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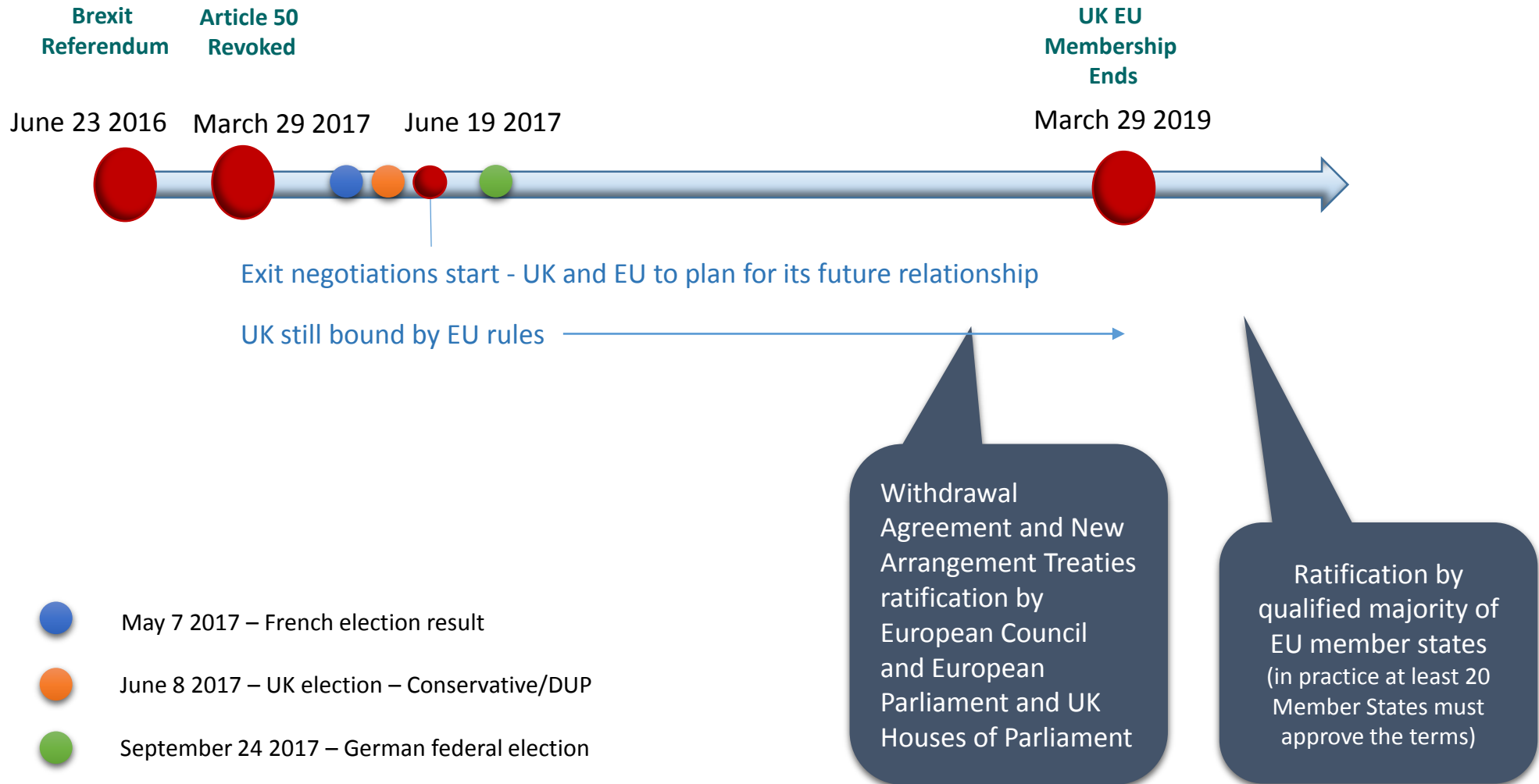
Brexit File

Last Updated:

12th June, 2017

See previous file
September 2016

The Drama continued



Primary Items for Negotiation	Background	UK objectives	EU objectives
Divorce bill	UK not legally obliged to pay anything, but this would threaten a post-Brexit trade deal	UK would pay what was legally due, in line with its rights and obligations, but "not just what the EU wants (David Davis, UK Brexit Secretary)	€60bn - €100bn, including UK rebate
Rights of EU and UK citizens (rights protected for residence, work, social security and health)	"one of the main reasons for the vote for Brexit was the rejection of the free movement of people and all the rights it entails" Donald Tusk , President of the European Council	Control of borders	A "third-party state" after it leaves "cannot and will not" have the same rights as other members. (Angela Merkel)
Access to single (internal) market	Ensures the "four freedoms": free movement of goods, services, capital and labour	<ul style="list-style-type: none"> Will leave the single market "Greatest possible access" through a free trade deal (Theresa May) 	Preserve unity of 27. No country that is part of the single market currently implements immigration curbs
Access to customs union (agreement not to impose tariffs)	<ul style="list-style-type: none"> Without a Customs Union in place, all UK-EU trade would require customs clearance. Imports of goods into any EU country, including the UK, are subject to 135 different duty rates. 	Some form of customs union agreement	No sweetheart deal
Membership of EU bodies	<p>European Commission has offices in London, Edinburgh, Belfast and Cardiff</p> <p>Two UK based EU agencies -European Banking Authority and European Medicines Agency</p>	<p>End UK subject to European Court of Justice</p> <p>British government believes the location of EBA and EMA is up for grabs</p>	European Banking Authority and European Medicines Agency to move from London

EU Passport

Is a legal mechanism that permits **financial services companies** based and regulated in one country of the EU and authorised under one of the EU's single market directives, to do business in other member states purely on the basis of their home state authorisation.

Equivalence

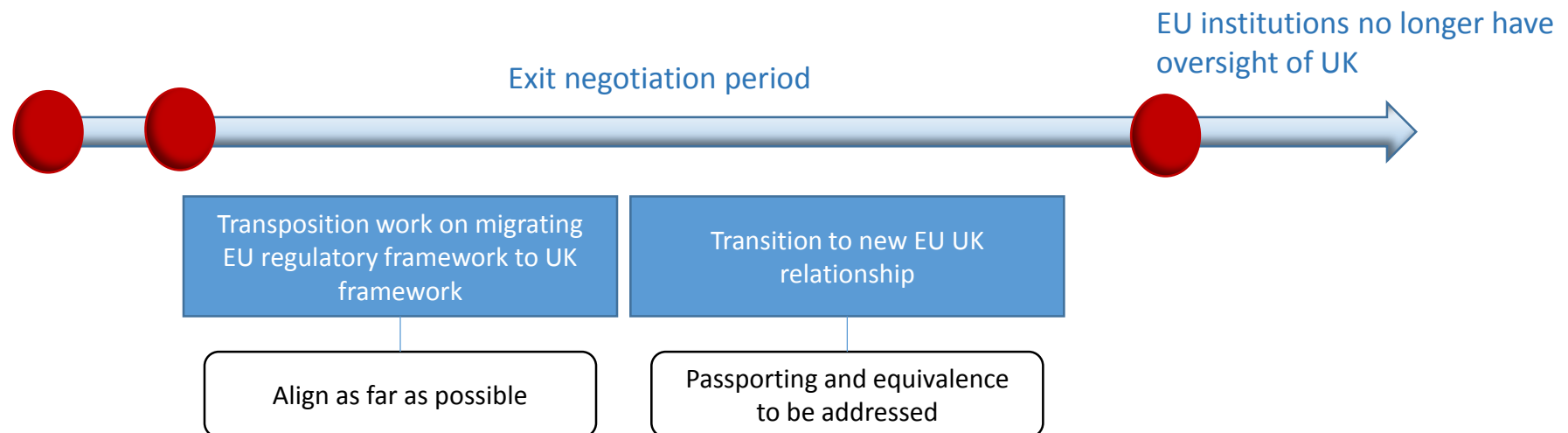
When assessing the operational rights or treatment of foreign banks in the EU the EU assesses whether the standards of regulation and supervision in a bank's home market are 'equivalent' to those of the EU.

While a determination of equivalence can be beneficial for a foreign bank, it is not a substitute for the operational rights created by EU passporting. Equivalence is not negotiated, but requested and can be withdrawn at minimal notice.

UK FS companies based and regulated in the UK will not be able to avail of passporting rights.

Equivalence is at the EU's discretion

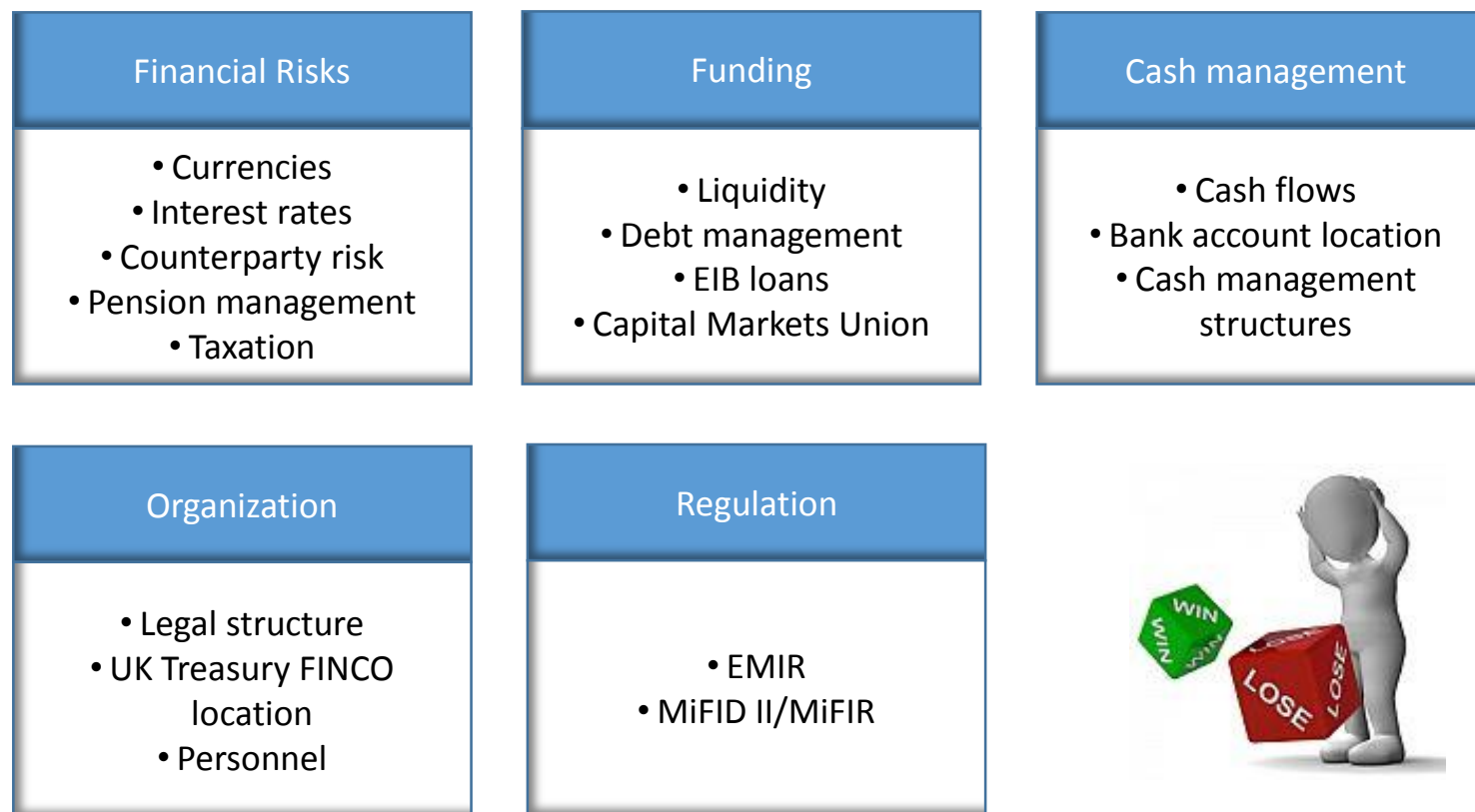
Regulatory Negotiation



Treasury Matters

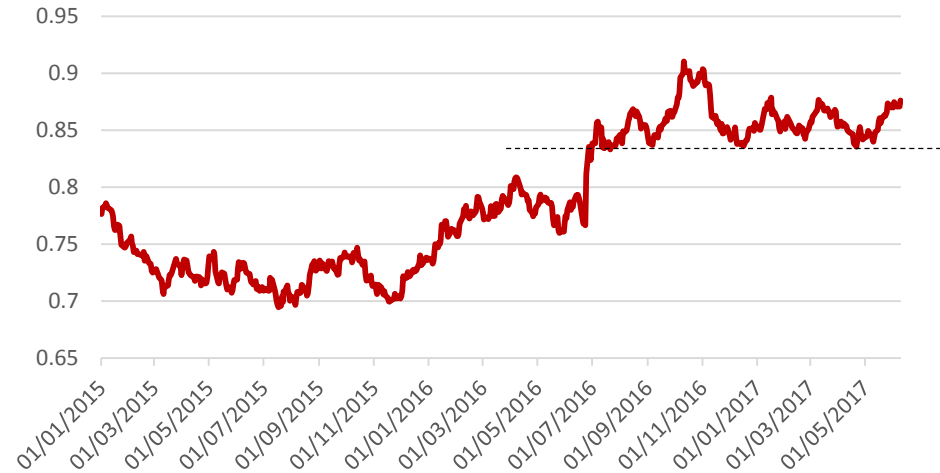
The implications of the Brexit decision is far reaching effecting British, European and global interests from political, economic and socio-economic perspectives.

The effect on corporate treasury matters will impact:



Currencies

EUR GBP since 2015



GBP/EUR:

Upside risk for GBP weakness continues.

How much of Brexit is already discounted?

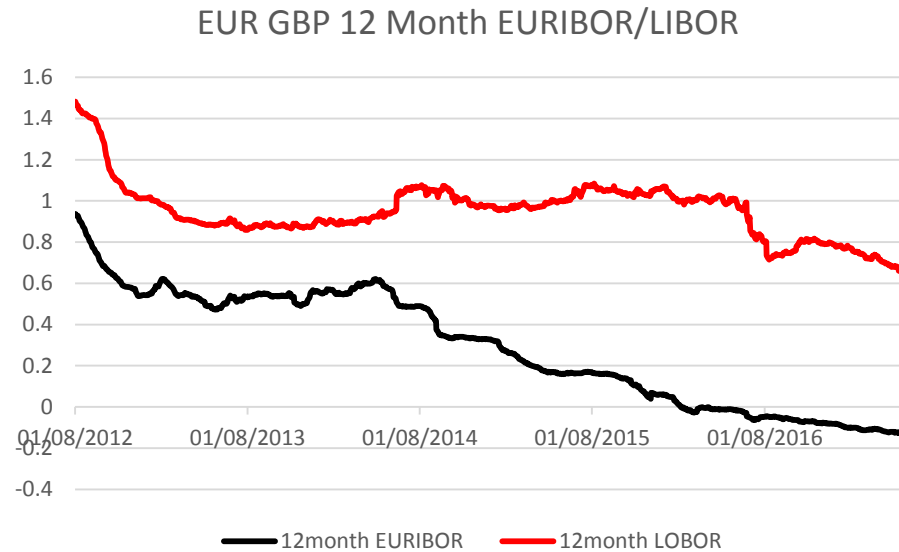
GBP USD



GBP/USD:

Sustained USD strength has big issues for USD reporting multi-national firms and US exporters to the UK

Interest rates



Interest rate
differential is
narrowing

Counterparty Risk

Agency	Pre Brexit	Brexit Impact	Comment
Standard & Poors	AAA	AA negative	
Moody's	Aa1 stable	Aa1 negative	UK risks another downgrade if it does not retain single market access
Fitch	AA+	AA negative	


Continue
monitoring Bank
CDS spreads.
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
European Investment Bank	<p>£52bn 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 	The annex to the EU-27 negotiating position states that the UK will be departing the EIB, in which it is a 16.1% shareholder. The UK will expect to be credited with the value of these shares
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	<p><i>"The UK's exit from the EU makes a union of the 27 national capital markets more urgent"</i></p> <p>European Commission 8 June 2017</p>
Bank account location	The 'passporting' / equivalence issues may cause a problem with having cash pool header accounts located in London and in future outside of the EU	Keep this item under review. Develop a contingency plan.
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




EU negotiating position?




What relationship model will the UK target?



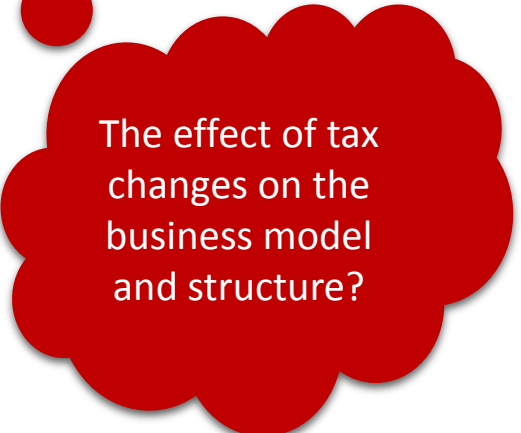
What will be the impact on financial markets?



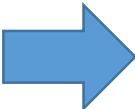
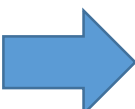
Will passporting effect services provided by any relationship bank?



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
		- Terms & conditions	
	FX	- EIB debt	Capital Markets Union
	Interest rates	Location of bank accounts	Taxation
	Banking	Cash management structures	- WHT on interest and dividends
	Contract terms		- VAT
	Covenants	Pensions	- Customs/excise duties
	Investment		Organisation
	Economic growth		- Impact on UK non national resources
	Set-up an internal/external Brexit expert group		

Contact



FTI Treasury
International House
3 Harbourmaster Place
International Financial Services
Centre (IFSC)
Dublin 1
Ireland
+353 1 6360000

www.ftitreasury.com

pleavy@ftitreasury.com

jcallaghan@ftitreasury.com

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