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**HOW WILL BREXIT IMPACT END USERS' ACCESS TO
WHOLESALE BANKING SERVICES?**

LONDON 3 July 2017

Chris Bates

Where do we go from here?



Article 50 negotiations

Triggered by UK notice to European Council
2 year period to negotiate withdrawal: UK Government served notice on 29 March 2017

Long-term UK-EU agreement(s)

No prescribed timeline: EU Treaties only provide for EU to enter into treaties with “third countries”

Negotiations with third countries

Replacing EU FTAs and other arrangements

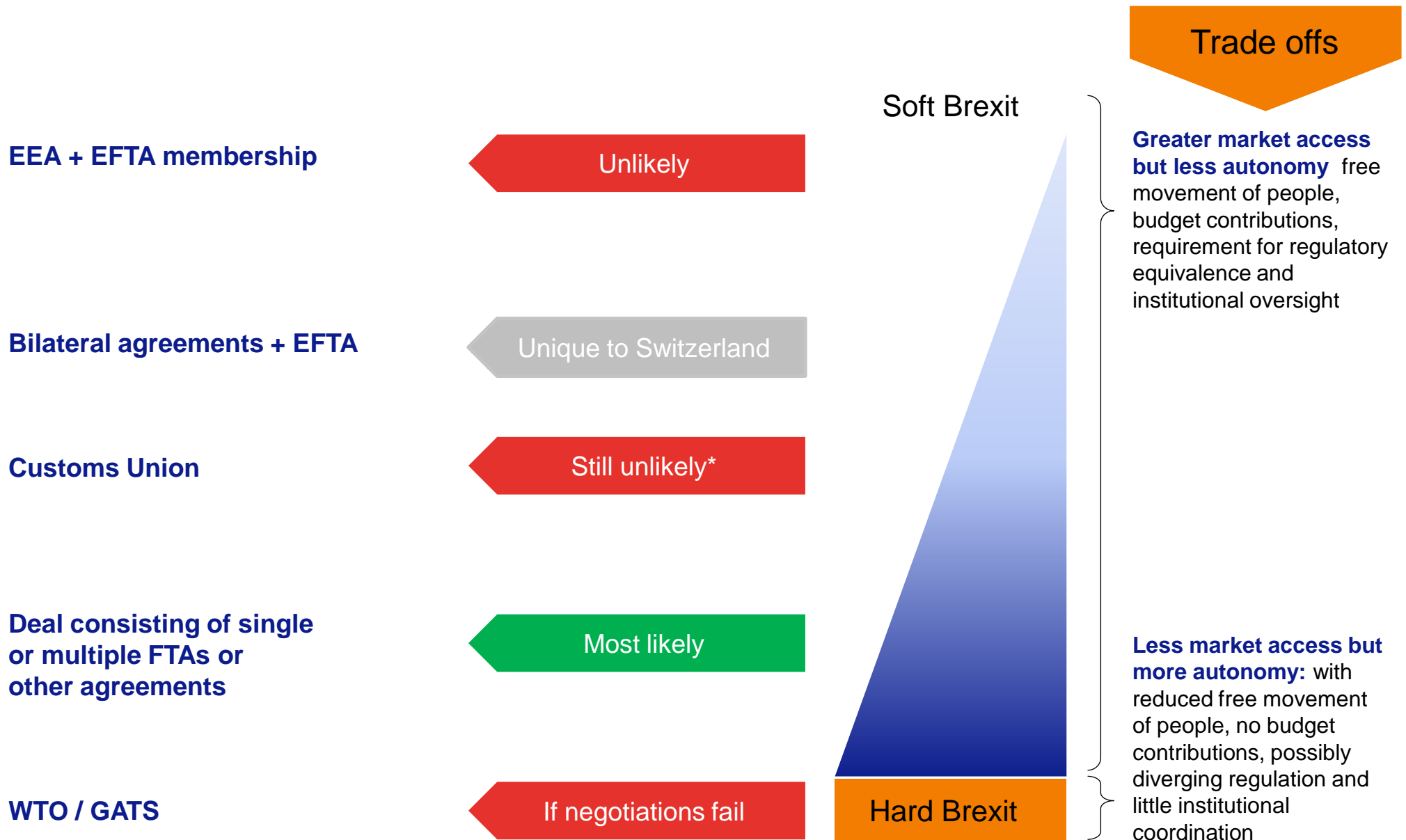
Limited impact on existing arrangements

Resetting domestic laws

Repeal Bill : Major amendments to UK law and regulation

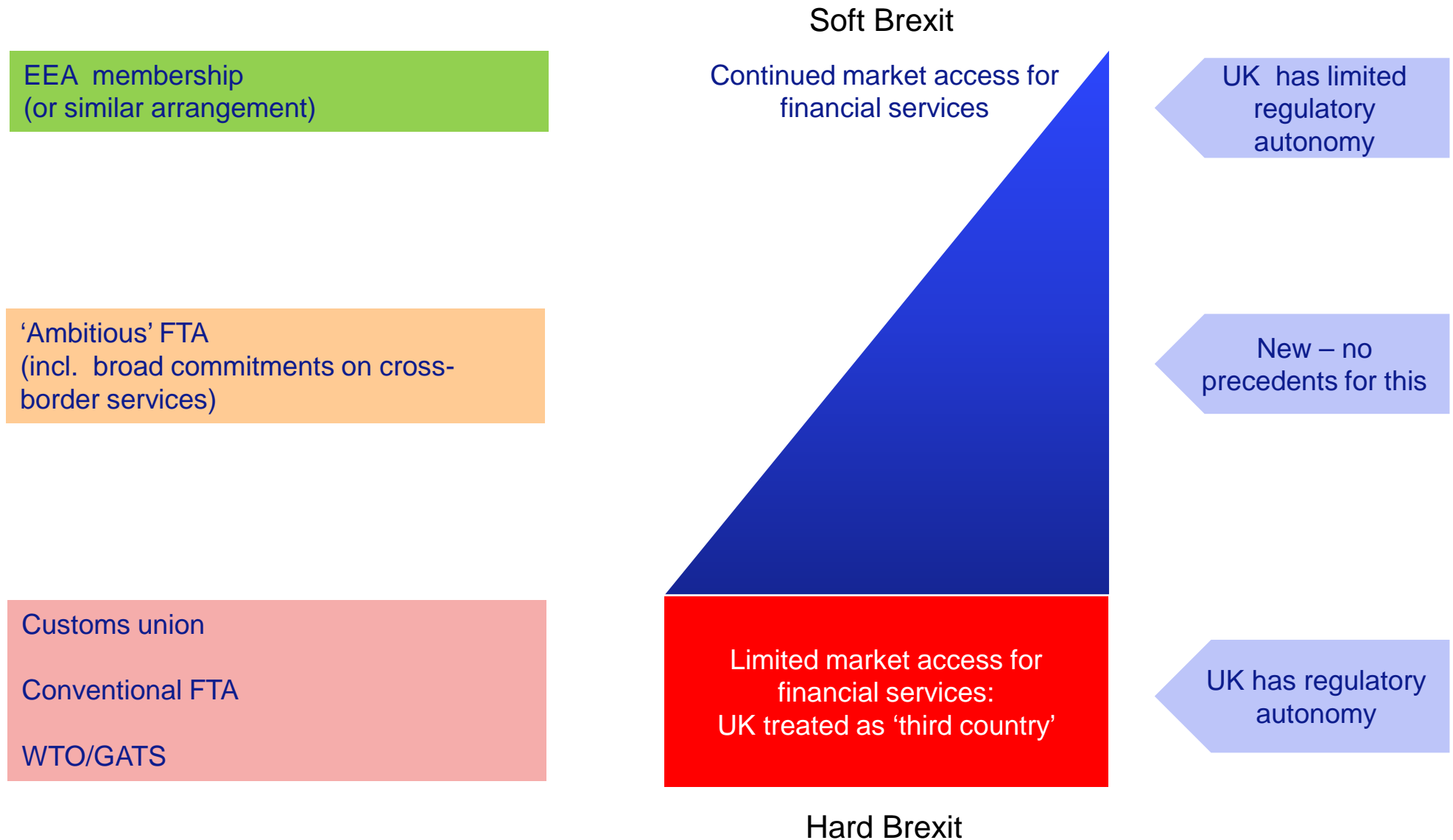
Limited changes needed to EU law

What kind of Brexit?



*Lose freedom to conclude trade agreements with third countries

What kind of Brexit for financial services?



Why does market access matter?



‘Third country’ treatment for non-EU banks

Most key banking and capital market services are regulated activities (with some variance e.g. corporate lending and spot FX)

Patchwork of differing Member State approaches to licensing requirements for cross-border services to local clients

Some liberal regimes, but many onerous and difficult to navigate

Branches do not provide access to whole EU market

Limited EU harmonisation: MiFIR third country regime depends on Commission equivalence decision, limited scope and subject to withdrawal on short notice

Plus restrictions on non-EU banks’ access to financial market infrastructure

Asymmetry with EU access to UK markets

UK law facilitates wholesale cross-border activity, e.g. ‘overseas persons exclusion’, corporate lending

Accommodating position for wholesale branches of third country banks

The UK is the EU's largest financial centre generating 24% of financial services income in the EU

45% of Euro FX trades and 41% of FX trades worldwide are executed in the UK

49% of global OTC interest rate derivatives trading is executed in the UK (vs. 17% in the rest of the EU)

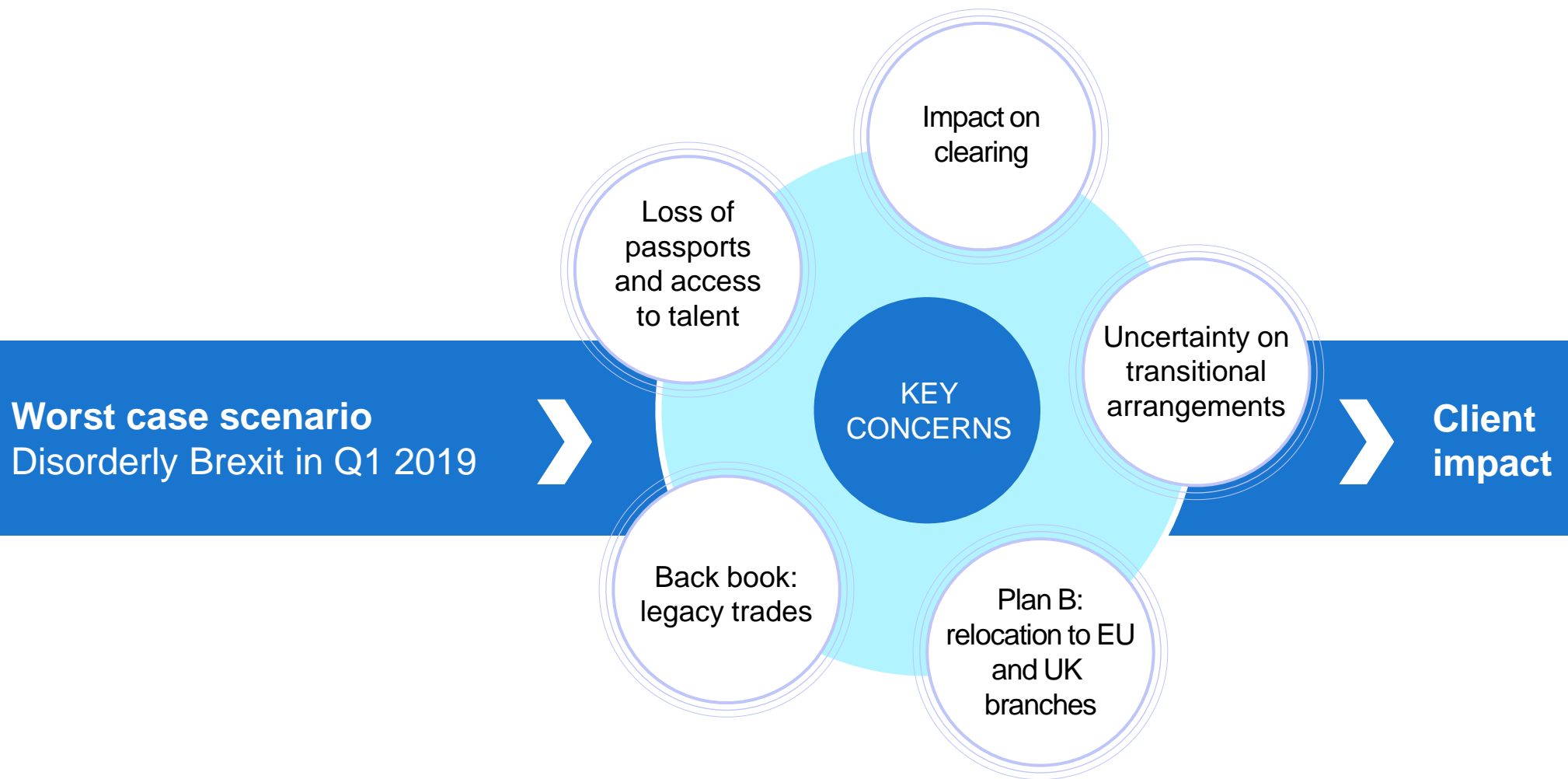
46% of the EU's equity capital is raised through UK capital markets

76% of the EU's flow of alternative finance goes through UK financial markets

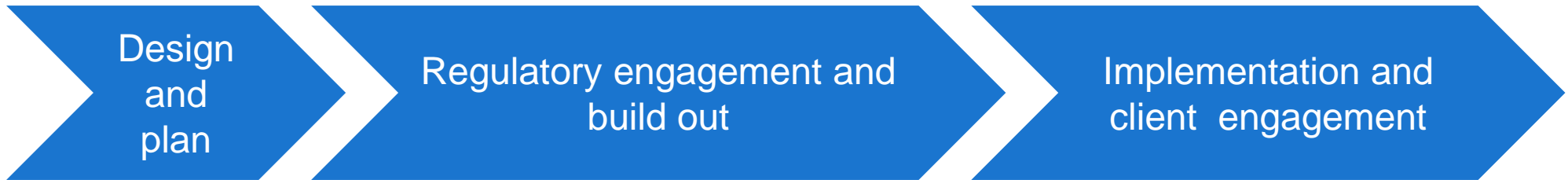
37% of European assets under management is managed in the UK

Source: AFME

Impact on capital markets firms and clients



Hoping for the best but planning for the worst

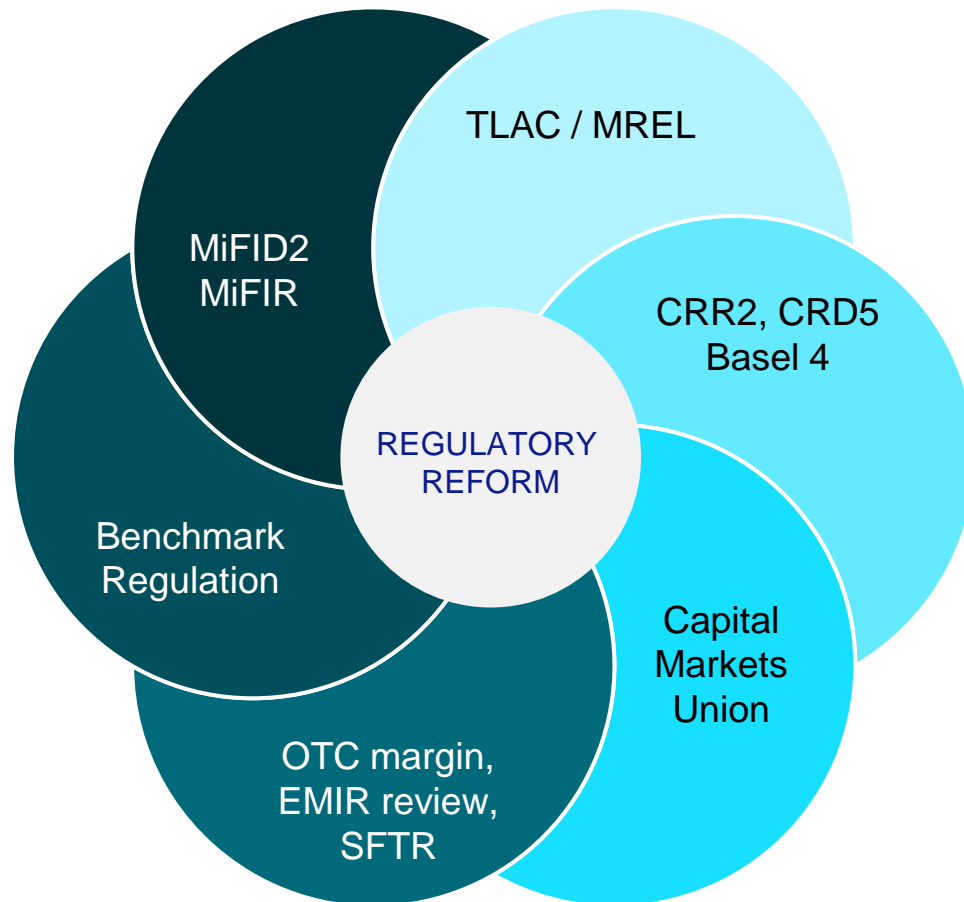


- Location choice
- New entity or scale existing entity
- Use of EU27 branches
- Business perimeter and model
- Choice of transfer tools
- Project plan
- Leak strategy

- Due diligence
- New licence or licence extension
- Model approvals
- Resolution planning
- Capital plan (incl. frictional capital)
- Technology build , reporting framework
- Legal and compliance preparation
- New systems and controls
- Outsourcing arrangements
- Financial market infrastructure
- New management and employee roles
- Employee consultations
- 'Pre-papering' new business
- Credit rating
- Tax management
- Initial announcements

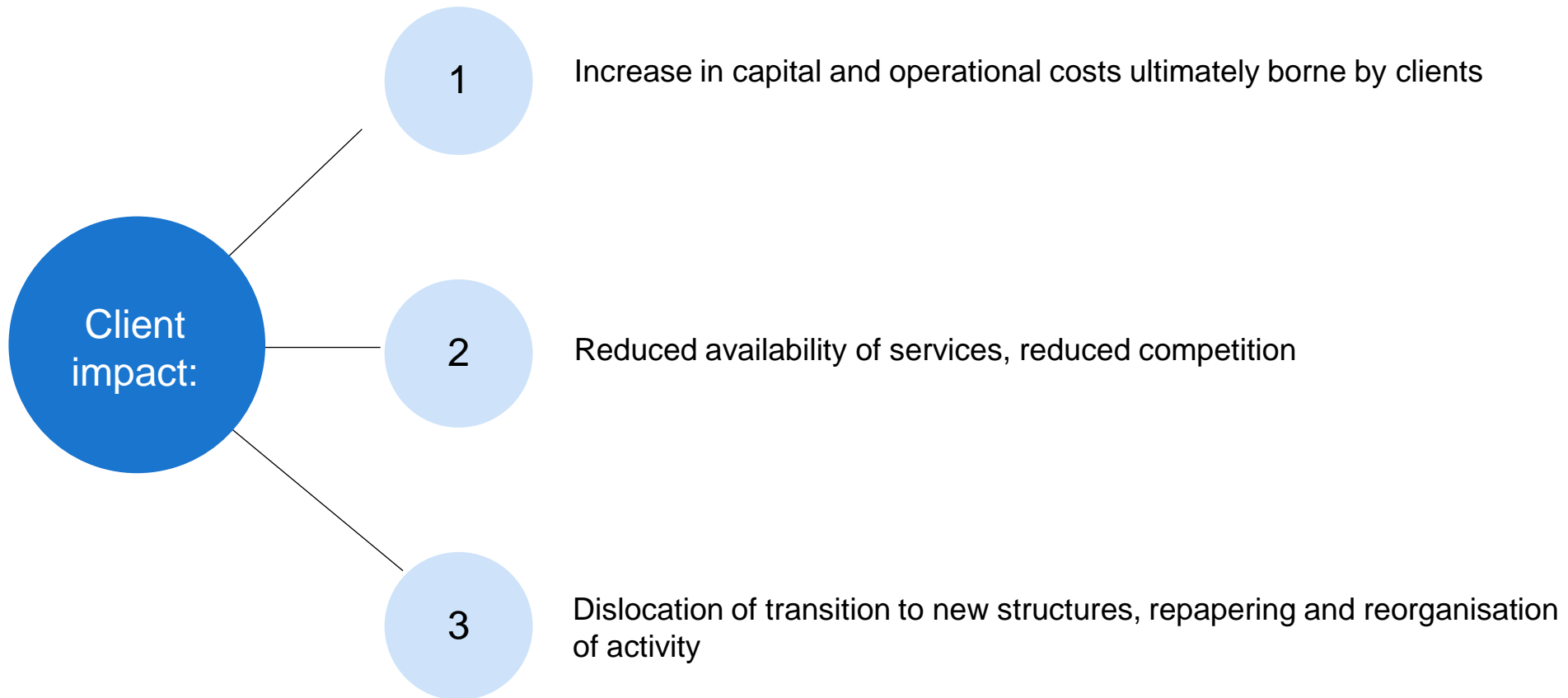
- Capitalisation of entity
- Formation of new branches
- Market announcements
- Client and third party outreach
- Regulatory notifications to clients
- Individual novations/ transfers (or merger / scheme)
- Repapering client relationships
- Legacy/ back book

Managing regulatory change



- EU proposals requiring non-EU banks to form intermediate parent undertakings (IPUs) for their EU operations cuts across bank structural frameworks for US, UK and other banks.
- Risks that recognition arrangements not in place for e.g. clearing on UK CCPs, exemptions from intragroup margin, trading on UK venues
- Impact of Brexit on MifFID implementation (recalibration, change of instrument scope, reporting, etc.)
- Similar impacts on benchmarks, CRAs
- Regulatory workload

How could this affect end users of banking and capital markets services?



Topic Guide – Brexit



CLIFFORD CHANCE **Financial Markets Toolkit**
Topic Guide – Brexit

Brexit
The UK has voted to leave the EU in the referendum held on 23 June 2016.
This topic guide helps you to navigate relevant legislation and provides commentary on Brexit.

This Topic Guide features:

- Topic overview and current status
- Legislation
- Possible implications of a Brexit: area by area
- Clifford Chance briefings, call recordings ("Insights on Brexit") and seminar videos
- External links

Contacts:

 <p>Phillip Souta Head of UK Public Policy, (London) T: +44 20 7006 1097 E: philip.souta@cliffordchance.com</p>	 <p>Chris Bates Partner, (London) T: +44 20 7006 1041 E: chris.bates@cliffordchance.com</p>	 <p>Marc Benzler Partner, (Frankfurt) T: +49 697199 3304 E: marc.benzler@cliffordchance.com</p>	 <p>Andriani Ferti Lawyer, (Brussels) T: +32 2533 5067 E: andriani.ferti@cliffordchance.com</p>
 <p>Kate Gibbons Partner, (London) T: +44 20 7006 2544 E: kate.gibbons@cliffordchance.com</p>	 <p>Jessica Gladstone Partner, (London) T: +44 20 7006 5953 E: jessica.gladstone@cliffordchance.com</p>	 <p>Simon Gleeson Partner, (London) T: +44 20 7006 4979 E: simon.gleeson@cliffordchance.com</p>	 <p>Dan Neidle Partner, (London) T: +44 20 7006 8811 E: dan.neidle@cliffordchance.com</p>
 <p>Michel Petite Avocat of Counsel, (Paris) T: +33 14405 5244 E: michel.petite@cliffordchance.com</p>	 <p>Mark Poulton Head of Corporate, (London) T: +44 20 7006 1434 E: mark.poulton@cliffordchance.com</p>	 <p>Malcolm Sweeting Senior Partner, (London) T: +44 20 7006 2028 E: malcolm.sweeting@cliffordchance.com</p>	 <p>Deborah Zandstra Partner, (London) T: +44 20 7006 8234 E: deborah.zandstra@cliffordchance.com</p>

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Worldwide contact information

35* offices in 25 countries

Abu Dhabi

Clifford Chance
9th Floor, Al Sila Tower
Abu Dhabi Global Market Square
PO Box 26492
Abu Dhabi
United Arab Emirates
Tel +971 (0)2 613 2300
Fax +971 (0)2 613 2400

Bucharest

Clifford Chance Badea
Excelsior Center
28-30 Academiei Street
12th Floor, Sector 1
Bucharest, 010016
Romania
Tel +40 21 66 66 100
Fax +40 21 66 66 111

Hong Kong

Clifford Chance
27th Floor
Jardine House
One Connaught Place
Hong Kong
Tel +852 2825 8888
Fax +852 2825 8800

Milan

Clifford Chance
Piazzetta M.Bossi, 3
20121 Milan
Italy
Tel +39 02 806 341
Fax +39 02 806 34200

Prague

Clifford Chance
Jungmannova Plaza
Jungmannova 24
110 00 Prague 1
Czech Republic
Tel +420 222 555 222
Fax +420 222 555 000

Singapore

Clifford Chance
12 Marina Boulevard
25th Floor Tower 3
Marina Bay Financial Centre
Singapore 018982
Tel +65 6410 2200
Fax +65 6410 2288

Amsterdam

Clifford Chance
Droogbak 1A
1013 GE Amsterdam
PO Box 251
1000 AG Amsterdam
The Netherlands
Tel +31 20 7119 000
Fax +31 20 7119 999

Casablanca

Clifford Chance
169, boulevard Hassan 1er
Casablanca 20000
Morocco
Tel +212 520 132 080
Fax +212 520 132 079

Istanbul

Clifford Chance
Kanyon Ofis Binasi Kat 10
Büyükdere Cad. No. 185
34394 Levent
Istanbul
Turkey
Tel +90 212 339 0001
Fax +90 212 339 0098

Moscow

Clifford Chance
Ul. Gasheka 6
125047 Moscow
Russian Federation
Tel +7 495 258 5050
Fax +7 495 258 5051

Riyadh

Clifford Chance
Building 15, The Business Gate
King Khaled International Airport Road
Cordoba District, Riyadh
P.O. Box: 90239, Riyadh 11613,
Kingdom of Saudi Arabia
Tel +966 11 481 9700
Fax +966 11 481 9701

Sydney

Clifford Chance
Level 16
No. 1 O'Connell Street
Sydney NSW 2000
Australia
Tel +612 8922 8000
Fax +612 8922 8088

Bangkok

Clifford Chance
Sindhorn Building Tower 3
21st Floor
130-132 Wireless Road
Pathumwan
Bangkok 10330
Thailand
Tel +66 2 401 8800
Fax +66 2 401 8801

Doha

Clifford Chance
QFC Branch
Suite B, 30th floor
Tornado Tower
Al Funduq Street
West Bay PO Box 32110
Doha
State of Qatar
Tel +974 4491 7040
Fax +974 4491 7050

Jakarta**

LWP
DBS Bank Tower
Ciputra World One 28th Floor
Jl. Prof. Dr. Satrio Kav 3-5
Jakarta 12940
Indonesia
Tel +62 21 2988 8300
Fax +62 21 2988 8310

Munich

Clifford Chance
Theresienstraße 4-6
80333 Munich
Germany
Tel +49 89 216 32-0
Fax +49 89 216 32-8600

Rome

Clifford Chance
Via Di Villa Sacchetti, 11
00197 Rome
Italy
Tel +39 06 422 911
Fax +39 06 422 91200

Tokyo

Clifford Chance
Akasaka Tameike Tower, 7th Floor
17-7 Akasaka 2-Chome
Minato-ku, Tokyo 107-0052
Japan
Tel +81 3 5561 6600
Fax +81 3 5561 6699

Barcelona

Clifford Chance
Av. Diagonal 682
08034 Barcelona
Spain
Tel +34 93 344 22 00
Fax +34 93 344 22 22

Dubai

Clifford Chance
Level 15
Burj Daman
Dubai International Financial Centre
PO Box 9380
Dubai
United Arab Emirates
Tel +971 4 503 2600
Fax +971 4 503 2800

London

Clifford Chance
10 Upper Bank Street
London, E14 5JJ
United Kingdom
Tel +44 20 7006 1000
Fax +44 20 7006 5555

New York

Clifford Chance
31 West 52nd Street
New York, NY 10019-6131
USA
Tel +1 212 878 8000
Fax +1 212 878 8375

São Paulo

Clifford Chance
Rua Funchal 418 15th Floor
04551-060 São Paulo SP
Brazil
Tel +55 11 3019 6000
Fax +55 11 3019 6001

Warsaw

Clifford Chance
Norway House
ul. Lwowska 19
00-660 Warszawa
Poland
Tel +48 22 627 11 77
Fax +48 22 627 14 66

Beijing

Clifford Chance
33/F, China World Office 1
No. 1 Jianguomenwai Dajie
Chaoyang District
Beijing 100004
China
Tel +86 10 6535 2288
Fax +86 10 6505 9028

Düsseldorf

Clifford Chance
Königsallee 59
40215 Düsseldorf
Germany
Tel +49 211 43 55-0
Fax +49 211 43 55-5600

Luxembourg

Clifford Chance
10 boulevard G.D. Charlotte
B.P. 1147
L-1011 Luxembourg
Grand-Duché de Luxembourg
Tel +352 48 50 50 1
Fax +352 48 13 85

Paris

Clifford Chance
1 rue d'Astorg
CS 60058
75377 Paris Cedex 08
France
Tel +33 1 44 05 52 52
Fax +33 1 44 05 52 00

Seoul

Clifford Chance
21st Floor, Ferrum Tower
19, Eulji-ro 5-gil
Jung-gu, Seoul 100-210
Korea
Tel +82 2 6353 8100
Fax +82 2 6353 8101

Washington, D.C.

Clifford Chance
2001 K Street NW
Washington, DC 20006 - 1001
USA
Tel +1 202 912 5000
Fax +1 202 912 6000

Brussels

Clifford Chance
Avenue Louise 65 Box 2
1050 Brussels
Belgium
Tel +32 2 533 5911
Fax +32 2 533 5959

Frankfurt

Clifford Chance
Mainzer Landstraße 46
60325 Frankfurt am Main
Germany
Tel +49 69 71 99-01
Fax +49 69 71 99-4000

Madrid

Clifford Chance
Paseo de la Castellana 110
28046 Madrid
Spain
Tel +34 91 590 75 00
Fax +34 91 590 75 75

Perth

Clifford Chance
Level 7, 190 St Georges Terrace
Perth, WA 6000
Australia
Tel +618 9262 5555
Fax +618 9262 5522

Shanghai

Clifford Chance
40th Floor
Bund Centre
222 Yan An East Road
Shanghai 200002
China
Tel +86 21 2320 7288
Fax +86 21 2320 7256

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