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European Union Referendum: BREXIT - A View From Asia Pacific

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A less publicised aspect of *Britain's* potential exit from the **European Union** is the impact on the Asia Pacific region. Leaving the escalating political and media debate aside, as the 23 June 2016 referendum rapidly approaches we examine the potential implications for Asia Pacific should a "leave" vote succeed.

From a regulatory perspective, the potential implications primarily apply to those businesses operating in the Asia Pacific region which currently enter Europe through London based subsidiaries and/or branches. We understand that a number of Asia Pacific financial institutions, such as the Hong Kong exchange, have commenced contingency planning and many are examining their options in the event of Brexit. In our view, Brexit will have an impact on both businesses and governments located in the Asia Pacific region that trade with or operate within the EU. We outline two significant impacts below.

Passporting rights

One of the advantages of EU membership is the availability of 'passporting' rights between EU member countries. Passporting allows companies in one member country to sell services in any other member state. For example, a number of Asia Pacific fund managers and investment banks (among other financial institutions) that are eligible to take advantage of the passporting regime (and have taken advantage of the regime) have set up in Britain and rely on their UK registration and the passport regime to offer their products and services in the EU. Brexit would mean that these financial institutions could no longer rely on their 'passports' to offer services to customers in other EU member countries.

It is possible that as part of the Brexit negotiations, it is agreed that the passporting rights will remain. However, it is unclear how complex or lengthy an exit would be, and many financial institutions may wish to establish offices within EU member countries as a safeguard measure.

The potential for movement of financial services companies from Britain to EU member countries as a result of 'Brexit' could have an adverse impact on Britain's financial services industry. It may also result in financial services companies from the Asia Pacific region in future setting up operations initially within the EU and bypassing Britain, further impacting Britain's financial services industry.

Additionally, Brexit may result in divergence in financial regulation between Britain and the EU, leading to increased compliance burdens for financial services companies seeking to operate across Britain and EU jurisdictions.

Free Trade Agreements

Several Asia Pacific countries either have (or are currently negotiating) free trade agreements with the EU. For example, South Korea signed a free trade agreement with the EU in 2010, whilst both Australia and New Zealand are each currently exploring potential free trade agreements with the EU.^[1] New Zealand (for whom the EU is one of New Zealand's largest trading partners), and Australia (for whom the EU is its second largest trading

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partner) are both currently in the early stages of exploring future free trade agreements with the EU.

Brexit may require existing free trade agreements with the EU to be renegotiated to adjust for a non-Britain EU, and, depending on how complex Britain's exit from the EU is, may delay the free trade negotiations currently underway. Exiting the EU would result in Britain needing to negotiate separate free trade agreements with Asia Pacific countries (if it so desired). This has the potential to benefit countries in the Asia Pacific region, as Britain (in the event of Brexit), would be expected to focus on developing stronger trade relationships in the Asia Pacific region, offering trading opportunities for both governments and companies.

Concluding remarks

While Brexit, if it occurs, will add additional levels of uncertainty and complexity to both governments and financial services businesses within the Asia Pacific, it is likely that this will only be short-term. Business transcends borders and we would expect that the business environment in Britain and the EU will adjust to a post-Brexit EU in the medium term.

[1] The EU as a bloc is Australia's largest source of foreign investment and second-largest [trading partner](#), and New Zealand's third largest [trading partner](#).

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