

BREXIT: LSE GROWTH COMMISSION

6TH DECEMBER 2016

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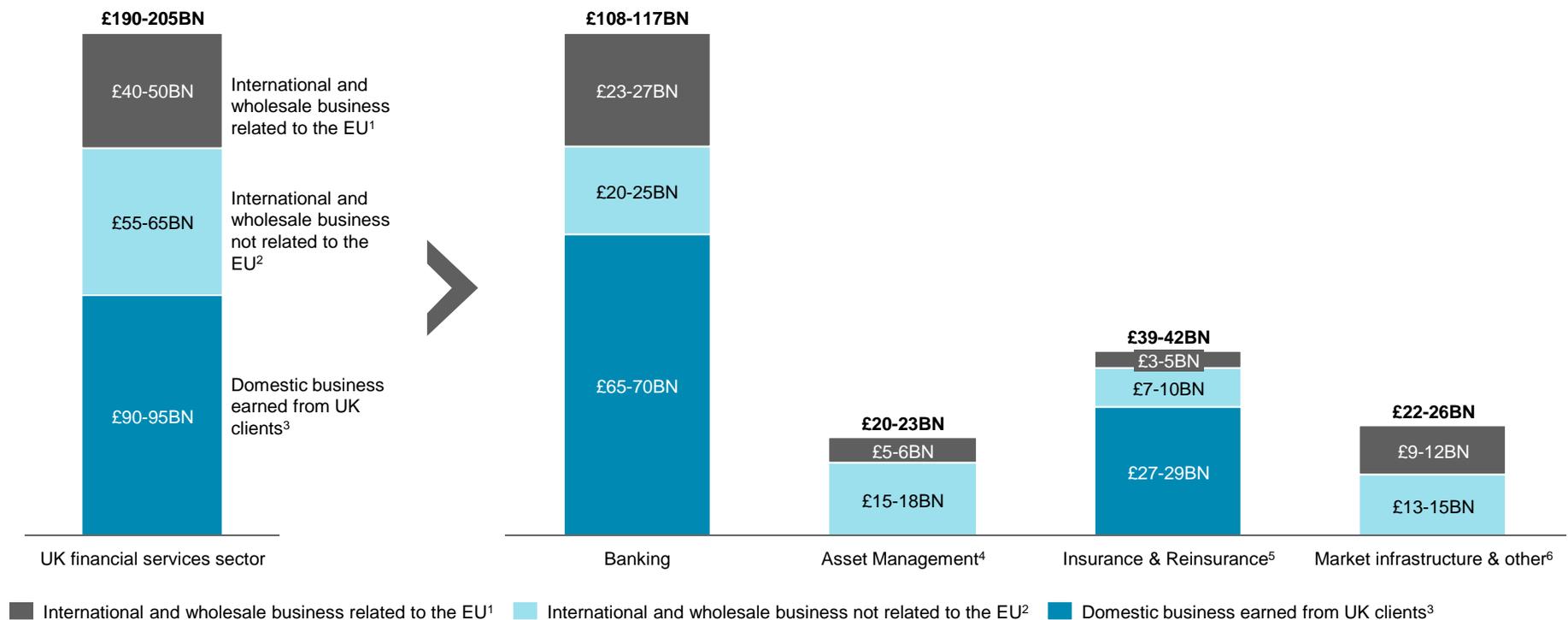
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We estimate roughly half of UK FS revenues are in wholesale and international business, with £40-50BN of this directly related to the EU

Segmentation of UK financial services sector revenues 2015, £BN

Sectoral breakdown of UK financial services sector revenues segmentation 2015, £BN



Sources: Oliver Wyman analysis;

1. International and wholesale business related to the EU includes: all EU client activities with financial services firms based in the UK, UK & Rest of World (RoW) client activity in EU/Euro-linked products, UK and RoW activity occurring as a result of EU client activity (for example, portfolio delegation and risk management of trading positions); 2. International and wholesale business not related to the EU includes: financial services activity with UK and RoW clients that is not related to the EU; 3. Domestic business earned from UK clients includes: UK personal and business banking, private banking and wealth management for UK clients; UK domestic and commercial insurance; 4. Portfolio management for UK client funds included in the International and wholesale business not related to the EU; 5. For insurance, we use an estimate of GDP as revenues as opposed to GWP to ensure a more accurate comparison of economic contribution with other sectors; 6. All "market infrastructure and other" is considered potentially internationally portable. There is £10-14BN of UK client business included in the International and wholesale business not related to the EU category

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We have looked across a spectrum of regulatory outcomes to quantify the impact on the UK financial services industry

High access

Low access

Full passporting and equivalence:

- UK receives full equivalence and passporting across the full scope of Single Market Directives
- Includes negotiation of new access arrangements with the EU (for example, CRD, IDD)

Equivalence where provision already exists:

- UK becomes third country¹
- Receives equivalence across Single Market Directives and regulations where equivalence is already established
- No new arrangements are negotiated (for example, no new CRD regime for UK banks)
- Delegation of portfolio management is permitted to the UK in most areas in line with international norms
- Bilateral agreements with EU member states are secured to retain access where bilateral agreements possible (for example, insurance)

Third country agreement (no preferential access):

- UK becomes a third country¹ but does not receive equivalence across core Single Market Directives
- No new access arrangements are negotiated on a bilateral basis
- Delegation of portfolio management is permitted to the UK in most areas in line with international norms

Note: Outline of future relationship here is an outcome based summary of the relationship and key aspects, rather than a comprehensive detailing of all legal and regulatory agreements

1. The UK will become a third country when it moves outside the coverage of the EU Treaties, which confer single market access rights, "passporting", and the assumption of regulatory "equivalence"

Including the ecosystem impact, the most severe outcome could increase to £32-38BN would be lost from the UK, putting 65K+ jobs at risk

High access

Low access

High access scenario:

1st order: ~£2BN (~1%) of revenues lost

Ecosystem: ~£2BN (~1%) of revenues at risk

| | | |
|---------------------|--------------------|-----------------|
| 3-4,000 (~<1%) jobs | ~<£0.5BN (~1%) tax | ~£1BN (~1%) GVA |
| 3-4,000 (~<1%) jobs | ~<£0.5BN (~1%) tax | ~£1BN (~1%) GVA |



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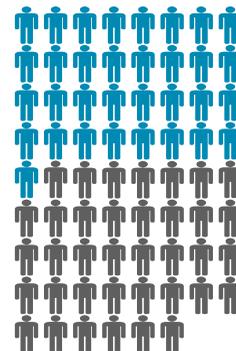
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Low access scenario:

1st order: £18-20BN (~10%) of revenues lost

Ecosystem: £32-38BN (15-20%) of revenues at risk

| | | |
|-----------------------|----------------------|-----------------------|
| 31-35,000 (~3%) jobs | £3-5BN (5-8%) tax | £9-12BN (7-10%) GVA |
| 65-75,000 (6-7%) jobs | £8-10BN (13-16%) tax | £18-22BN (14-17%) GVA |



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Key:

■ 1st order impacts: regulatory impacts on EU-related activity ■ Ecosystem impacts

👤 1,000 jobs £ £100MN tax 🕒 £200MN GVA

Source: Oliver Wyman analysis

Note: In this analysis we do not take into account other factors that may impact the size and scale of the UK financial services sector – for instance structural changes in the way that services are delivered or impacts of cost reduction programs (for example, outsourcing of activities). Nor do we include any impacts on the financial services sector due to changes in the wider economy as result of impacts of the UK's exit from the EU on households and corporates (for example, in changes in demand for loans, impacts on interest rates), or make any assumptions on changes to economic activity such as exchange rates or inflation changes

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