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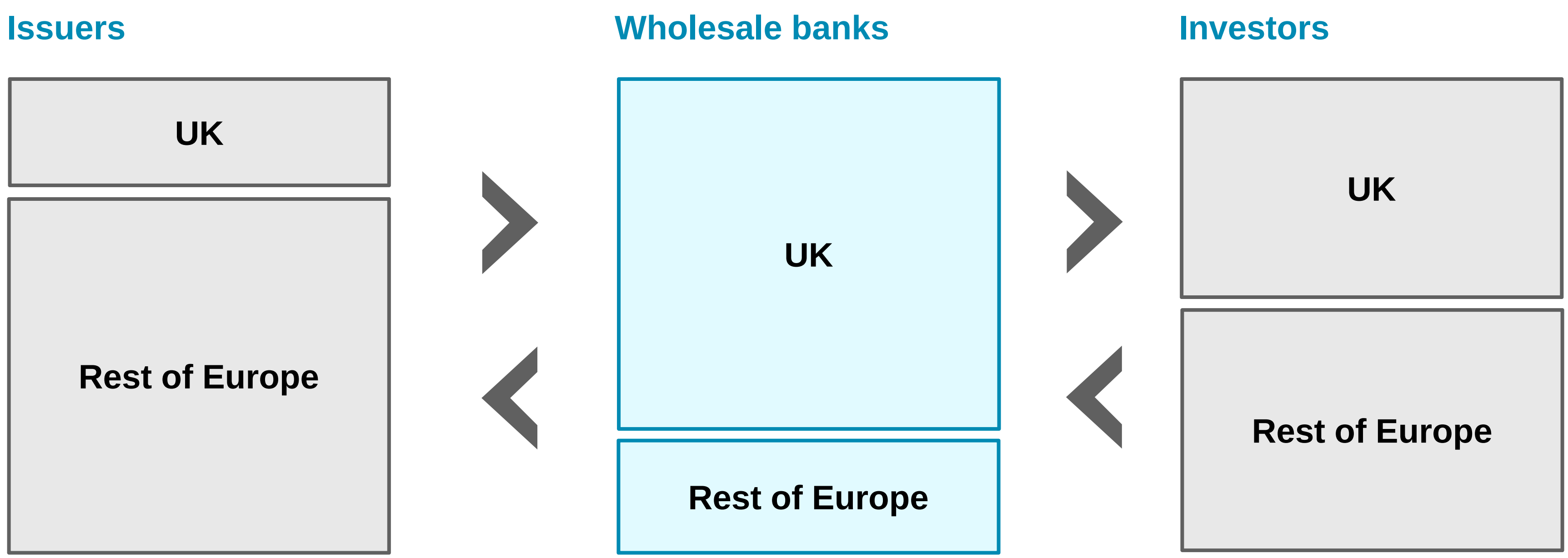
EU Scenarios and the UK Financial Centre

28 April 2014

UK wholesale market participants and their role in Europe



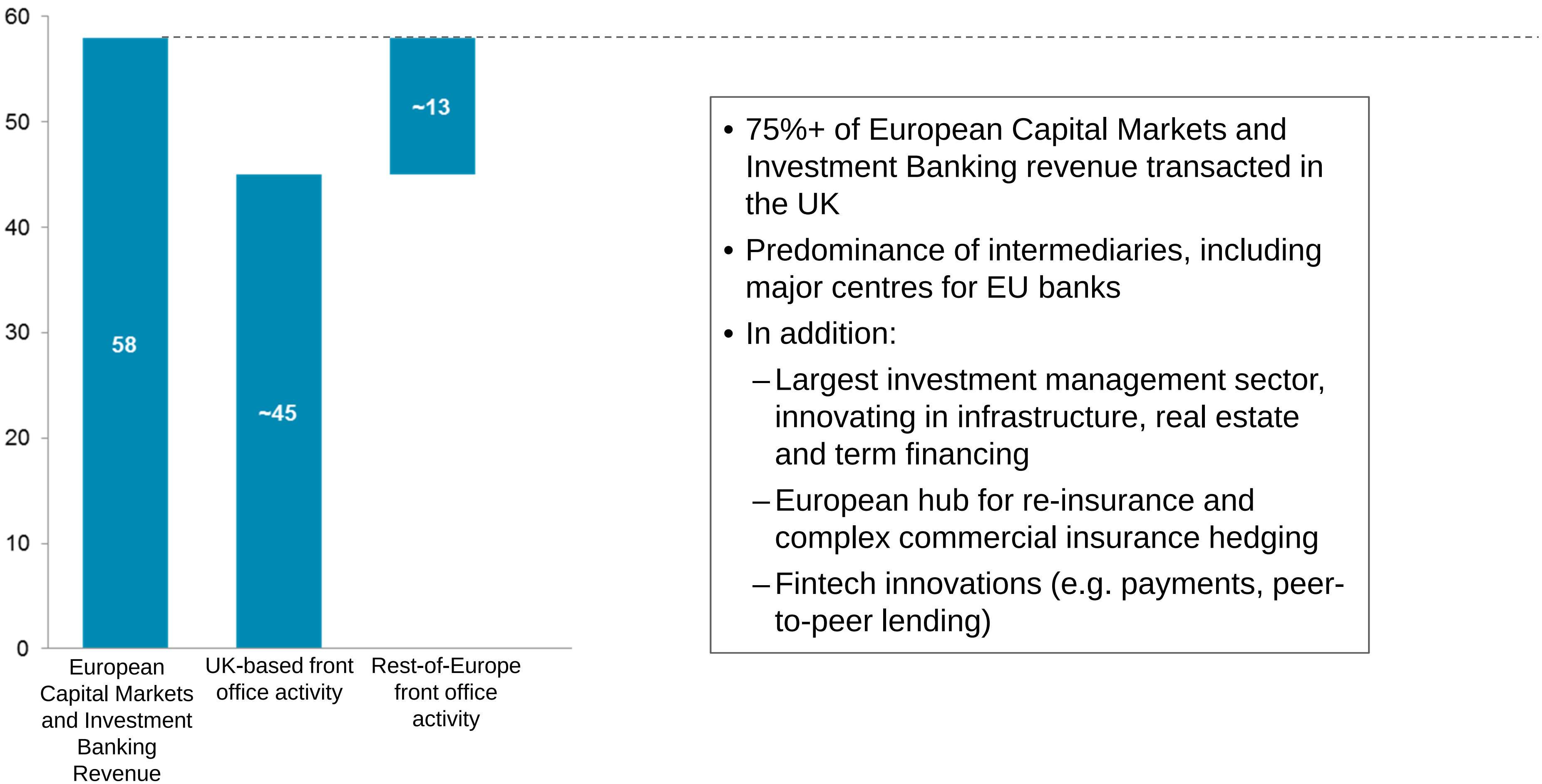
Issuers
- Corporations
- Governments
- Banks/Insurers

Wholesale banks
- Investment banks
- Capital markets brokers and dealers
- Universal banks

Investors
- Asset managers
- Hedge funds
- Insurers, pensions

The UK is the largest Financial Centre in Europe

European Capital Markets and Investment Banking Revenue[1] segmented by whether it touches the UK
2012, £ BN

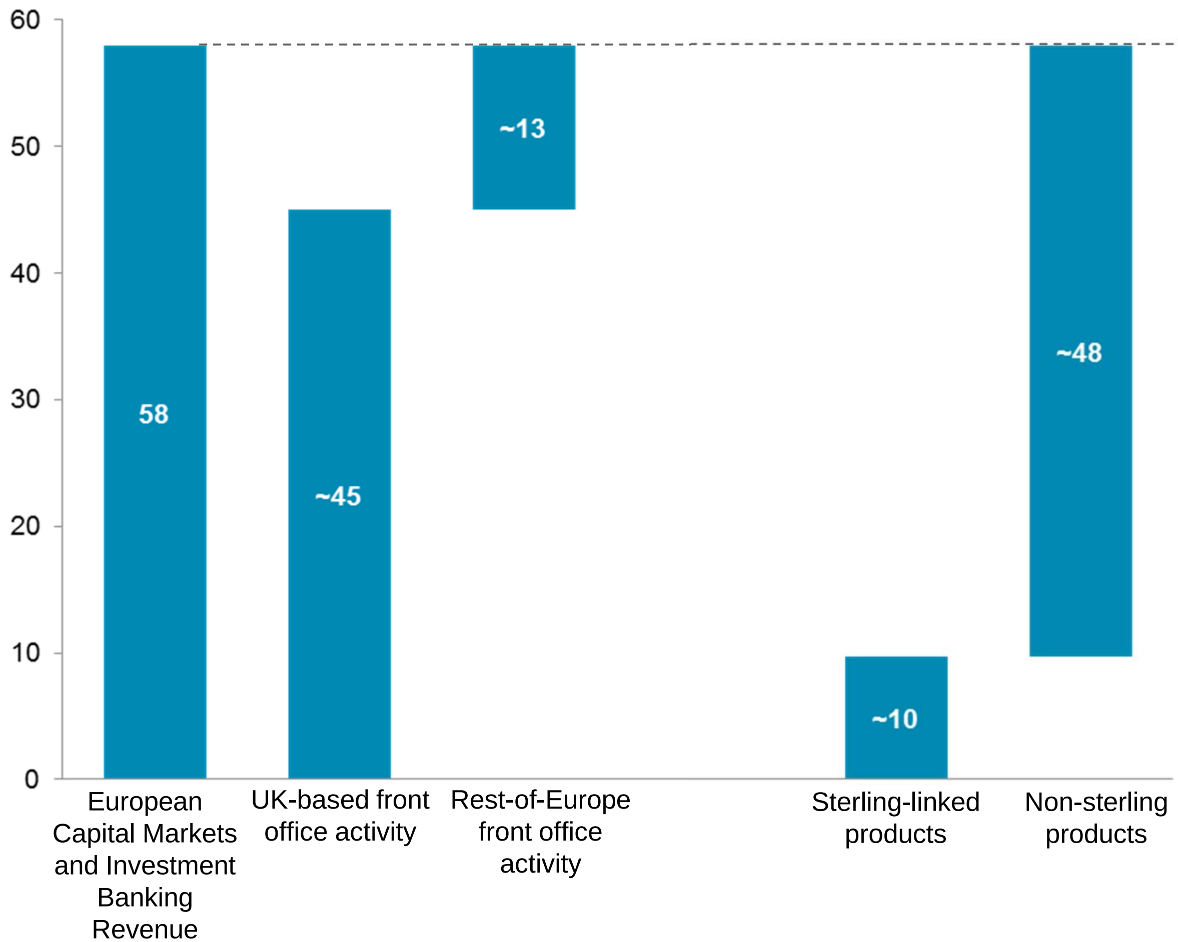


- 75%+ of European Capital Markets and Investment Banking revenue transacted in the UK
- Predominance of intermediaries, including major centres for EU banks
- In addition:
  - Largest investment management sector, innovating in infrastructure, real estate and term financing
  - European hub for re-insurance and complex commercial insurance hedging
  - Fintech innovations (e.g. payments, peer-to-peer lending)

Source: Oliver Wyman proprietary data and estimates, research and analysis, BIS, World Federation of Exchanges 1. Fixed Income, Currencies, Commodities, Equities and Investment Banking

UK intermediation activity cuts across currencies

European Capital Markets and Investment Banking Revenue[1]
2012, £ BN

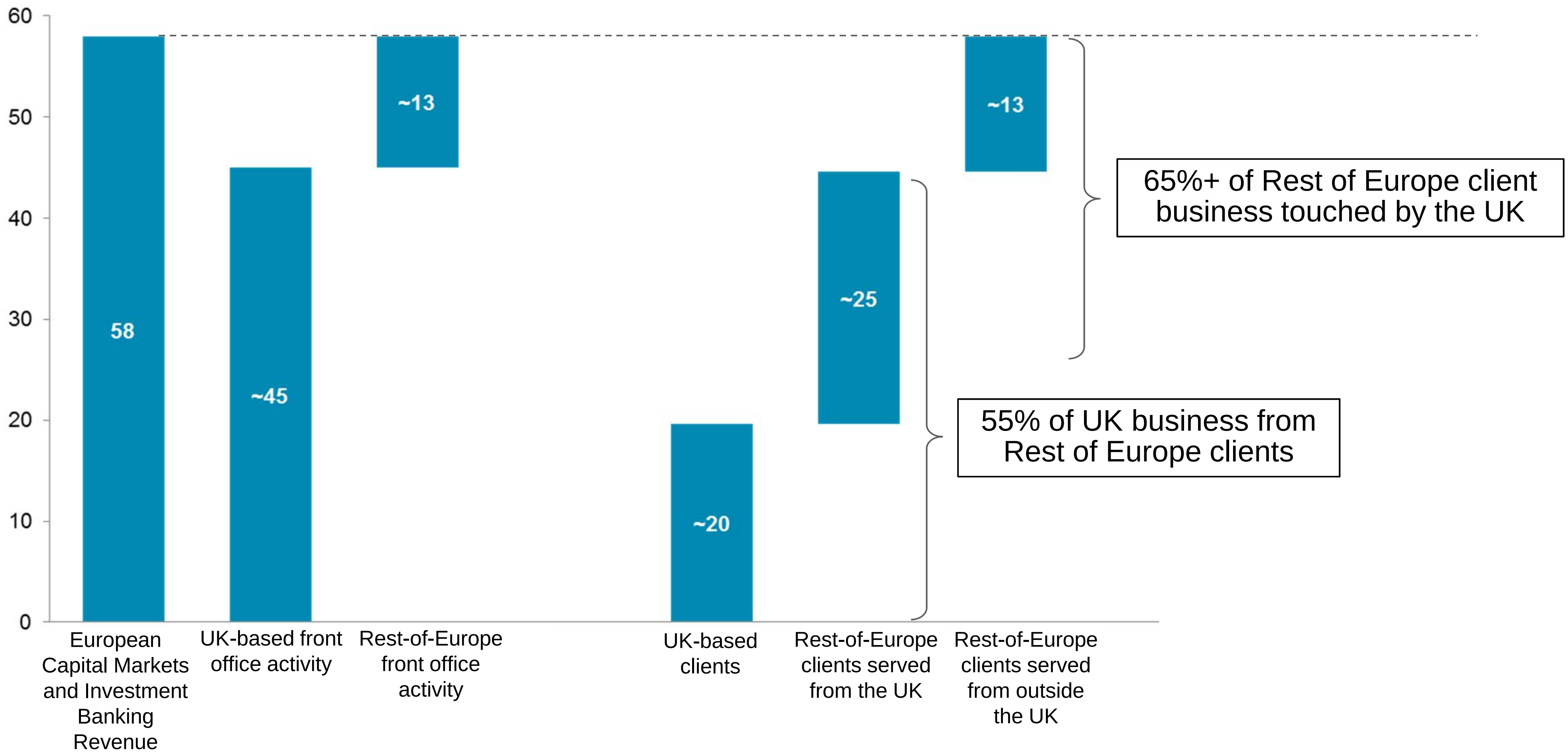


- Sterling products: Equities trading and issuance, M&A and sterling Fixed Income products
- London a major FX and derivatives centre for global products
- Sterling issuance small compared to EUR, USD & JPY
- Commodities, Emerging Markets also largely non-sterling markets

Source: Oliver Wyman proprietary data and estimates, research and analysis, BIS, World Federation of Exchanges 1. Fixed Income, Currencies, Commodities, Equities and Investment Banking

The UK Financial Centre and Europe-wide clients are mutually dependent; The UK is the main Financial Centre for Europe

European Capital Markets and Investment Banking Revenue[1] segmented by client location
2012, £ BN



Source: Oliver Wyman proprietary data and estimates, research and analysis, BIS, World Federation of Exchanges 1. Fixed Income, Currencies, Commodities, Equities and Investment Banking

Changes in the UK's EU status would threaten this valuable role

- Under all scenarios, significant risk to the UK intermediation business as well as to investment management, insurance and fintech
- EEA/EFTA model:
  - Retains access to single market for time being
  - But reduces influence over rule-making
  - And raises uncertainty over coverage by new rules which are altering EEA status over time
- EFTA model: threatens access to EU clients altogether
- Even in the diminution of an EU-exit scenario, all activity would not be lost
  - Likely that some activities remain in the UK (perhaps trading, technology, operations)
  - Others (sales, risk, finance, controlling) could migrate or require duplication
- But disturbance of the ability to serve this non-domestic client base would result in:
  - Significant erosion of UK activity
  - Further erosion of European clients' access to capital markets
- Whereas some of this activity would migrate to financial centres elsewhere in Europe, the main impact for Europe would be loss of access to long-term capital to finance growth; fragmentation of liquidity and issuer-investor touchpoints would diminish European markets overall

Clifford Chance will examine the counter-factual

Our conclusion

- Since the advent of the single market, unification of Financial Services rule-making across Europe has advantaged the UK as a financial centre
- In a single market, the advantages that the UK has accumulated are key:
  – Language and legal environment
  – Talent pool and labour force mobility
  – Historically attractive tax environment
  – Supporting professional services ecosystem, each sector of which is of significant importance to the UK economy
    - Legal
    - Accounting
    - I.T.
    - Education/professional training
    - Advisory services
  – General quality of life
- Membership of the EU is essential for the UK's success and for the ability of our businesses to compete in world markets