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Brexit File

Last Updated:

September 1, 2016

On 23rd June 2016 the British public went to the polls to decide whether or not the United Kingdom should remain a member of the European Union.

On 24th June the results revealed that the UK had voted to leave the EU by 52% to 48%. Leave won the majority of votes in England and Wales, while every council in Scotland saw Remain majorities.

Exit Timetable



(20th July 2016)

Theresa May said:

“the UK will not begin official negotiations on leaving the EU this year”

(30th August 2016)

French President Francois Hollande said:

“For France, everything must be concluded by 2019 – preparation and negotiations.”

EU Trade Relationship Models

WTO Model (total exit)	WTO rules apply. (including tariffs e.g. 9.9% on cars; 12.2% on agri foods).
Norwegian Model	EEA membership (Norway, Iceland, Liechtenstein). Access to Single Market. Financial contribution for access. Free movement of labour. Accepts rules that it has no say in making.
Swiss Model	Not an EEA member. A member of European Free Trade Association. Access to the EU market negotiated on sector-by-sector deals. (Bi-lateral agreement on financial sector excluded). Contributes to EU budget. Accepts migrant from EU. Accepts rules that it has no say in making.
Canadian Model	A trade deal between Canada and the EU has been seven years in the making and is still yet to be ratified. Given preferential - though limited - access to the Single Market. Canada does not have to accept the free movement of people or make contributions to EU spending. Accepts rules that it has no say in making.
Turkey Model	A candidate for EU membership since 1999, has partial access to the Single Market, covering industrial goods and processed agricultural goods. Does not contribute to the EU budget, but as a candidate for membership is a recipient of funding.

“Britain will seek a unique relationship with the European Union that involves controls on immigration but is also a good deal for trade in goods and services”

Teresa May 31st
August 2016

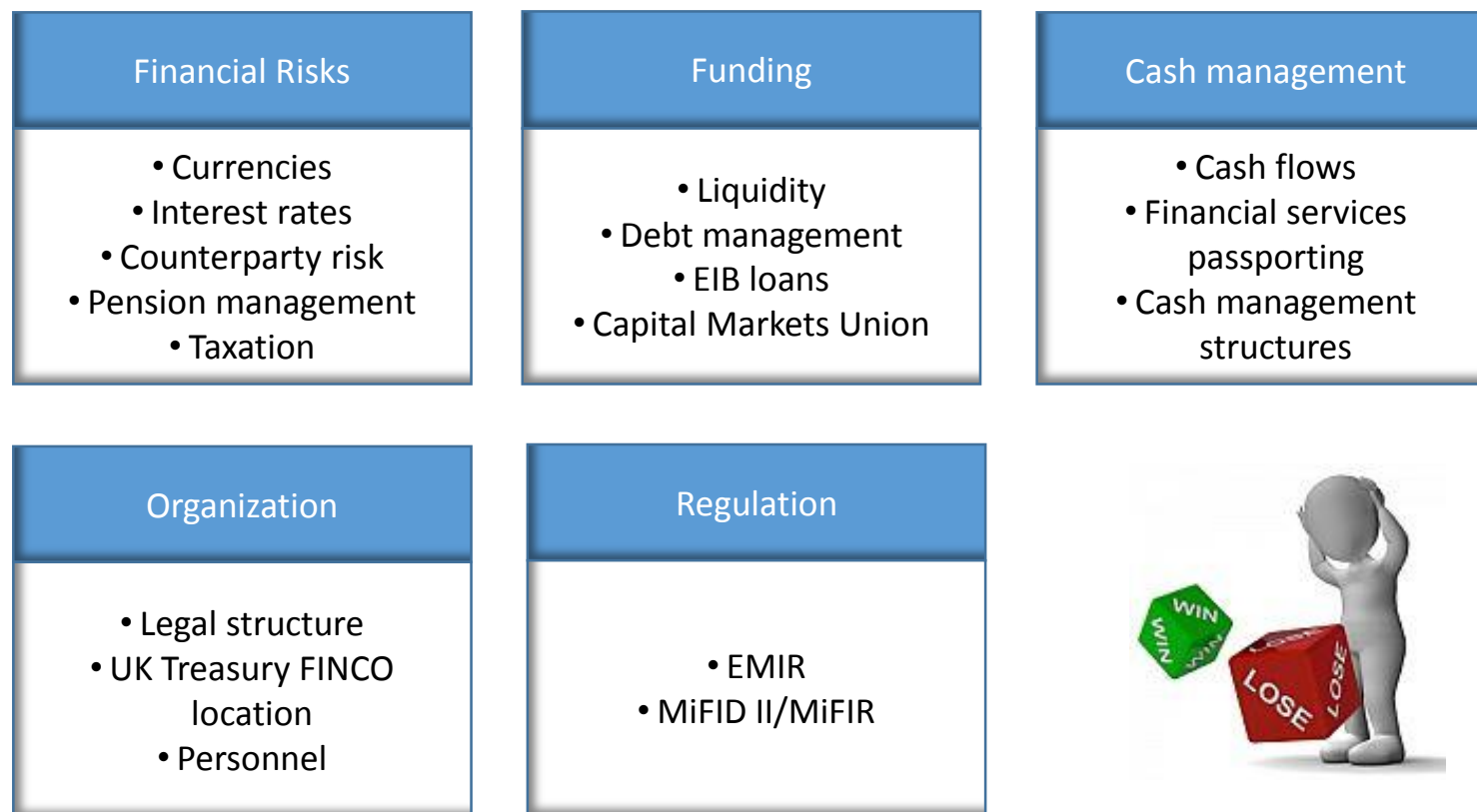
TTIP
(Transatlantic Trade and Investment Partnership)
impact?

Impact of Apple ruling on TTIP!!

Treasury Matters

The implications of the Brexit decision is far reaching effecting British, European and global interests from political, economic and socio-economic perspectives.

The effect on corporate treasury matters will impact:



Currencies

EUR GBP



GBP/EUR:

A 18.4% difference between the low and high of 2016.

How much of Brexit is already discounted?

GBP USD



GBP/USD:

EUR/ USD: Short term stabilized around 1.3000 within long term down trend.

Sustained USD strength has big issues for USD reporting multi-national firms and US exporters.

Interest rates

Euro Interest Rates	EUR interest rates remain in negative territory. Brexit to negatively impact on EU growth. EUR rates expected to remain low for longer.
UK Interest Rates	4 th August 2016 - A cut in the Bank Rate from 0.5% to 0.25% An extension of the Quantitative Easing programme to purchase an additional £60 billion of government bonds and £10 billion of corporate bonds Risk of a deterioration of the UK's economic performance, and a future cut in rates is possible before the year is out
US Interest Rates	Expectations that the Fed will increase interest rates are put on hold. The premium on selling USD against EUR forward is high.


Counterparty Risk

Agency	Pre Brexit	Brexit Impact	Comment
Standard & Poors	AAA	AA	A deterioration of the UK's economic performance, including its large financial services sector
Moody's	Aa1 stable	Aa1 negative	
Fitch	AA+	AA	an "abrupt slowdown" in growth in the short-term.

Bank CDS spreads have increased. Be wary if any main institution goes above 100bps.

Treasury Matter	Issue	Status
Pensions	Impact of uncertainty on growth, interest rates and equities	Pensions deficits increase due to continuation of low interest rate expectations
EIB loans	<p>£34bn (€42bn) over 10 years into UK projects</p> <p>Issues:</p> <ul style="list-style-type: none"> • Standing of existing loans • Brexit Mandatory Prepayment Event • Access to future infrastructural EIB debt 	<p><u>11th August 2016</u></p> <p>“as a non-EU member, the UK will no longer be eligible for EIB lending unless the bank’s board of governors unanimously authorise this.”</p> <p><i>Brian Unwin, Financial Times</i></p>
Capital Markets Union	CMU is a plan of the European Commission to mobilise capital in Europe through deeper and more integrated capital markets to lower the cost of funding and make the financial system more resilient. All EU Member States will benefit from building a true single market for capital	An important initiative as, unlike the US, European companies traditionally receive about 80% of external funding from bank loans
Financial Services passporting	EU businesses offering financial services have ‘passporting’ rights which allow them to offer financial services to the rest of the EEA while only having to follow one set of regulations by setting-up branches in EEA countries, or by offering services remotely across borders under a ‘services’ passport.	The new UK Brexit Department in consultation with stakeholders on the impact on the financial services industry.
EMIR	<p>OTC derivative reports is a G20 initiative.</p> <p>EMIR reporting applies to EU member states.</p> <p>Other jurisdictions have introduced their own rules (Dodd Frank, FinfraG, Canada CSA, ASIC)</p>	<p>Unclear:</p> <p>UK could transpose EMIR or establish a unilateral set of rules.</p>


Actions




When will Article 50 be invoked?




What relationship model will the UK target?



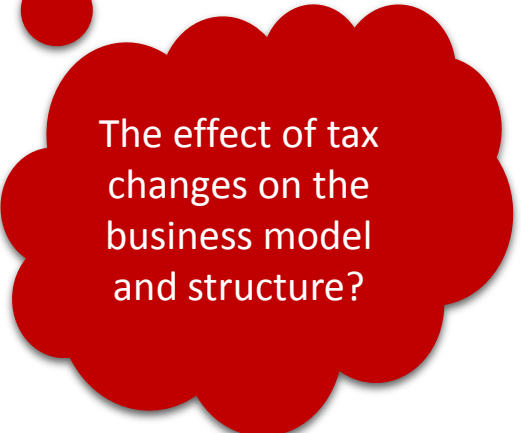
What will be the impact on financial markets?



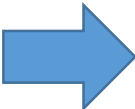
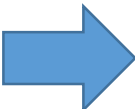
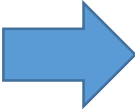
Will passporting effect services provided by any relationship bank?



Any changes in immigration rules that impact staff?



The effect of tax changes on the business model and structure?

	Short Term	Medium Term	Long Term
	Risk Review	Planning	Response
	Cash flows	Financing	Regulation
	Liquidity	- Availability	- EMIR
		- Pricing	- MiFID/MiFIR
	FX	- Terms & conditions	
		- EIB debt	Capital Markets Union
	Interest rates	Bank relationships	Taxation
		- passporting	- WHT on interest and dividends
	Growth		- VAT
	Contract terms	Cash management structures	- Customs/excise duties
	Covenants	Pensions	
	Investment		Organisation
	Economic growth		
	MONITOR, UPDATE, PLAN, REVIEW, RESPOND		
	Set-up an internal/external Brexit expert group		

Contact



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