit 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







Alternative trade agreements would mean that each UK household would lose per year



E36bn
a year tax
receipts

UK economy would be

3.8%1

smaller than it otherwise would be by 2020



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 Bremain 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.)



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



B. \$38,000

C. \$12,000

D.\$7,000

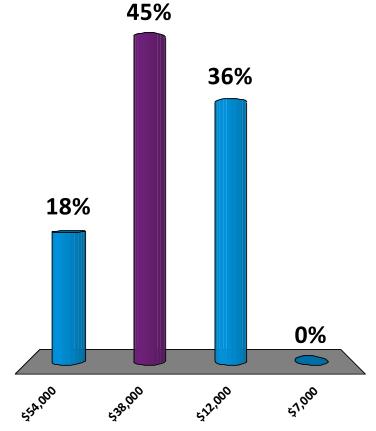
Bonus Question!

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?

European Free Trade Area (EFTA) (4)

Switzerland

Norway Iceland

Liechtenstein

EU "Outermost Regions"

e.g. Martinique Canary Islands

UK "Crown Dependencies"

e.g. Isle of Man Sark

Other e.g. Gibraltar Vatican City

European Economic Area (EEA)(33)

European Union (26)

Bulgaria Poland Czech Republic Romania Denmark Sweden

United Kingdom Hungary

Eurozone (19)

Austria Latvia

Belgium Luxembourg Cyprus

Malta

Estonia Netherlands

Finland Portugal

France Slovakia

Germany Slovenia Ireland

Spain Italy

Council of Europe (47)

Albania*

Andorra

Armenia

Azerbaijan

Bosnia

Georgia

Moldova

Montenegro*

Macedonia*

Russia

San Marino

Serbia*

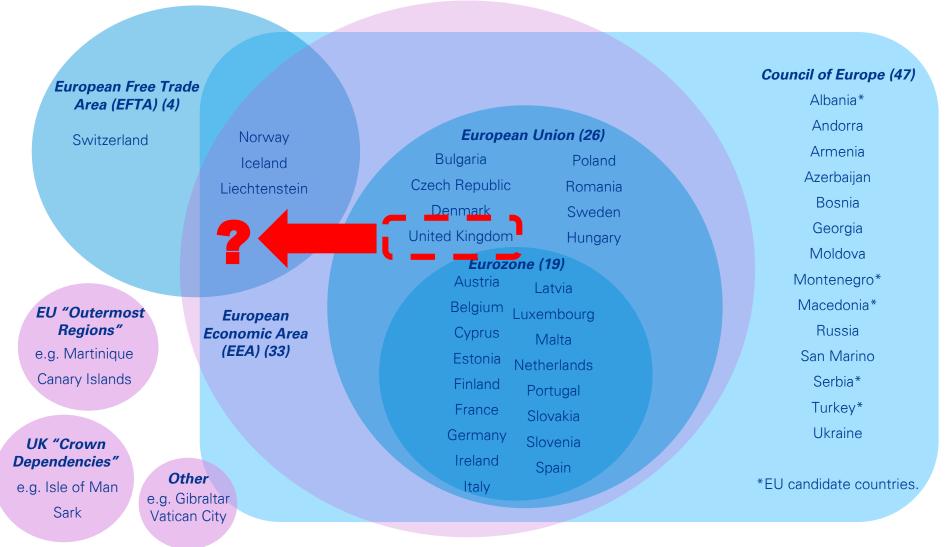
Turkey*

Ukraine

*EU candidate countries.



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	C∗	Highly Unlikely
Regional Free Trade Agreement	Canada	Likely, over time
General International Trading Rules	WTO WAS TO A STATE OF THE STATE	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).



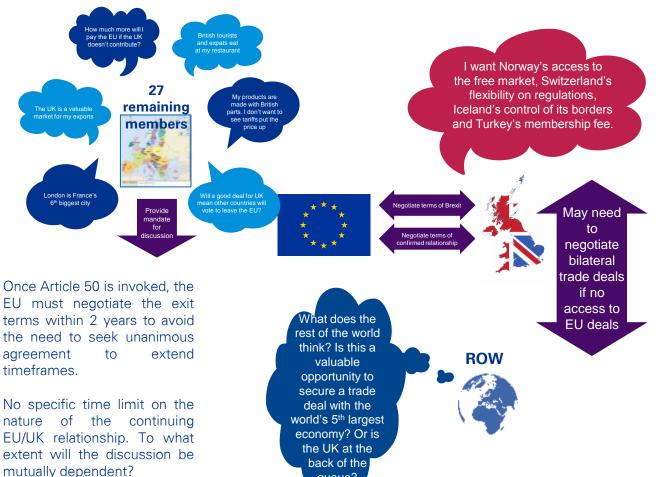


TEXAS

- 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



queue?

There are tensions within and between these states Their relationship with the UK is not uniform. Some are 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.

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.



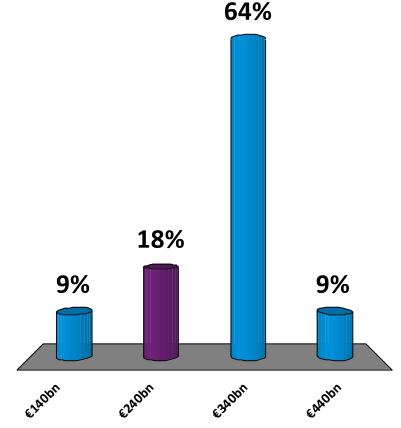
How much money has been spent on bailing out Greece since 2008?

A. €140bn

B. €240bn

C. €340bn

D. €440bn





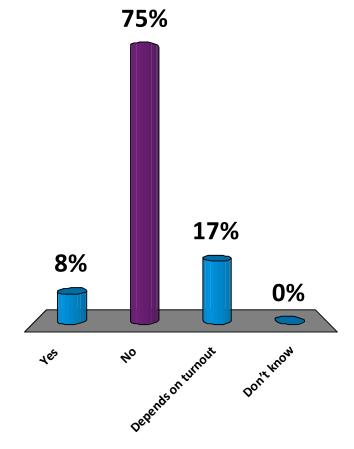
What should I do?

- 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.



Do you think there will be a Brexit?

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







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Resources

Client EU referendum portal

KPMG intranet portal

The Brexit Team

BREXIT: Understanding your exposure

Markets Organisational structure, governance and risk Measures and incentives Will trade between the EU Will your corporate structure need to change to take Financial ambition and UK reduce? advantage of opportunities? Or respond to changes in Do you have sufficient data to regulation? understand how resilient your business What does potential uncertainty Will trade with countries mean for availability and cost of capital? where the EU has FTAs be If you restructure your organisation, will you face exit tax affected? costs on transition? How can you improve monitoring to Will investors continue to fund identify any shocks early? capital investment Which alternative markets Can you manage your business if you face travel restrictions? programmes? should be explored? Have you quantified the potential changes to the effective tax rate? Will you update your forecasts If the UK votes to leave? Propositions and brands Will British brands face negative sentiment from EU consumers if discussions become tense? People and culture What mitigation strategies exist? could lead to labour shortages. How will you meet the gap when non-EU immigration is also restricted? Operational and Clients and channels technology infrastructure How many EU nationals do you UK exporters to the EU will Core business processes employ in the UK? What is the Will restrictions on cross border need to consider trade barriers.

will need to be reviewed for unintended consequences Will you need to review your 'go to market' approach?

If the UK leaves the EU, operations and legal structures

Does your distribution footprint and network still make sense in light of the UK leaving the EU?

Do have enough visibility over your supply chain to identify threats? Do you have natural hedges?

Will IT systems need to be adapted?

activity increase the administration

burden for UK operations?

Are your systems and processes set up for increased logistics, tax impacts or new pricing structures? Reduced freedom of movement

administrative cost of retaining them?

How will your workforce change? Or your staff culture?

How will you deal with employment policies after Brexit if UK law diverges from the rest of the EU?



alternative suppliers?

changes in tax or costs?

a kev customer?

Are your EU customers already developing

How resilient is your business to the loss of

Will you need to review pricing policy for

