



## Our view on Brexit

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This is certainly not just a UK issue. And it's not just a European issue, it's a global issue.

Obviously, a big day with the UK referendum going in favor of leaving the European Union. There is surprise in the financial markets. We do want to remind people, though, that the UK will have two years to negotiate leaving after it gives formal notification to the EU.

The UK has a lot of work to do. It's not just the renegotiation of its trade agreements and exchanges of goods and services, immigration policies within the EU. It is also because many of its trade agreements are via the EU with the rest of the world. It's renegotiating with everyone. And that is a colossal task to undertake in two years.

The Bank of England is in a relatively good position, compared to the central bank of any other European country. Most of the rest of the EU has a common currency known as the euro. But not all countries do, and the UK is one of those exceptions. The pound, as an independent currency, is critical as an adjustment mechanism to absorb a shock like this. And the Bank of England has made it clear that they value that as a policy tool.

We also know that the Bank of England has made very clear statements, as we anticipated they would, in ensuring that there's adequate liquidity in the system. What we learned from the global financial crisis is that the issue is not so much about capital. It's actually about liquidity in the system, people knowing that they can sell something. Even if it's a lower price. Bond prices may adjust, equity prices may adjust. That is actually less of a fear point to people than fearing they can't sell at all.

You will always have short-term volatility. As always, "If you panic, you lose." In most of these cases, when we study what happens with geopolitical events, people who take actions on the first day afterwards usually learn to regret that. However, it isn't as simple to say as "Just let this pass." Because it may potentially escalate. The contagion within the UK and the EU. Not just the political implications of that, but the implications for the banking system.

On the other hand, remember that it is probably two or two and a half years before anything will actually change. So we're going to get time to evaluate this. And that is one of the big advantages. The speed at which the central banks have moved, the UK having a separate currency which can be used as an adjustment factor, the learnings from the global crisis, and the time that we've got to assess this properly.

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