



BREXIT: RELOCATION CHALLENGES FOR FINANCIAL SERVICES FIRMS





Management summary

In A&M's view, the most prudent operating assumption would be that there will be a 'hard Brexit', with the UK becoming a third country for financial services, with consequences for both UK-based financial services firms operating in EU27 countries, as well as for EU27 financial services firms wishing to operate in the UK. This is likely to have a number of impacts, which we group into four key categories; (1) market access, (2) citizens, (3) location of operational support, and (4) macro-economic conditions.

The paper also provides a view on the likely impacts of Brexit on different types of firms, depending on their geographical footprint, client profiles, and product portfolios, along with an indication of how long a full Brexit transformation programme is likely to take.

The most heavily impacted firms will be those using a 'hub' model, with a European office (typically in the UK), currently serving customers across Europe. In planning for Brexit, firms will also need to be conscious of the expectations of domestic and international regulators. EU regulators have been very clear that they expect any firm relocating to their countries to be able to manage risks locally; moves will need to be 'real', and not simply a "shell" firm set up for market access reasons, and being operated from the UK.

Finally, we discuss the steps required to execute an effective Brexit transformation programme. The complexity of such a programme is likely to require multiple workstreams with substantial requirements for business planning, strategic options analysis, regulation, technology and operations, HR, and capital planning teams.

Introduction

Negotiations between the UK government and the European Union (EU) are under way, following the triggering of Article 50 in March 2017. However, many key questions on the future relationship between the UK and the EU will remain unanswered for some time to come.

What is clear is that UK and European firms are already preparing to make significant changes to their operations. For instance, some large banks are well advanced in planning for relocating some activities to 'EU27' countries, in order to ensure they can maintain their ability to service customers in different countries. For many firms, designing and implementing a strategy to manage the impact of Brexit will be complex, and involve large scale transformation programmes. This paper sets out some of the challenges, and offers insights on how to design and implement a successful change programme to meet them.





Brexit in context

For UK firms, Brexit comes at an already pivotal time. A continuing low interest environment, multiple new entrants into the banking and payments markets, and a need to respond to the adoption of new technologies means that firms are already subject to significant pressures to evolve.

In addition, regulatory changes continue to create ongoing challenges, with implementation deadlines for significant pieces of legislation on the horizon. MiFID II (January 2018), GDPR (May 2018), the main provisions of the UK Financial Services Banking Reform Act (January 2019), and many other regulatory requirements will need to be complied with in a timeframe overlapping the Brexit negotiations. Beyond that, the recently announced CRD V/ CRRII and resolution package of reforms (which includes in the CRD a requirement for some non-EU firms with two or more subsidiaries in the EU to have an Intermediate Holding Company) is also expected to be implemented from 2019-2021.

What are the possible Brexit outcomes for financial services firms?

Predicting the outcome of the Article 50 negotiations is far from straightforward. UK government priorities in the Brexit negotiations are still being developed, and are likely to continue to evolve, particularly given the minority position of the UK government. While there may well be some transition period to allow for adjustment, in A&M's view, there are three possible ultimate outcomes from the Brexit negotiations as far as financial sector firms are concerned.

1. The UK remains part of the EU Single Market for financial services

Existing passporting rights, both into and out of the UK, would be retained. However, this is the least likely outcome, as the current UK government position (as well as that of the Labour opposition) is that the UK will leave the Single Market.

2. There is a specifically-negotiated arrangement between the UK and the EU for financial services

This would provide for "mutual recognition" of respective standards between the EU and the UK, and for cooperation in regulatory oversight. This settlement would be consistent with the UK Government's aim of a strategic partnership agreement with the EU, but there is a question mark over whether this could be negotiated within the 2-year Article 50 timeframe.

3. The UK becomes a 'third country' alongside other non-EU nations

This would, in effect, be the 'hard Brexit' outcome. Absent of any other agreement, the UK would become a 'third country', and access into EU financial markets would be dependent on equivalence decisions as provided for in sectoral EU legislation. While many pieces of EU financial services legislation do contain equivalence provisions, coverage is patchy. Equivalence decisions will also be for the EU alone to determine. Although the UK would initially be in a good position (if the UK initially replicates all EU financial services legislation, as is expected), it would be a pure 'rule-taker' going forward, with no say during future legislative discussions.

In addition, if a large proportion of the EU market was to be served by "equivalent" jurisdictions (including the post-Brexit UK), instead of the minority – as is currently the case – the EU may take a more stringent view on the 'equivalence' mechanism.



What about incoming firms to the UK?

There are also issues in reverse: what happens to EU (and other EEA) firms currently doing business in the UK through a branch, or on a remote basis, rather than through a subsidiary?

Of course in part, how the UK treats such branches is up to the UK itself. The UK Government said on 20 December that it will, if necessary, bring forward legislation to enable EEA firms and funds operating in the UK to obtain a “temporary permission” to continue their UK activities for a limited period after the UK withdraws from the EU. Alongside that, the Prudential Regulation Authority (PRA) said that, under the expected future [long-term] legal EU-UK framework, firms currently using a “passport” to branch into the UK would in the future need to be authorised to continue to operate in the UK. Such authorisation could still take the form of a branch, rather than a stand-alone subsidiary, but that would depend on the types and amounts of business undertaken, and the level of cooperation with the home state supervisor. (Note: the PRA already expects third-country banks with material UK retail deposits to operate through subsidiaries.) It proposes to extend this broad approach to insurers, based on the scale of their liabilities protected by the UK Financial Services Compensation Scheme. The PRA has launched a consultation on refreshing the current approach to authorizing and supervising branches of international banks and insurers along these lines.



What are the potential impacts of Brexit for financial services firms?

Many firms have decided that the prudent planning assumption is that the UK will become a third country. In A&M's view, the impacts of a 'hard Brexit' will be felt through four main channels:

Market Access

- The UK will become a 'third country' and existing UK / EU passporting arrangements will end. Client solicitation and servicing between the UK and EU will become more difficult; and the ability of branches within the EU to do business into the UK, and vice-versa, will be subject to question.
- As a result, new licences may be required to facilitate the provision of current and future business / services where these are currently provided into / out of the UK. Alternatively, access may depend on 'equivalence' assessments.
- It will be as much a political question as a technical one as to whether there will be an immediate general EU-wide determination that the UK's financial services regulatory framework is 'equivalent'. In the longer term, absent some form of "mutual recognition" framework, the 'equivalence' regime may not be a prudent basis for planning the UK's future access to EU financial markets, as regimes may diverge over time and bring 'equivalence' into question.
- That said, in the near term, through the "Repeal Bill" exercise, the UK is likely to preserve current EU financial services legislation in as unchanged a state as possible. It is also unlikely to try to undercut European regulatory standards, as the core prudential and markets requirements flow more or less directly from international agreements, through the FSB, Basel and so on. The credibility of UK regulation would be adversely affected if there were clear attempts to loosen standards and "game" the system.
- There will be pressure to relocate certain categories of financial transaction, with the movement of clearing of Euro-denominated transactions into the Eurozone an obvious early target (diagram 1).
- Some EU jurisdictions are actively seeking to encourage firms to relocate from the UK. However there may be some lack of regulatory capacity to properly serve incomers and the lack of infrastructure (both public and private) to support a large influx of businesses.
- In addition to financial services issues, the restrictive impact of the UK becoming a third country for the purposes of movement of staff and the transmission of data will need to be carefully considered.

Citizens

- Brexit may lead to the cessation or limiting of freedom of movement, and therefore inhibit the hiring of European citizens by UK financial services firms, and the hiring of UK citizens by European firms.
- Currently employed personnel may not be able to continue working in UK / EU without appropriate visas, unless the negotiations result in some compromise which has some grandfathering element.
- There is a potential for an outflow of skills from the UK, and a potential need to replace lost staff.
- Other cross-border working arrangements – such as secondments – may be restricted and / or subject to greater administrative hurdles.



Location of Operational Support

- Brexit will likely restrict the ability of regulated firms to locate support functions (e.g. IT services, second and third line functions, management):
 - Outside the UK (for UK entities)
 - Outside the EU (and specifically in the UK) for EU entities
- The ability to outsource will vary depending on the function in question.
- Cross border financial structures and outsourcing arrangements between operations established in the UK and elsewhere in the EU will become subject to increased regulatory scrutiny and possible challenge.

Macro-economic conditions

The macroeconomic impacts of Brexit are still uncertain and difficult to predict. Indeed, there are divergent views as to whether the impacts will be positive or negative. But there will clearly be different outcomes for key economic variables, such as interest rates, exchange rates and GDP growth, compared with a no Brexit counterfactual.

Diagram 1

Banking functions likely to leave or remain in the UK



Remain

- Securitised products
- Commodities trading
- Merger advisory
- Currency trading
- Emerging markets
- Equity underwriting



Potential to leave the UK

- Debt underwriting
- Hedge fund services
- Non-Euro denominated corporate bonds
- Non-Euro equity derivatives
- Stock trading



Leave

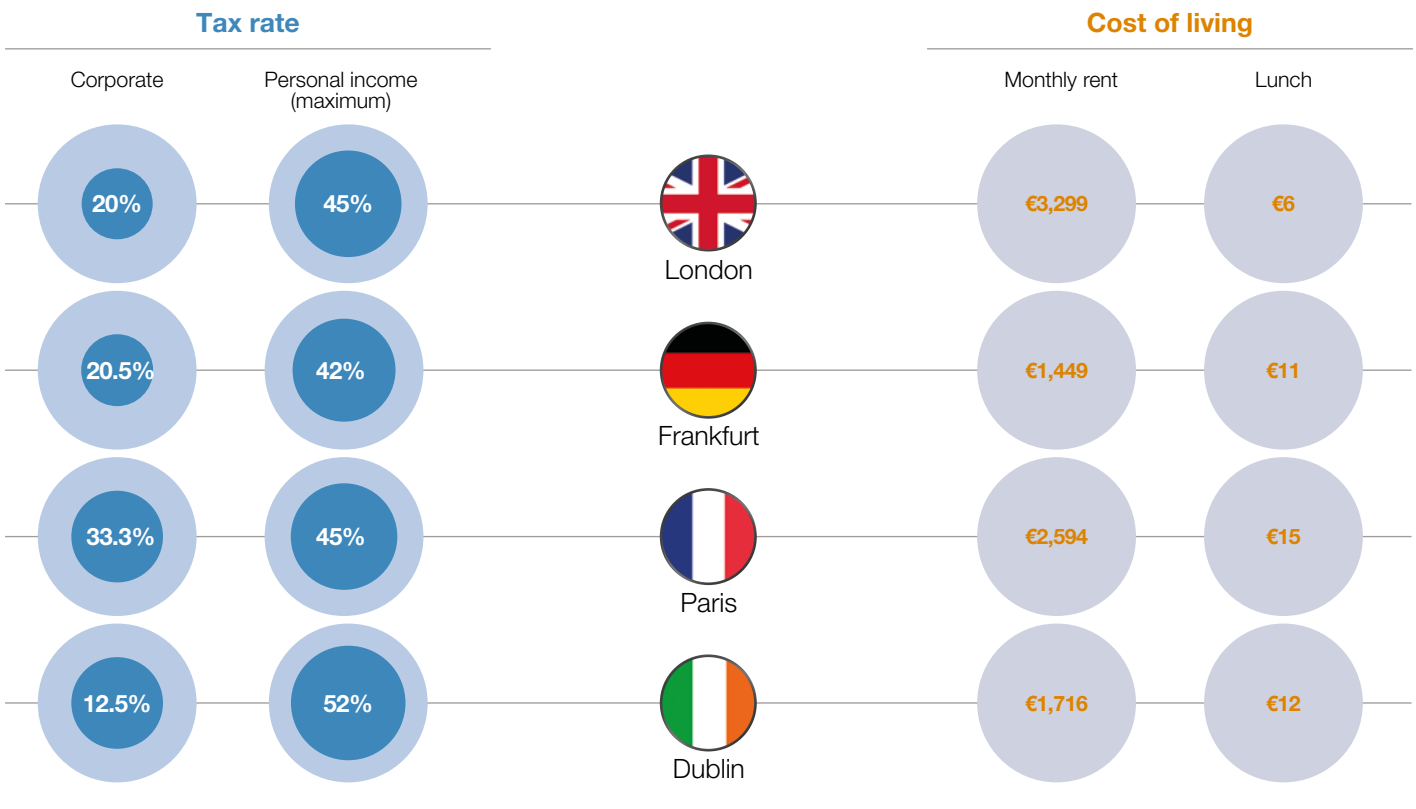
- Euro-denominated corporate bonds
- Other Euro debt trading
- Euro equity derivatives

Measuring the impact on firms' business model

Firms will need to take a view on the likely scale of the above impacts on their business models. We see the impacts on firms being different, depending on the type of operating structure they currently have:

- Firms which predominantly use a “hub”** (either in an EU27 country or, more typically, the UK) as a base from which to serve clients across the EU will face the greatest structural and operational challenges. This is because the current structure magnifies the impact of any change to the cross-border access arrangements. We estimate that a realistically planned Brexit transformation programme would take at least 4 years to execute.
- Firms with a broad pan-European structure.** These are typically wholesale and capital markets focused firms, with staff spread between legal entities located around the UK and across the EU27. Such banks are better placed, as they have some flexibility to reallocate activities within an existing dispersed geographical footprint. They will still need to undertake considerable transformation activities in relation to their EU27/UK activities, but should be able to implement the necessary changes within the 2-year timeframe.
- Domestically-focused firms** that require continued access to UK and EU27 markets will typically face a reduced – albeit still significant – challenge than those using a hub structure. By virtue of the reduced scale of transformation activities required, a properly planned Brexit transformation programme could be completed in 2 to 3 years.

Diagram 2 – Attractiveness of European Cities



What should firms be doing to prepare for Brexit?

As explained below, there are multiple different variables involved in determining the best approach for navigating your firm through Brexit.

The form that Brexit takes, the current and future business model of your business, the macroeconomic environment, and the approach of regulators and international bodies will likely impact the planning and execution of Brexit strategies. However, A&M believe that all firms should implement a transformation programme that includes the considerations set out in table 4.

What do we know about what other firms are doing?

So far, most firms have reviewed their products and services to determine whether they will (or can) remain in the UK, or whether they may need to move some elsewhere.

From a relocation standpoint, Frankfurt is proving to be the location of choice for many big banks, for instance UBS and Goldman Sachs. Paris and Dublin also picking up operations from HSBC, SocGen and Barclays for example.

Table 1 – Where are the international banks moving to?

| | No. of jobs to move | Proposed location |
|-----------------------|---------------------|-------------------|
| Deutsche Bank | 4,000 | Unknown |
| JP Morgan | 4,000 | Unknown |
| UBS | 1,500 | Frankfurt |
| Goldman Sachs | 1,000 | Frankfurt |
| HSBC | 1,000 | Paris |
| SocGen | 400 | Paris |
| Morgan Stanley | 300 | Unknown |
| Citigroup | 150-250 | Frankfurt |
| Barclays | 150 | Dublin |
| Nomura | 100 | Frankfurt |
| Credit Suisse | 50 | Frankfurt |

What will the European Central Bank (ECB) expect from relocating banks?

Many banks are well advanced in their plans to relocate to Eurozone countries (table 1). In response to information requests from UK-based banks, the ECB published FAQs outlining the procedures and requirements for relocating to Eurozone countries.

Overall, the ECB wishes to ensure that the relocation is 'real', and not simply an attempt to establish a shell bank with business continuing to be wholly directed from the UK.

For instance, the ECB will require that banks relocating to the euro area "should be capable of **managing all material risks** potentially affecting them **independently and at the local level**, and should have control over the balance sheet and all exposures. [...] The governance and risk management mechanisms should be **commensurate** with the nature, scale and complexity of the business and fully comply with European legislation. Establishing an "empty shell" company would not be acceptable".

With specific reference to the "**back-to-back booking model**", the ECB and national supervisors would expect that a part of all risks is managed locally. For market risk, this could potentially mean eventually establishing permanent local trading capabilities and local risk committees, as well as trading and hedging risks with diversified counterparties. The specific requirements will depend, among other things, on the structure of the booking model, as well as underlying contractual relations and internal arrangements. Early feedback on applications from UK-based banks confirms that the ECB will not allow "empty shells or letter box banks".*

All 'significant' banks relocating to Eurozone countries will be directly supervised by the ECB. Banks relocating to Eurozone countries will need to navigate the respective responsibilities of the domestic regulator and the ECB.

The ECB has also set out its position on outsourcing, internal risk models, CRD IV supervisory options and discretions, and the treatment of large group exposures.

* Source: https://www.bankingsupervision.europa.eu/press/publications/newsletter/2017/html/ssm.nl171115_2.en.html

The unique challenges of Brexit preparation, and how firms should respond

Transformation programmes in financial services firms are notoriously complex; A&M have seen structural change programmes that have taken upwards of 4 years to deliver. If we assume Brexit negotiations are completed within the 2 year 'Article 50' window, and then followed by a 2 year "transition phase", firms do not have the luxury of time to determine and execute their Brexit priorities. In addition to being time pressured, the response to Brexit will present firms with a unique set of circumstances.

Brexit transformation **programmes must manage uncertainty**, which will continue throughout the EU withdrawal process. Most regulatory change programmes have the benefit of finalised regulatory or legal requirements to work to, with an implementation date often years in the future. In contrast, the terms of the UK's withdrawal from the EU are being negotiated in the period following the invocation of Article 50. Exit will occur when the withdrawal agreement comes into force, or (in the absence of agreement) when the negotiation period expires, meaning firms will have to make strategic and operational decisions without the full set of facts.

In practical terms, firms will need to carefully review their programmes and map each major activity, change or milestone against key internal and external dependencies. They will need to identify "no regrets" actions, which will need to be performed whatever regulatory scenario occurs, and may therefore be prioritised, as well as activities or approaches which are dependent on elements of the final regulation. These dependencies will need to be monitored and tracked on an ongoing basis, such that once the situation is clear, the work can be incorporated into the overall programme in the most effective way. This will require discipline and highly effective programme management skills.

The **complexity of the transformation** challenge for some firms will be unprecedented. Some (non-Brexit) transformation programmes involve a subset of products, processes or business lines. However, adapting to the post-Brexit landscape potentially requires a wide range of interacting transformation activities, across multiple business lines and products.

As for any large transformation programme, a complex network of dependencies between business functionality, people-related issues, technology and operating model design will need to be managed and monitored. Management will need to understand the impact of changes in one part of the programme on other areas, and a good grasp of the critical path activities (and conversely activities where some slippage can be tolerated or recouped) will be important. Appropriate contingency on cost and timeline should be factored in to the plan to ensure the impact of unexpected delays and changes can be contained within the overall shape and cost of the programme.

Brexit will **impact all market participants**, and all market participants – including providers of market infrastructure, other financial services institutions, regulators and customers – will be seeking to respond to Brexit during the same period. Firms will need to consider their resourcing models to respond to the complexities of the transformation projects, given the likelihood that other financial institutions will need similar skills, suppliers and tools.

A particular challenge will be the scheduling and execution of market-wide or bi-lateral testing of new systems and functionality. Firms will need to test new or amended systems and interfaces with counterparties, exchanges and clearing houses. We have already seen with MiFID that the limited windows for such testing are likely to cause bottlenecks; as all Brexit-impacted parties will be working to the same timeline, this problem is likely to reoccur as cutover looms, and will demand careful scheduling and market-wide co-operation to mitigate any delays.



How can A&M help?

Moving significant capabilities across borders will demand a programme organisation which comprises a wide range of skillsets, including an experienced “hand on the tiller” to help manage and co-ordinate the entire process. A&M’s restructuring heritage, along with the fact that over half of its Managing Directors have held C-Suite / interim management roles means that A&M are well positioned to assist firms to manage the significant change programme required.

In A&M’s view (and depending on the nature of the activities to be transferred, as well as your existing footprint and structure) firms will need to co-ordinate **subject matter experts in the fields of business planning, strategic options analysis, regulation, technology and operations, HR and capital planning**. A&M can support each of these areas in the following ways:

Business planning and strategic options analysis

Our senior executives bring with them a wealth of financial services knowledge, and have held senior line roles at European and Global banks, in addition to the many years of advisory work they have provided to clients. This combination of experiences enables us to take a client-centric view of the options available, and to facilitate a structured decision-making process for clients. This not only delivers a solution that works from an operational and regulatory standpoint, but is also commercially focussed.

Regulatory Advisory

We have an experienced team of senior ex-regulators, based in London and in continental Europe, who will be able to assist you interpret your regulatory obligations and ensure that any solution that is proposed will meet the requirements of the relevant regulators in both the “donating” and “receiving” jurisdictions. Firms should be completing a full analysis of the regulatory requirements and priorities in the receiving jurisdiction, and ensuring that all identified gaps are remediated as a priority (table 3).



Table 2 – Common Impediments to Programme Success

| | |
|--|---|
| <p>Vision and Direction</p> <ul style="list-style-type: none"> ■ Unresolved or uncertain project strategy ■ Poorly defined business objectives ■ Inadequate assessment of impact on business ■ Poorly defined critical success factors ■ Lack of communication and user group involvement ■ Unclear governance and decision framework ■ Lack of management support | <p>Business Acceptance</p> <ul style="list-style-type: none"> ■ Lack of appropriate accountability and approvals ■ Ineffective communication and deployment strategy ■ Unresolved problems and disputes ■ Scale and volume of defects ■ Missing warranties and guarantees ■ Adversarial team/supplier relationships ■ Conflict with existing BAU responsibilities |
| <p>Programme Delivery</p> <ul style="list-style-type: none"> ■ Inappropriate skills, resources, processes in place ■ Inadequate risk assessment quantification, and allocation of risk mitigation actions ■ Ineffective governance mechanisms and inconsistent decision of framework ■ Quality of test scenarios, scripts, and master data ■ Lack of accountability ■ Adversarial team/supplier relationships ■ Lack of skills/resources in project management | <p>Planning</p> <ul style="list-style-type: none"> ■ Aggressive schedule commitments restriction proper cutover and programme planning phase ■ Poorly defined project scope and requirements ■ Inadequate understanding of complexities and key factors necessary to succeed ■ Ineffective pre-qualification process ■ Poorly defined contractual terms and conditions |
| <p>Measuring and Monitoring</p> <ul style="list-style-type: none"> ■ Governance model fails to engage key internal and external stakeholders ■ Shifting budget, scope and timetables ■ Incomplete and/or realistic cost-to-deploy information and changing design and scope ■ Mismatch balance between time, cost and quality ■ Ineffective project management systems and control of change orders ■ Lack of risk management and progress monitoring | <p>Technology and Data Enablement</p> <ul style="list-style-type: none"> ■ Lack of model for business processes and systems which causes poor integration both on the business process level and the IT system level ■ Poor storage allocation, administration and monitoring and report generation ■ No input validation on data entry ■ Lack of validation rules and of standardised methods |

Technology and Operations

Many of our senior executives have run large technology and operational teams and change programmes, and can bring this experience to clients on a daily basis to solve difficult and important operational and technology-related issues.

HR

Our executives have had diverse and extensive experience of managing the HR implications of various transformation programmes, including the preparation of wind down scenarios, the switching of contracts, pensions and benefits packages to new jurisdictions, and identifying pools of skilled staff in new jurisdictions.

Capital Planning

Our Treasury Advisory team has significant executive experience in Treasury roles for global financial institutions, allied with cumulative years of advisory work. This team works together with our prudential regulatory advisors to provide critical assessments of the capital implications of the various options under consideration.


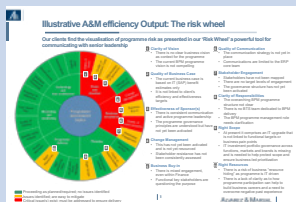


Programme Management

A&M's experience in designing, implementing and remediating business transformation programmes allows us to avoid the most common blockers to success (table 2). We have also developed a range of PMO tools which assist senior management to manage programme risk (diagram 3). For instance, our clients find the visualisation of programme risk as presented in our 'Risk Wheel' a powerful tool for communicating programme risk to senior management.

Our senior executives have extensive experience of managing large, complex, global or cross-border programmes. A&M have led restructuring efforts caused by restructuring events such as the administrations of Lehman Brothers, Washington Mutual, and the systemic bank restructurings in Greece, Spain, and Cyprus, as well as those driven by business decisions, such as significant divestures (e.g. the sale of BGI to Blackrock). We have developed a set of tools and techniques to support the efficient running of a PMO function in support of the Programme Manager. A&M can provide assistance with "on the ground teams" in a number of potential target countries including Republic of Ireland, Germany, Spain, Netherlands, France.



Diagram 3 – Management reporting and the Risk Wheel

| Description | Examples |
|--|---|
| <p>Executive summary</p> <p>Commentary regarding observations, financial status and critical areas to address</p> |  <ul style="list-style-type: none"> Describe overall observations regarding progress and visual indication of workstreams (as applicable) Highlight key areas to be addressed immediately and areas to be addressed at a later point |
| <p>Risk Wheel</p> <p>High-level commentary regarding status of workstream by programme efficiency topic</p> |  <ul style="list-style-type: none"> Visual summary of workstream RAG status by programme efficiency sub topic Includes high level commentary for all amber and red statuses Style and efficiency focus can be adjusted based on firm preferences |
| <p>Issues deep dive</p> <p>Detailed review of each topic with amber or red status in the workstream detail report</p> |  <ul style="list-style-type: none"> Report summarising in detail each amber or red topic from the 'workstream heatmap' Includes description of the issue, findings and recommendations Supports mitigation activities and / or escalation resulting from review |
| <p>Status trend</p> <p>Summarises the trend in programme status across programme efficiency topics</p> |  <ul style="list-style-type: none"> Shows RAG status by programme efficiency topic over the past four quarters, in addition to current quarter and trend indicator |



- Proceeding as planned/required; no issues identified
- Issues identified; are easy to mitigate
- Critical issue(s) exist; must be addressed to ensure delivery

Table 3 – Gap Assessment and Remediation Approach

| | 1. Assess | ➔ 2. Prioritise | ➔ 3. Address |
|------------|---|---|---|
| Objective | <ul style="list-style-type: none"> ■ Rapid assessment of gaps between compliance and regulatory requirements, for both current and future state including impact assessment of the evolving operating models | <ul style="list-style-type: none"> ■ Prioritise recommended actions to be taken in order to address gaps between current and required operating model | <ul style="list-style-type: none"> ■ Support of business in addressing issues |
| Approach | <ul style="list-style-type: none"> ■ Review of policies, procedures, reporting and other relevant documentation ■ Interviews with senior executives, managers and team members across relevant teams ■ Sample case file reviews (where applicable) | <ul style="list-style-type: none"> ■ Analysis of key issues, determining the root cause that needs to be addressed ■ Develop action plan alongside stakeholders, including prioritisation according to the severity | <ul style="list-style-type: none"> ■ Assist in solution design ■ Design and delivery of management and staff training ■ Support and prepare management for regulatory interactions (if required) |
| Challenges | <ul style="list-style-type: none"> ■ Scope of review may be difficult to contain as any issues identified could be indicators of related issues that need to be addressed | <ul style="list-style-type: none"> ■ Severity and scope will drive the cost required to address issues identified and may require tough decisions to be made in order to determine prioritisation | <ul style="list-style-type: none"> ■ More complex issues may require multiple solutions across the business which need to be coordinated in the context of BAU and transformation |



Table 4 – Key Considerations in Development of Brexit Plans

| Level 1 Considerations | Level 2 | Level 3 |
|------------------------|----------------------------|---|
| Strategy | Brexit Impact | <ul style="list-style-type: none"> ■ Scenario analysis ■ Impact analysis in strategic drivers ■ Analysis of strategic options |
| | Contingency Planning | <ul style="list-style-type: none"> ■ Contingency plans ■ Range of response strategies and actions |
| | Revised Operating Strategy | <ul style="list-style-type: none"> ■ Maintain/hold ■ Diversify locations ■ Move |
| | Location selection | <ul style="list-style-type: none"> ■ Political environment ■ Legal framework and certainty |
| Business Plan | Business Unit scope | <ul style="list-style-type: none"> ■ Lines of business to transfer ■ Support functions requirements ■ Access to talent and services ■ Cost considerations |
| | P&L | <ul style="list-style-type: none"> ■ P&L projections (revenue, cost of funding, OPEX, cost of risk, etc) ■ Profitability projections ■ Other KPI estimates |
| | Capital | <ul style="list-style-type: none"> ■ CET1 projections ■ RWA consumption (market, credit and operationa) ■ Capital plan |
| | Funding | <ul style="list-style-type: none"> ■ Funding requirements ■ Funding sources ■ Funding plan |
| Operating Model | Legal entity structure | <ul style="list-style-type: none"> ■ Legal entity ■ Ownership structure ■ Commercial arrangements ■ Contracts |
| | Governance | <ul style="list-style-type: none"> ■ Target organisation (transfer vs holding functions), boundaries and hand-offs ■ Governance protocols between entities ■ Risk management |
| | Holding SLAs | <ul style="list-style-type: none"> ■ Delegated authority and scope of services ■ Cost and quality targets, KPIs and reporting |
| | Infrastructure | <ul style="list-style-type: none"> ■ Systems and data infrastructure ■ Process workflow tool ■ Operational continuity ■ Internal controls |
| Regulatory | License and approvals | <ul style="list-style-type: none"> ■ Differences if the operating entity is a subsidiary or a branch/European passport ■ Exchange of information with home authority ■ Timing: ECB guidelines state that authorisation may take six months after completion of documentation |
| | Requirements | <ul style="list-style-type: none"> ■ Capital and liquidity provisioning ■ Adequate governance, control, fit and proper assessment and AML controls ■ Information about significant shareholders ■ Recovery and resolution planning and preparedness |
| | Paperwork | <ul style="list-style-type: none"> ■ Social statutes of the NewCo ■ Programme of activities ■ List of significant shareholder and senior managers, together with information to assess 'fit and proper' tests |

| Level 1 Considerations | Level 2 | Level 3 |
|------------------------------|-------------------|---|
| Tax | UK | <ul style="list-style-type: none"> ■ Exchange of information with home authority ■ UK corporation tax – 19% from 1st April 2019 (reducing to 17% from April 2020) ■ Potential exit charges on the transfer of business activities based on fair market value of assets transferred including intangibles and goodwill |
| | EU | <ul style="list-style-type: none"> ■ Access to EU Directives (Parent – Subsidiary, Interest and Royalties) may not be available for transactions between EU and UK. Impact may be mitigated by application of UK/EU country specific double tax treaty ■ Choice of subsidiary vs branch should not result in a material difference in tax treatment and therefore decision can be driven by commercial/regulatory factors |
| | VAT | <ul style="list-style-type: none"> ■ UK VAT rate is 20% ■ Banks are largely VAT exempt, which means that VAT = a cost to bank ■ VAT may be payable on the transfer of assets to the EU. This VAT will, in part, represent a cost to business |
| | Other | <ul style="list-style-type: none"> ■ Profit allocation between UK and EU country arising from changes to the operating model will need to be determined using OECD principles ■ Impact on payroll cost arising from expat/local income tax considerations will need to be determined |
| Operations, IT and HR | Operations | <ul style="list-style-type: none"> ■ Which activities performed where (local vs hub), and hand-offs ■ Control framework/four eyes principles ■ Resilience challenges of smaller teams ■ Potential resilience opportunities of split locations ■ Intra-group SLAs and OLAs to be established |
| | IT | <ul style="list-style-type: none"> ■ Local vs centralised IT provision ■ Operational continuity requirements ■ Business continuity considerations ■ Avoidance of duplication in IT estate ■ Flexibility of IT model (to cater for different scenarios) ■ Data strategy |
| | HR | <ul style="list-style-type: none"> ■ Staffing/resourcing strategy; transfer vs re-hire vs hybrid ■ Staff transfer challenges (pension, benefits, change of entity) ■ Governance structure ■ Independence/job splits/dual responsibility issues |
| | Other | <ul style="list-style-type: none"> ■ Third party relationships and contracts ■ Novation/transfer of critical contracts ■ Opportunity to insert resolution-proof wording if not already incorporated ■ Real estate/lease activities ■ ‘Arms length’ arrangements for provision of cross-border services ■ Alignment with other strategic programmes |



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ABOUT ALVAREZ & MARSAL

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With over 3000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organizations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.



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