Association of Foreign Banks

Norton Rose Fulbright

Brexit survey

The impact on the foreign banking sector

September 2018

Contents

Executive summary

The financial services industry constitutes around 7 per cent of UK GDP, directly employs 1.1 million people (two thirds of them outside London) and contributes a significant proportion of tax revenue to the UK. The banking sector is an important part of the industry, consisting of UK domestic banks and non-UK banks that have established themselves in the UK (many of which use the EU passport to conduct cross-border business).

The Association of Foreign Banks (AFB) and Norton Rose Fulbright have carried out a second Brexit survey of AFB members to gauge what the foreign banking sector's sentiment on Brexit is at this stage of the negotiations; the first was conducted in 2017. The AFB formulated a position statement (Appendix 1) and survey in June 2018, following which a cross section of AFB members, including a significant number of foreign based Global Systemically Important Banks (G-SIBs), responded.

Common themes

Post Brexit replacement of the EU passport

The main concern was what framework would ultimately be established between the UK and EU which would determine their post Brexit trading relationship. There was close to a consensus that Mutual Recognition would be an optimal replacement of the EU passport, though there were reservations about whether it would be accepted by the EU as the UK's opening negotiating position. Following the Government's White Paper, which confirmed that the UK will pursue so called 'enhanced equivalence' rather than Mutual Recognition, there was disappointment with the Government on this. A sizeable number of banks felt that the EU's current equivalence framework would not be ideal given the deep interconnectedness of the UK's and EU27's financial markets. They therefore felt that, if equivalence was to be the passport's replacement, then it should be expanded and made more stable, as the Government proposes.

Recruitment challenges and the UK's post Brexit immigration system

The majority of banks have not experienced any recruitment challenges in the past 12 months as a result of the Brexit vote, with many continuing to view London as a city which attracts a large and diverse pool of talent. Some banks have experienced challenges unrelated to the vote, such as difficulties by mainly non-EU banks in trying to secure Tier 2 Visas for non-EU nationals so they can work in the UK, or increasing regulatory requirements disincentivising potential candidates away from certain types of roles. Other banks have experienced a drop in applications for advertised roles, with the perceived reason being a reluctance of some EU27 nationals coming to work in the UK. There was also a call for the Government to outline its plans for the UK's post Brexit immigration system.

Changes to operating models

The majority of banks indicated that they were proposing to make changes to their operating models in the UK. Most of them are currently considering a number of options in order to mitigate the risks presented by Brexit. This may lead to some change in the way that banks, especially EU and non-EU branches, will conduct their business and monitor their processes in the UK post Brexit.

Changes to booking models

Around 50 per cent of EU and non-EU branches indicated that they were planning to amend their booking models. Meanwhile, 60 per cent of UK incorporated subsidiaries are not planning to review their models or make any adjustments to them. Overall, some of those planning amendments are considering moving towards an EU27 based booking model.

Government policy areas and topical issues for banks

Unsurprisingly, there was a variety of policy areas that banks felt the Government could address in order to help build up business confidence in the UK. As expected, many banks called for the transition deal to be put on a legal footing and for the UK and EU to agree to a trade deal which would facilitate as frictionless trade as possible. There were divergent views as to whether, post Brexit, the UK should reduce its taxation and regulatory burden on banks. Some felt it would help ensure the country remains an attractive location for banks to conduct business in, while others thought it may lead to banks having to comply with two sets of regulatory regimes, in the UK and the EU, which would result in increased costs. Meanwhile, a subsidiarisation requirement for EU branches would likely cause many banks to reassess their presence in the UK.

London as a future location for business and international financial centre

The overwhelming majority of banks remain committed to London as a centre for business. Many believe that London will remain an international financial centre in the long term, post Brexit, however some found this questionable. It was felt that Brexit should not be seen as a zero-sum game between the UK and EU, where jobs and activities lost in the UK are correspondingly relocated to the EU27. Some may be relocated to the EU27, but many may not. Rather, other international financial centres, most notably the US, may be the ultimate beneficiaries of Brexit if the UK and EU were to fail to reach a trade deal which facilitates sufficient access to each other's financial services market.

Engagements with the PRA and ECB

Most banks' engagements with the PRA have been positive, and the Regulator was seen as approachable, constructive and pragmatic, although banks recognised that the PRA is operating in a politically charged environment where many key decisions are outside its control. Banks felt that this was likely to place limits on the steps the PRA could take when addressing their queries and concerns. There was a more mixed response with the ECB, and although banks were generally positive about their engagements, they called for it to recognise the agreed transition period as the PRA has done. There was also a call for the PRA and ECB to increase their coordination in respect of their Brexit activities.

Level of business support provided between UK and group entities

Where banks have relied on their group entities / head office outside the UK to provide support for the UK entity, the vast majority are considering continuing with their current arrangements. This is also the case for those where the UK provides support for onshore EU business, where the vast majority of respondents are currently planning to continue with their current arrangements.

The cost of banks' Brexit preparations

There was a variety of responses to banks' total, current cost of preparing for Brexit across their banking group. The size of banks' operations in the UK, as well as their structure, were key determinates in the size of their preparation's costs. There was a mixed response from EU branches, where almost 40 per cent selected spending between £100,000 to £1 million; the majority of EU branches said that their Brexit preparation costs are not higher than originally anticipated. For non-EU branches, almost half (46 per cent) selected more than £2.5 million, with almost 90 per cent of non-EU branch respondents viewing the costs as not being higher than originally anticipated. For UK incorporated subsidiaries, the majority (67 per cent) stated that their costs are under £100,000, while all subsidiary respondents said that their costs have not been more than originally anticipated.

Structure of foreign banks

The report is split into three sections to reflect foreign banks' structures

- UK branches of EU banks
- UK branches of non-EU banks
- UK incorporated subsidiaries of foreign banking groups

Please note that when referring to the different foreign banking structures in the UK, the report refers to 'EU' and 'non-EU' banks rather than 'EEA' and 'non-EEA' banks. This is purely done for simplicity and does not seek to exclude banks outside the EU but inside the EEA.

A number of anonymised quotations are included to provide an insight into the direct thoughts of senior officers who responded to the survey.

Thank you

We would like to thank all foreign banks who participated in the survey. We hope that you find this report of use and that it provides a useful insight, at this stage of the Brexit negotiations process, as to what foreign banks' sentiment is on this subject.

Please note that this survey was conducted in July and August 2018.

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Key findings

Replacement of the EU passport

UK branches of EU banks

- Passporting into the UK is essential and is the preferred option to any alternative
- Strong belief that Mutual Recognition would be the best passport alternative, but questioned whether it would be accepted by the EU
- Belief that current EU equivalence framework is not an appropriate basis on which banks' UK operations should be based

UK branches of non-EU banks

- Mixed view on passporting – for some it is important, but for others it is either inapplicable or immaterial as the group already has a footprint in EU27
- General belief that Mutual Recognition would be the best passport alternative, but questioned whether the EU would accept it
- Concerned that current EU equivalence framework is not appropriate for the UK, but if equivalence is to be used, then it should be expanded and made more stable

UK incorporated subsidiaries of foreign banking groups

- Mixed view on passporting, as it was generally seen not to have a significant impact; it is either inapplicable to the business model (minimal exposure to EU market) or alternative options are being considered to maintain permissions
- Strong belief that Mutual Recognition would be the best passport alternative, but there were concerns around whether it would be accepted by the EU

Recruitment challenges in last 12 months due to Brexit vote

UK branches of EU banks

- Majority have not experienced challenges due to Brexit vote and believe London will maintain a large and diverse talent pool
- Some challenges unrelated to Brexit vote, such as increased regulatory requirements disincentivising candidates from certain roles
- Some experienced fewer applications for job roles, with perceived reason being a reluctance of some EU27 nationals to come and work in the UK

UK branches of non-EU banks

- Large majority not experienced challenges due to Brexit vote. For some, this may be down to their workforce being mainly UK nationals
- Number of banks have experienced difficulties in securing Tier 2 Visas for non-EU nationals
- Some seen impact due to Brexit vote, such as smaller number of candidates applying for certain roles

UK incorporated subsidiaries of foreign banking groups

- Majority not experienced impact due to Brexit vote. May be down to them mainly employing UK nationals or having a small EU workforce
- Main challenges unrelated to Brexit vote, but difficulties in employing non-EU nationals due to oversubscription of Tier 2 Visa applications
- Clarity sought on Government's post Brexit immigration system

Other areas

UK branches of EU banks

- For many, continuity of their cross-border financial contracts is a major focus area
- Sought transition period to be placed on a legal footing
- Recent focus on applications to become third-country branches
- For some, the impact that Brexit will have on the services the UK branch provides to head office
- Requirement to subsidiarise would cause most to reconsider their presence in the UK
- Concern for some around potential for UK banking jobs and activities being relocated to EU27 and other, non-EU, international financial centres

UK branches of non-EU banks

- Contractual continuity is a focus for many, ensuring that cross-border financial contracts are serviceable post Brexit
- Sought transition period to be placed on a statutory footing which, some felt, would reduce likelihood of a Hard Brexit
- Concern around what is seen as the high level of taxation in the UK, with some calling for Government to reduce the Corporation Tax rate
- See Brexit as opportunity for UK to strengthen its relationship with non-European countries
- For some, concern around the potential relocation of UK banking jobs and activities to EU27

UK incorporated subsidiaries of foreign banking groups

- Many see Brexit as an opportunity for UK to negotiate trade deals with non-EU countries
- Concern that banks' level of regulatory requirements is eroding the UK's attractiveness as a place to do business
- For some whose business income is in Sterling but costs are in another currency, Sterling's depreciation has been an issue for them
- For some, concern around what is seen as the high level of taxation in the UK and its impact on the UK's attractiveness as a location in which to conduct business

UK branches of EU banks

The UK Government continues to believe that 'Mutual Recognition' is optimal, do you agree?

As in the 2017 survey, many EU branches continue to believe that maintaining the EU passport would be the most optimal framework on which to base the UK-EU post Brexit financial services trading relationship. Given the UK will no longer benefit from the passport, the vast majority feel that Mutual Recognition would be an optimal solution for its replacement, though some felt that in order for the framework to work as originally intended, it would need to be regularly updated. Some were more specific about where they felt further developments in Mutual Recognition should be made. This included the 'de-recognition' process, improvements of which would have assisted banks in guarding against timely regulatory recognition changes which they may have needed some time to adjust to.

> For the financial sector [Mutual Recognition] is fine, even though it will have to be regularly updated...

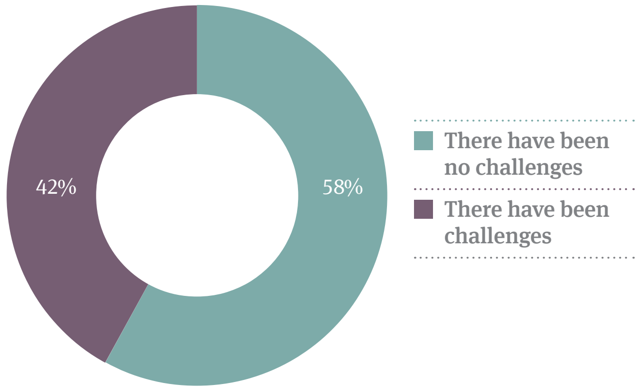
Many felt that passporting is, and will always remain, the most optimal FS trading framework. Some felt that although the Government's position of seeking to keep the UK's financial market as open as possible was pragmatic, the absence of the passport questions the feasibility of their intended openness. A particular concern was that Mutual Recognition would be a step down from the current passporting arrangements, thus potentially posing, according to one bank, additional strategic risks.

> Yes. Whether the UK Government believe [that it] can be translated into a reality is yet to be seen.

Even before, and then shortly after, the Government's White Paper confirmed that Mutual Recognition is no longer being proposed as an available solution, there were reservations about whether the EU would actually accept this framework as the UK's opening negotiating position.

Some proactively raised concerns about the EU's current Equivalence framework. These were similar to those identified in the 2017 survey, with a high level view that Equivalence, as it currently stands, would not be an ideal framework on which foreign banks' UK operations should be based.

What, if any, recruitment challenges have you experienced in the past 12 months due to the UK's decision to leave the EU?



The majority of banks (58 per cent) have not experienced any recruitment challenges in the past year as a result of the Brexit vote. Some, however, gave a qualified response, suggesting that the issue is live, despite there being no direct impact on their particular banks. Many banks maintain a positive outlook on London and believe that it will remain a competitive city which still attracts a large and diverse talent pool from which their businesses can recruit. Some banks said that recruitment challenges they have faced in the past 12 months are not related to Brexit, but the increasing regulatory requirements placed on individual staff members within banks, most notably the Senior Managers Regime (SMR). This has made it more challenging to recruit new staff in Regulatory, Compliance and Risk type roles.

> There is no current identifiable or specific Brexit-related concern that long-term recruitment objectives may be compromised or impaired in the London market. London remains competitive with a large and diverse pool of available talent...

> Our main challenges are around the increased regulatory requirements, especially around [the] SMR. Persuading existing co-workers and attracting new co-workers in Regulatory, Compliance and Risk type roles is difficult and increasingly expensive.

Where banks have experienced recruitment challenges in the last 12 months as a result of the Brexit vote, the situations can be broadly divided into the following themes:

- Fewer applications being received for UK roles which banks felt reflected a reluctance to come to the UK, mainly by citizens from EU27 countries. Some felt that the UK's talent pool, particularly in London, has shrunk following the 2016 Brexit vote.
- Certain types of roles, particularly those with a Regulatory focus, have been harder to fill.
- Limited loss of staff members from an EU branch in the UK to other EU27 bank entities. While some staff were keen to move from the UK to return to another EU27 country, others were not willing to make such a relocation.
- Some candidates are less willing to pursue a career change until there is further clarity. One bank stated its current staff are uncertain about their future prospects in the bank given Brexit.
- Where possible, some banks were avoiding making further recruitment hires in London pending the outcome of the Brexit negotiations.

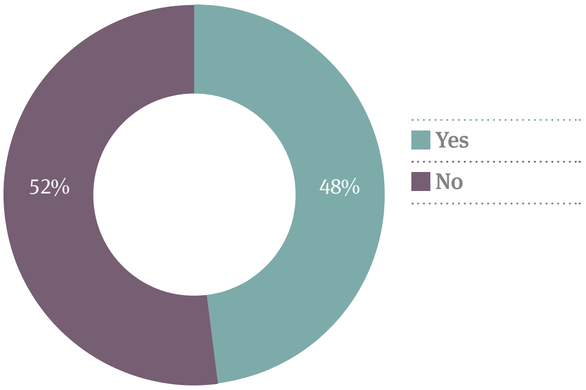
> The pool of skilled candidates for open positions has shrunk. Existing EU staff in our organisation in London are very uncertain about their future prospects here. We are also having great difficulty hiring as people expect EU banks to leave London.

Where your UK entity has pan-European operations, in order to continue these operations post Brexit, which of the following operating models are you considering (select all that are relevant).

Seconding your staff to other group entities that have the right pan-EU permissions	**12.7%**
Dual-hatting your staff to work simultaneously for both the UK entity and other group entities that have the appropriate pan-EU permissions	**12.7%**
Outsourcing – whether receiving services provided from other group entities to the UK entity or vice versa	**10.9%**
Reconstituting the UK business line in another group entity so it exists in both entities	**12.7%**
Moving the business line into another EU group entity – the UK will cease to provide it	**12.7%**
Restructuring the particular UK business line	**20.0%**
Only providing services into the EU that will rely on 'reverse solicitation' or other exemptions	**10.9%**
None of the above – we do not need to make any changes	**7.4%**

The majority of respondents (more than 90 per cent) are considering making some changes to their operating models, the most popular of which is to restructure their UK business lines (20 per cent). Of those considering changes, the majority are planning a combination of options to continue their operations post Brexit. Less than 10 per cent are considering making no changes at all. Overall, this is likely to impose some change in the way that EU branches will conduct their business and monitor their processes in the UK post Brexit.

Where you have pan-European/global operations, are you reviewing your booking models? If yes, what changes are you planning?



Responses indicate that there is an almost 50/50 split amongst EU branches which are reviewing their booking models and those which are not.

Of the 48 per cent who are reviewing their booking models, a number have already carried out the review and taken what they felt were appropriate actions as a result. Some of the actions that banks have taken, or are looking to take, include:

- Rebooking non-UK assets in an EU27 entity
- Moving clearing to an alternative Central Clearing Counterparty (CCP)
- Moving to an agency booking model
- Moving the booking of loans to an EU27 jurisdiction

One bank implemented a new EU booking model in the run up to the 2016 referendum vote, while another said that in 2016 their bank took the decision to book all new loans centrally in their EU27 home state. One respondent stated that, though they are currently reviewing their model, they were not planning to make any changes unless they are required to do so by reason of law or regulation.

What particular policy areas do you feel the Government could address in order to build up business confidence in the UK as Brexit approaches and to attract future investment in the UK?

In the 2017 survey, EU branches eagerly sought an agreement between the UK and the EU on a status quo transition period, as well as a request for the Government to clarify the framework which it would seek to replace the EU passport. Since then, there has been a political agreement on the transition period which banks have greatly welcomed, as well as the Government's White Paper outlining its proposed expansion of 'equivalence' to replace the passport.

In 2018, banks sought clarity from the Government and the EU as to when the transition period would move on from being merely a political agreement to being placed on more of a statutory footing. In respect of the post Brexit UK-EU trading relationship, there was an urgency for a deal between the two parties to be agreed as soon as possible which would facilitate frictionless trade and provide flexibility for cross-EU labour movement, given the global connection between finance and banking, as well as its importance in financing trade. Some felt that the Government's White Paper focused more on securing a trade deal with the EU on goods, and less so on services. Some therefore felt that, in respect of financial services, the Government should focus its attention on securing investments and business which is already in the UK.

> Clarity about the timescale for putting the proposed 'implementation period' onto a statutory basis.

> Banking cannot be viewed as an isolated industry. It exists to a large extent to finance trade, which includes a significant amount of cross border activity. The current basic freedoms of Establishment, Movement of Capital, Goods and People must all be addressed with a suitable implementation period to allow for changes to current models.

Most banks have built political uncertainty into their strategy planning and decision making process, but consider that the prolonged period of uncertainty has left them no choice but to prepare for the worst-case scenario (i.e. a Hard and no-deal Brexit). Clarity from the Government was sought as to what system the UK's post Brexit immigration framework will be, especially given the likelihood that the UK's current system in respect of EU nationals will be replaced.

Some were quite specific about what impact reduced market access between the UK and the EU would have post Brexit, not just on themselves but on countries outside Europe, notably the US. One stated that, although some banking activities may relocate to the EU27 as a result of reduced market access, the US' regulatory environment for financial services firms makes the country a strong magnet for banking activities.

It should not therefore be assumed that activities which move away from the UK as a result of Brexit will correspondingly relocate to the EU27. Rather, given the attractiveness of other financial centres, most notably the US, it is non-European international financial centres which may ultimately benefit from the UK and EU not agreeing a deal which allows a high degree of market access between the two parties. Some banks suggested that the Government should take a lead from the US and replicate its recent approach to taxation.

There was a split, however, as to whether the UK should adjust its banking and financial services regulatory environment post Brexit. Some felt that the UK's regulatory burden on banks is too excessive, thus compromising the UK's competitiveness and making the country a less attractive location for banks. Others, however, stated that if the government made major legislative changes which would diverge from the EU's regulatory environment, this would create significant costs for banks since they would need to plan and adhere to two different regulatory environments. These contrasting views show the different approaches EU branches seek from the Government.

> Favourable taxation for the banking sector...

What other significant issues have you been discussing with colleagues in relation to Brexit?

In 2017, the overarching issues were the challenges for EU branches to plan for the future given the heightened uncertainty over Brexit and the 2017 General Election result, as well as the structures needed for cross border financial services between banks' head offices and their UK entities.

In 2018, some aspects of these issues remain. A key topic is the impact that Brexit will have on the services the UK branch provides to its head office. One particular concern is whether such services can still be provided without additional authorisation, or even whether the UK branch will be able to continue providing financial services into all the other EU27 countries. Others placed attention on the activities from the EU27 countries into the UK, and how such flows may be affected post Brexit.

> Ability to continue providing financial services from London Branch into EU27.

Since many EU branches have already submitted, or are preparing to submit, their branch licence application to the PRA to become a third country branch in the UK, the submissions process has risen up the agenda for a number of banks, especially as they expend a substantial amount of time and resources on their application. Data protection, specifically the sharing of data post Brexit, was also a major topic for discussion given the interconnectedness of the UK and the EU, while contractual continuity was also an important issue for many respondents, particularly in the area of derivatives.

Due to a lack of clarity surrounding the Brexit negotiations, and with few political decisions being made, some banks are holding back their investments in the UK for the time being. One bank is putting in place emergency planning to prepare for a potential 'no-deal' Brexit, while another expressed concern at the inconsistent position between the PRA and ECB on the agreed transition period.

> Inconsistent treatment between PRA and ECB [on the] recognition of [the] transition period.

> ...Emergency planning in case of no deal being agreed [is a significant issue for us].

Looking further ahead, some concerns were raised about whether London would be able to maintain long term its concentration of talent and investors post Brexit. One bank felt that Brexit may erode this concentration over time, while another felt it may impact the UK's position as an international financial centre. Some felt that banks' profitability has now become a big issue given the increase in regulatory requirements over the past few years, significantly increasing the cost of doing business in the UK.

Are there any areas or policies which may lead your bank to reassess its presence in the UK?

In the 2017 survey, there was close to a unanimous view from EU branches that any subsidiarisation requirement would be a clear red line for them, with many stating that such a move would cause them to reassess their presence in the UK and, for a number of respondents, lead to the UK branch's closure altogether. These fears remain in 2018, mainly because of the significant increase in costs associated with operating a subsidiary over a branch, most notably its capital requirements.

> Any requirement to incorporate as a UK bank would create an unsupportable cost base and lead to the closure of our current UK operation.

A sizeable minority of respondents said that, at this stage, there are not any specific polices which would lead them to reassess their presence. Several were very positive about the UK and stated that the UK business is important to the bank.

Others expect their bank to maintain its presence in the UK, regardless of the final Brexit deal.

> No, our UK business is important to us.

Some felt that a Hard Brexit, along with an assertive EU response, may lead some banks to re-assess their presence in the UK, while one respondent said that if the UK bank was no longer able to service its non-UK clients, there would be little incentive for the branch to maintain its presence in the UK.

> If we are unable to service our non-UK clients a Branch structure might lose merit vs a Rep Office.

Other areas included the loss of remote booking, the inability to share data between the UK and EU, as well as an increase in regulatory requirements putting further strain on banks in the UK.

In your engagement with the PRA and the ECB (where applicable) to date (a) what has been helpful and (b) what could they do better?

There was a mixed response to this question, presumably because each bank will have its own particular relationship with the two regulators, therefore affecting their experience.

The vast majority of banks felt that the PRA is approachable, constructive and pragmatic during their engagements. Some respondents were even more positive, with one saying that the PRA has given the bank as much certainty as it realistically can during the Brexit process. Others welcomed the PRA's unilateral adoption of the agreed transition period, and expressed disappointment that the ECB has failed to do the same. Banks are also appreciative of the information they receive from the PRA and recognise that the Regulator operates in an environment where key decisions which affect banks are often made not by the PRA, but the Government and other policy stakeholders.

> I think the PRA is doing an outstanding job. They are helpful and approachable.

> Only dealt with the PRA – they have been generally very good at providing direction where they have known the answers and direct with their feedback. The problem has been the vacuum in information from the government which is not necessarily the PRA's issue.

There were, however, concerns from some about their engagements with the PRA, with a number raised by those which detailed positive feedback above. Some key areas for improvement were:

- Responding to banks' queries within a shorter timeframe, though respondents believed that such timeframes could be down to resourcing issues within the regulator
- Maintaining a consistent viewpoint on the level of information it seeks from banks

With the ECB, there was some positive feedback, but less than with the PRA. Respondents welcomed the ECB's openness with banks; several stated that their engagements had been generally positive.

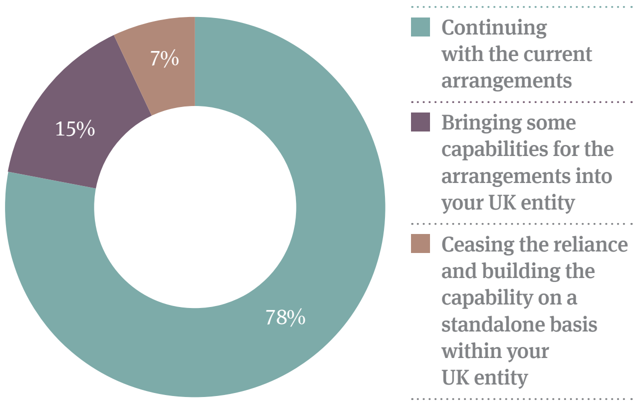
However, there were several concerns about the ECB's approach to banks in respect of Brexit. Some felt the ECB has not deviated from its framework, and that it should factor in the transition period, like the PRA. A quicker response time to queries was also sought, with one bank waiting for a long time for the ECB's feedback on its operating model questions.

Some questioned the ECB's approach to certain data requests and questionnaires. One questioned the ECB's logic around 'empty shells in the EU' in respect of EU headquartered banks given the banks will undoubtedly have an appropriate presence in the EU because of their home state. Some banks have found that their engagements with the ECB have been more challenging than with the PRA.

Although banks recognised there were difficulties for the PRA and ECB in providing highly sought after directions due to uncertainty flowing from the current political landscape, it was felt there should be more coordination between the two regulators, as well as the need for a better alignment of regulatory strategies. It was also felt that both regulators might consider having stated or accepted risk criteria in respect of banks' Brexit contingency planning for a no-deal Brexit scenario.

> Generally, the interaction with both has been positive and helpful.

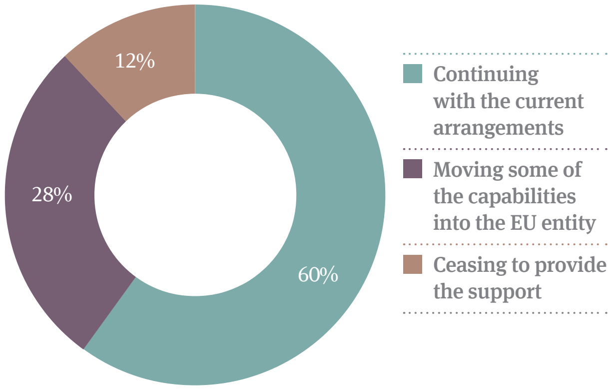
Where you have relied on group entities/ head office outside the UK to provide support for the UK entity (e.g. human resource, IT systems, governance and oversight, middle office, or back office, etc.) are you considering:



Almost 80 per cent are considering continuing with their current arrangements and all of these, bar one, are not considering another option. 15 per cent are considering bringing some capabilities for the arrangements into their UK entity, while just 7 per cent are considering ceasing the reliance and building the capability on a standalone basis within the UK entity.

Where cessation is being planned, this is alongside another option being considered, whether that be bringing some capabilities into their UK entity or continuing with their current arrangements.

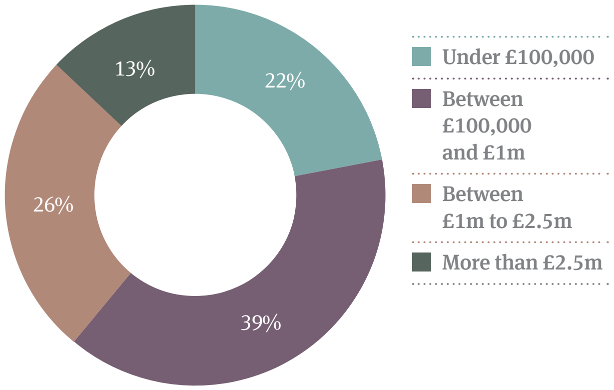
Conversely, where the UK provides support for onshore EU business, are you considering:



While the majority of banks are considering continuing with their current arrangements, a sizeable minority (28 per cent) are considering moving some UK based capabilities into the EU entity. 12 per cent are considering ceasing to provide the support.

The vast majority of the 60 per cent planning to continue with their current arrangements are not considering any other options; this is similar for the 28 per cent considering moving some capabilities into the EU entity. Meanwhile, of the 12 per cent considering ceasing to provide the support to their onshore EU business, half are not considering any other options available.

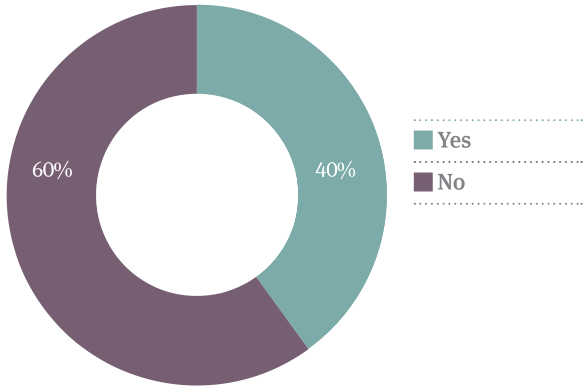
If you could quantify the total, current, cost of preparing for Brexit across your banking group, would it be:



There was a wide set of responses, with almost 40 per cent of banks selecting spending between £100,000 to £1 million on their Brexit preparations, followed by just over a quarter (26 per cent) spending between £1 million to £2.5 million. 22 per cent selected under £100,000, while only a handful of banks selected spending more than £2.5 million.

As expected, the degree of spending on Brexit preparations largely depended on the size of the bank: the larger the bank, the higher the costs. It was also notable that those with relatively large retail operations in the UK saw higher costs as well.

Is this more than you originally anticipated?



A majority (60 per cent) said that their Brexit preparation costs are not higher than originally anticipated. Of this 60 per cent, a considerable number were those spending between £1 million to £2.5 million, with only a minority spending between £100,000 to £1 million. Of those spending either under £100,000 or more than £2.5 million, the vast majority were within their expected cost range. Interestingly, the majority of larger bank respondents, most of whose spending is more than £1 million, fell into this category.

Meanwhile, 40 per cent said that their Brexit preparation costs are more than originally anticipated. The vast majority of this 40 per cent said that their spending was between £100,000 to £1 million, while only a small minority are spending under £100,000. Of those few banks spending more than £2.5 million on their Brexit preparations, only one said that the costs are higher than they originally anticipated.

UK branches of non-EU banks

The UK Government continues to believe that ‘Mutual Recognition’ is optimal, do you agree?

Many non-EU banks already have a presence in the EU27 and the passport’s replacement will have a relatively limited impact on them. As with EU branches, there was general support amongst non-EU branches that Mutual Recognition would be an optimal replacement to the EU passport, though a number stated that improvements to the framework would need to be made.

> Yes, even though it has little impact on our firm.

Some, however, were more cautious, stating that further detail would need to be provided in order for them to come to a decision, while others said that though the framework is not optimal, it would be better than a Hard Brexit.

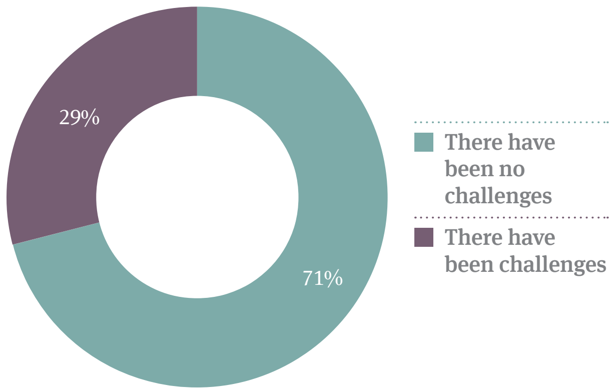
Even before, and then shortly after, the Government’s White Paper confirmed that Mutual Recognition is no longer being proposed as an available solution, securing a deal with the EU on Mutual Recognition was seen as unrealistic given the political sentiment in Europe surrounding the City of London’s access to the EU post Brexit. Some emphasised their disappointment with the Government that it has decided not to pursue Mutual Recognition in the negotiations; however, one bank which felt this way understood why the Government has changed its approach.

> It is idealistic. In practice, I don’t think it is feasible as the sentiment of EU means it would not let UK cherry-pick on deals.

One respondent was very specific about equivalence’s shortcomings. It said that the UK should, as a negotiating priority, seek to maximise the access that UK based banks will have to EU clients post Brexit, and therefore felt that the current EU equivalence framework would not be a satisfactory solution. Following the Government’s recent ‘enhanced equivalence’ proposition, as outlined in its White Paper, some felt that the framework may not be as stable and predictable as, for example, Mutual Recognition. There was a call for industry to support the Government by providing suggestions as to how equivalence should be improved.

> We continue to argue that maximising access to EU clients for UK based firms should be a UK negotiating priority and the existing EU equivalence is a unsatisfactory solution. [Industry stakeholders] should support the UK Government in developing practical suggestions for how equivalence needs to be improved to make it more stable and accessible for UK based firms in the future.

What, if any, recruitment challenges have you experienced in the past 12 months due to the UK’s decision to leave the EU?



The vast majority (71 per cent) has not experienced any recruitment challenges in the past 12 months due to the Brexit vote. For some, this may be due to the fact that the majority of their workforce, as well as applications for roles they usually receive, are from the UK. Many stated that they have hired staff from the EU27 and, so far, most seem to be applying for, or have already received, a residence permit from the UK in respect of their future residency in the country. Many banks are still in growth mode, though some roles may be relocated to an EU27 entity, while others may be created there. This shows that Brexit should not be seen as a zero-sum game between the UK and EU, in which new roles in the EU27 are directly a result of relocations from the UK.

> None. We have hired staff from the EU and beyond, and so far, most appear to be applying for or have received residence permit for the UK. Those that have not applied and have been working in the UK for some time may be waiting for 'settled status' to be implemented by the Home Office.

For some, the recruitment challenges they face are not directly as a result of the Brexit vote, but from the Government's Tier 2 Visa quota. This is because many non-EU banks look to employ nationals from their home state, so they often face difficulties in securing a visa to allow non-EU workers employment in the UK. Banks said that any tightening of the Tier 2 quota post Brexit would undoubtedly affect their recruitment of nationals from their home state and other non-EU countries.

> As a small branch here, our main workforce is locally hired employees with status in [the] UK. Our senior management (expats) however is reliant on the Tier two quota. After Brexit, if there is any tightening on the Tier two policy, it may then affect our recruitment of expats from [our home state].

Just less than 30 per cent of respondents stated that they have experienced recruitment challenges in the past 12 months because of the Brexit vote. One bank has seen a very small number of their candidates being less willing to make a decision based on the current Brexit uncertainty. Another has seen a smaller pool of candidates apply for their entry level programmes; however, even though most candidates are querying the bank on Brexit and what it could mean for them as individuals, the bank sees that the level of applications received is still positive.

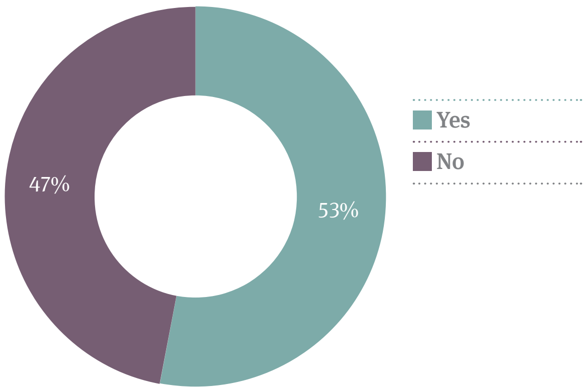
> Some depletion of applications for entry level programmes, but most candidates are still applying but asking more questions. Most candidates remain open to exploring roles in London but [are] mindful and asking questions on what Brexit might mean once they are here.

Where your UK entity has pan-European operations, in order to continue these operations post Brexit, which of the following operating models are you considering (select all that are relevant):

Seconding your staff to other group entities that have the right pan-EU permissions	5.4%
Dual-hatting your staff to work simultaneously for both the UK entity and other group entities that have the appropriate pan-EU permissions	13.5%
Outsourcing – whether receiving services provided from other group entities to the UK entity or vice versa	13.5%
Reconstituting the UK business line in another group entity so it exists in both entities	18.9%
Moving the business line into another EU group entity – the UK will cease to provide it	10.8%
Restructuring the particular UK business line	2.7%
Only providing services into the EU that will rely on 'reverse solicitation' or other exemptions	18.9%
None of the above – we do not need to make any changes	16.3%

The vast majority of non-EU branches are considering making some changes to their operating models as a result of Brexit. The most popular consideration is for banks to reconstitute their UK business lines in another group entity, so that it exists in both the UK and the other entity, as well as only providing services into the EU that will rely on 'reverse solicitation' or other exemptions. Of this majority, most are considering a number of the available options, not just one in isolation.

Where you have pan-European/global operations, are you reviewing your booking models? If yes, what changes are you planning?



Whilst 53 per cent of banks are reviewing their booking models, a sizeable minority (47 per cent) are not. Of those 53 per cent, the actions some said they are considering taking include:

- Looking at where a bank can have back-to-back arrangements/transactions. This included, depending on regulatory approval, using a back-to-back model to banks' affiliates for non-material businesses
- Requiring EU27 clients to transact with entities within a non-EU branch group which is located in the EU27

Others stated that the actions they will take following their booking models reviews will depend on the regulatory expectations of each particular local regulator. One said that although their UK operations do not rely on the EU passport – so they do not need to review their booking models – some of their EU27 based clients now prefer dealing with EU27 based banks following the Brexit vote. Because of this view amongst its client base, the bank is therefore reviewing its booking models, assessing whether it should relocate some of its booking into its EU27 entity/ies. This indicates that even in those areas where banks are confident that they do not need to make any changes as a result of Brexit, the Brexit vote has, for some, changed the way the UK is seen by banks' clients in Europe.

Others cautioned that booking models will always be subject to change and one bank commented that this is usually driven by underlying factors – see the following quote.

> Our booking models are subject to change, but any changes will be driven by underlying factors such as market liquidity for underlying exposures, access to FMIs and regulatory permissions to maintain a global booking model.

What particular policy areas do you feel the Government could address in order to build up business confidence in the UK as Brexit approaches and to attract future investment in the UK?

In the 2017 survey, the overarching issue was for the UK and EU to settle a status quo transition agreement as quickly as possible, as well as for there to be an agreement on a post Brexit trading relationship which enables as close to frictionless trade as possible.

For 2018, there was a much wider set of views. As expected, there was once again a call for the UK and EU to agree to a formal (as frictionless as possible) post Brexit FS trading relationship. A number felt that the ability of banks in the UK to be able to service their clients in the EU27 is a critical factor for them; this would help increase banks' business confidence in the UK. For the near future, they welcomed the politically agreed transition period between the UK and EU, but preferred to see it on a more legal basis. It was felt this would reduce the likelihood of a Hard Brexit in the short term.

> Securing a future relationship agreement, which minimises friction for exporters of goods but just as crucially for services, is the most important thing [the] UK Government could do to restore business confidence... Providing stability by securing an exit deal and therefore a transition period and then moving on to future trade talks, and ensuring that services access to EU clients is preserved, is a critical factor here.

Many respondents were concerned about what they see as the high level of taxation in the UK and there was a call for the Government to reduce the level of Corporation Tax to attract further investment into the UK. Others focused on what they see as ever rising costs associated with investing in the UK such as increasing stamp duty rates, and capital gains and inheritance tax changes. Some sought clarity on the Government's post Brexit immigration system and hoped the Government would ease the process of applying for work permits, while others called for unfettered access to skilled talent.

A number of banks called for the Government to use the opportunities presented by Brexit to strengthen the UK's relationship with non-European countries. This included the US, but also China, especially in respect of the UK increasing its cooperation with the Belt and Road Initiative.

> I think they have to strengthen relations with not only [the] EU, but also [the] US.

Banks recognised that some aspects of how the Brexit process is affecting their organisations are beyond the UK's control; contractual continuity is a key issue, notably in respect of seeking clarity from EU authorities on banks' continued ability to service certain types of contracts with EU counterparties in some jurisdictions post Brexit. Furthermore, they sought from the EU recognition of UK Central Counterparty Clearing Houses (CCPs) in the EU. A number of respondents also called for policy stakeholders to ensure that there is supervisory coordination among key supervisors, with the Government in particular being more proactive with the home state supervisors of Global systemically important banks (G-SIBs).

> ...Ahead of March 2019, we need clarity soon (from EU authorities) on our continued ability to service certain types of contracts with EU counterparties in certain jurisdictions ('contractual continuity') and recognition of UK CCPs in the EU.

What other significant issues have you been discussing with colleagues in relation to Brexit?

In 2017, the key issues raised were how banks' UK operations may be affected by Brexit, especially if the UK were to adjust its regulatory landscape after it left; how the post-referendum depreciation in Sterling had impacted their business activities was also discussed. Some found the depreciation good for business as it helped their clients invest in the UK, while others saw their profits in the UK fall when Sterling was converted into their home countries' currency.

In the 2018 survey, the depreciation in Sterling was not mentioned, but banks were still discussing how their operating models may be affected by Brexit. Some stated that banks will only be able to fully determine what their future operating models will be once a clear direction has been set by the UK and EU regarding their post Brexit trading relationship. Banks have therefore factored political uncertainty into their strategy planning. One bank is discussing the potential for their resources and functions currently based in London being relocated to their other EU27 offices (interestingly, the respondent refers to 'offices' – showing that, in general, movements from London may be relocated to a variety of EU27 countries, not a single hub). Some are currently considering whether to establish an EU27 based subsidiary or other form of entity, together with the practical issues concerning an application for a new EU27 based entity.

> Future operating model is the key issue, but to resolve this we need clear direction on the future rules of engagement.

> We communicate to [our colleagues] that we do not expect significant changes to our business strategy and employees' contract of employment. We have factored political uncertainty into our strategy planning, which may not be materially reflected in everyday operations, but has been built into the decision-making process at management level.

In addition to regulators seeking information from institutions on Brexit, some banks are finding that their corporate clients are asking them how they are dealing with Brexit and seeking reassurance that they will still be able to trade with UK based entities post Brexit. One respondent said this showed the increasing level of concern by corporates of the potential impact of a Hard Brexit on their own businesses, especially by those based in the EU27.

The UK's post Brexit immigration system was again a key topic, as banks are keen to ensure that they are able to hire talent in the future not just from the EU but from across the world as well. Looking towards the more immediate future, banks have been discussing where current and new roles should be based, and the implications of any change.

Banks see contractual continuity as a market wide issue; client onboarding, euro derivatives clearing, and access to key Financial Market Infrastructure such as trading venues, are areas they are actively discussing. Banks are concerned over when the transition agreement will be placed on a legal footing, as well as concerns about the potential for a no-deal Brexit and the impact it would have on banks. However, there are many banks where Brexit will have a minimal impact on their organisations, with one stating that they do not expect significant changes to their UK entity's business strategy.

Are there any areas or policies which may lead your bank to reassess its presence in the UK?

In 2017, many banks said they remained committed to the UK regardless of the Brexit negotiations outcome, although some stated that their UK operations' size and scale could be affected by policy decisions made in the UK and EU. A requirement to subsidiarise, as well as reduced access to talent post Brexit and a more restrictive immigration system, were also areas which could lead banks to reassess their presence in the UK.

In 2018, the majority of non-EU branches said that the UK is, and will remain, an important location for them in which to operate and conduct business. A sizeable number said that, at this stage, there are no specific Government policies which would lead them to reassess their presence in the UK. They felt that the UK will remain a global financial centre.

> UK will remain central to our strategy. Majority of our clients are outside of the EEA. Could lead to reduction of commitment/products offered to EEA clients.

Many banks said that, if the UK was to move away from the EU over time, then the proportionality of certain EU rules which apply to the UK should be reconsidered. Some banks' clients are mainly based outside the EU; therefore, depending on the UK-EU post Brexit trading relationship, there could be a reduction from some banks in the products offered to EU clients. One bank, which said it will maintain its current UK operations post Brexit, stated that there may be some deployment of resources from the UK to what will be its newly established EU27 entity; however, only a small number of staff and activities would be relocated to the new entity, as the vast majority of roles there will be newly created. Once again, this shows that Brexit should not be seen as a zero-sum game between the UK and EU, in which newly established roles in the EU27 come as a consequence of relocations from the UK.

Some banks felt that a significant reduction in their clients' inward investment into the UK would lead to a reassessment of their presence, as well as a reduction in the UK's position as a global financial centre. One respondent was more specific, stating that their reassessment would likely take place if a 'no-deal' Brexit led to adverse measures which would impact the bank undertaking trade finance business in the EU. Concerns were also raised over banks' long-term profitability and investments.

For a very limited number of non-EU banks, the EU's proposed Intermediate Parent Undertaking (IPU) has been a significant development for them. One bank, for whom it would apply, saw it as an issue of greater significance than Brexit.

Banks continually evaluate their global footprint, assessing both the costs and opportunities of conducting business in certain jurisdictions. The UK is no different, one respondent said, stating that the level of tax and regulatory certainty plays a crucial role in their decision making.

> As a non-EEA branch, [because] we do not rely on passporting to gain [a] banking licence, there is not much concern. Business as usual. However, if there is significant cost involved in lending money to the European borrowers once we come out from EU, this may trigger reassessment of our presence in the UK by our parent.

In your engagement with the PRA and the ECB (where applicable) to date (a) what has been helpful and (b) what could they do better?

The vast majority of respondents said that their engagements with the PRA have been positive and helpful. Banks welcomed Sam Woods' letters (of December 2017 and March 2018), in particular the latter which respondents saw as providing a high degree of clarity and certainty for banks on how they can continue to operate in the UK until the end of 2020; the PRA's pragmatism and proactiveness surrounding the Brexit negotiations were also welcomed. Banks recognised that the PRA is operating in a very political environment, meaning that the steps it can take on Brexit may be limited without further clarity being provided, or decisions being made, by political stakeholders.

> [The] PRA have been very helpful, and their policy stance to permit banks to provide services in the event of Hard Brexit was very welcome (even if not of direct relevan[ce] to my bank). You get the sense that the PRA are trying to be as pragmatic as possible and treading lightly round the politics.

For some, their engagements with the PRA have been limited / minimal, with one feeling that the Regulator is focusing more on EU branches than non-EU branches. One respondent would welcome improved coordination between the PRA and supervisors in other jurisdictions, especially in the EU27.

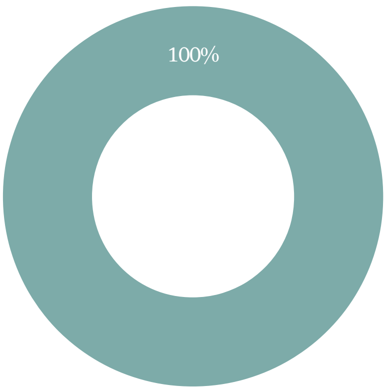
As for the few banks which are liaising with the ECB, there was more of a mixed response. Some felt that their engagement with the ECB has been helpful, but welcomed from it clarity on how banks in the UK will operate in the EU27 during the transition period.

Some respondents were less positive, with one feeling that the ECB should be less assertive, and try to understand the way in which their particular bank operates. Another said that the ECB could benefit from strengthening its relationships with other international supervisors, and look at increasing its understanding of how banks operate within their home country rules and globally; the ECB could then use its knowledge in these areas to feed into its supervisory decision making.

In general, respondents commented that there could be more coordination between the PRA and ECB and better alignment in their regulatory expectations.

> Overall, our engagement with the ECB has been positive. However, perhaps they would benefit from strengthened relationships with other international supervisors...

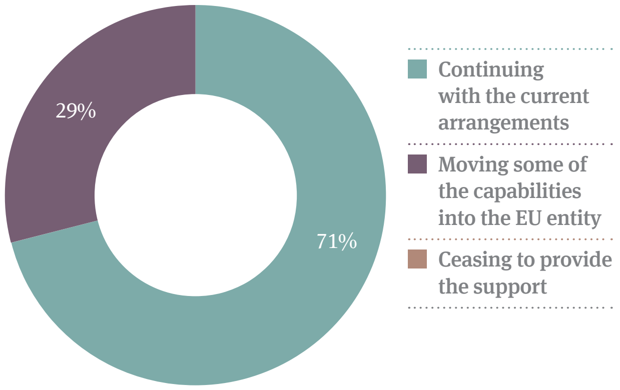
Where you have relied on group entities/ head office outside the UK to provide support for the UK entity (e.g. human resource, IT systems, governance and oversight, middle office, or back office, etc.) are you considering:



- Continuing with the current arrangements
- Bringing some capabilities for the arrangements into your UK entity
- Ceasing the reliance and building the capability on a standalone basis within your UK entity

All respondents are looking to continue with their current arrangements. None are considering bringing capabilities for current arrangements into their UK entity, nor ceasing their reliance on their group / home state and building the capability on a standalone basis within their UK entity.

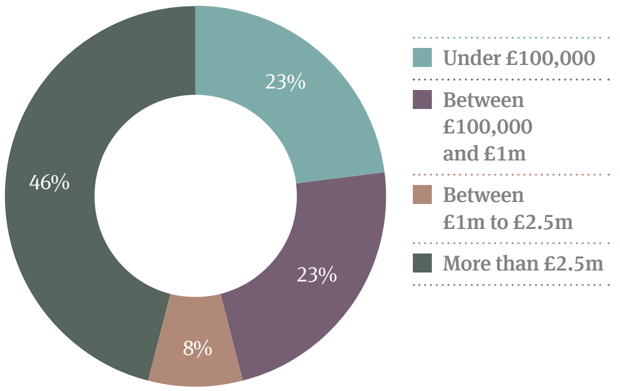
Conversely, where the UK provides support for onshore EU business, are you considering:



The vast majority of respondents (71 per cent) are considering continuing with their current arrangements. Just under 30 per cent, however, are considering moving some of their UK capabilities into the EU entity. None are considering ceasing to provide support for onshore EU business.

Of the 71 per cent considering continuing with their current arrangements, the majority are not considering other options available. Just over half of the 29 per cent who are considering moving some of their capabilities into the EU entity are considering another option available to them.

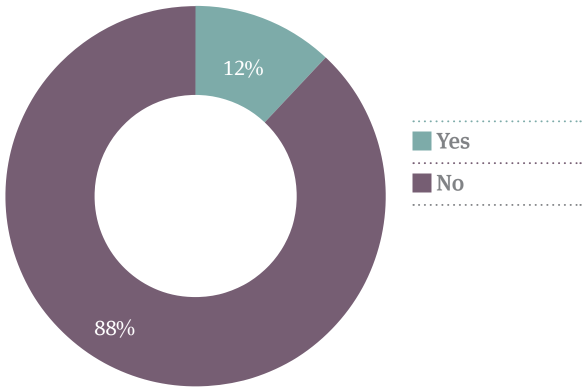
If you could quantify the total, current, cost of preparing for Brexit across your banking group, would it be:



Almost half (46 per cent) of respondents' costs of preparing for Brexit is more than £2.5 million. This was jointly followed by 23 per cent selecting between £100,000 to £1 million, and a further 23 per cent selecting under £100,000. Only 8 per cent selected between £1 million to £2.5 million.

As with EU-branches, the feedback suggests that larger banks were spending more on their Brexit preparations than smaller institutions.

Is this more than you originally anticipated?



For the vast majority of banks (88 per cent), Brexit preparation costs were not higher than originally anticipated. This included the vast range of respondents, both smaller and larger, as well as those whose spending is from under £100,000 up to over £2.5 million.

Only 12 per cent of respondents' costs were higher than originally anticipated. Of this very limited number, half selected spending £100,000 to £1 million, and the other half selecting more than £2.5 million.

UK incorporated subsidiaries of foreign banking groups

The UK Government continues to believe that 'Mutual Recognition' is optimal, do you agree?

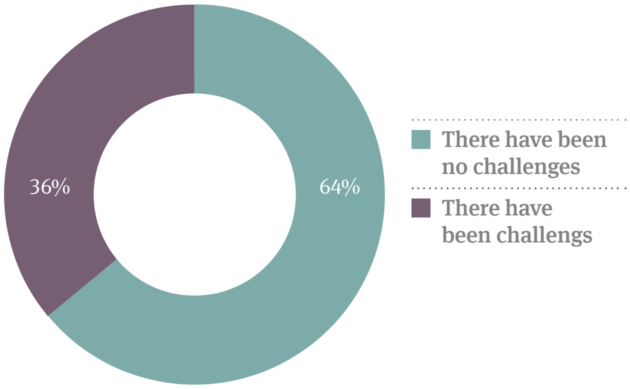
There was strong support that Mutual Recognition would be an optimal framework to replace the EU passport. However, a number of banks said that, whatever the agreed framework, it will be of little relevance to them given their banks have minimal exposure to the EU market, or their EU27 entities already have access to the EU market. For those who do support Mutual Recognition, a number believed that the framework would provide banks with a stable regulatory environment and help maintain the status quo. One commented, however, that their support for the framework would ultimately have depended on how deep the agreement would have been between the UK and EU.

> Mutual recognition would provide us as a bank the stable regulatory environment we need to continue to conduct and grow our business in the UK and EEA.

> [This is] not relevant to us.

Some respondents were disappointed with the Government's White Paper which confirmed that the UK is no longer proposing that Mutual Recognition replace the passport. That said, a number believed that it would have been challenging for the UK to continue proposing the framework as its negotiating starting position, given the EU's public views on the proposal.

What, if any, recruitment challenges have you experienced in the past 12 months due to the UK's decision to leave the EU?



The vast majority of respondents (64 per cent) have not experienced any recruitment challenges in the past 12 months due to the Brexit vote: some mainly employ UK nationals or have a small EU workforce.

Unrelated to the vote, there were strong views on the challenges banks face when hiring non-EU nationals. Banks said that obstacles, e.g. the Government's visa allocation system (the Tier 2 Visa in particular), often stops them being able to employ non-EU nationals, many of whom have a certain skill set the bank seeks. This is because the limited allocation leads to firms unsuccessfully bidding for visas which are heavily oversubscribed. Because of this, a number of respondents called for the Government to implement, post Brexit, an immigration system which would allow 'equality of recruitment' between EU nationals and those from outside the EU.

> None. Being [a non-EU] Bank, the obstacles are to the rest of the world. We would like to see equality of recruitment between Europe and [the] Rest of the World, obviously under any new immigration policy, providing enough flexibility to cover the needs of the Financial Services Industry.

One bank said that if the UK placed visa restrictions on EU nationals, it would be unlikely to impact significantly their organisation's ability to recruit talent from the EU. They warned of a possible side effect of such an approach though: higher wage demands as a result of the restrictions reducing the talent pool available for the skills they seek. Others felt that uncertainty around the UK's post Brexit immigration system may disincentivise some EU candidates to join organisations in the UK.

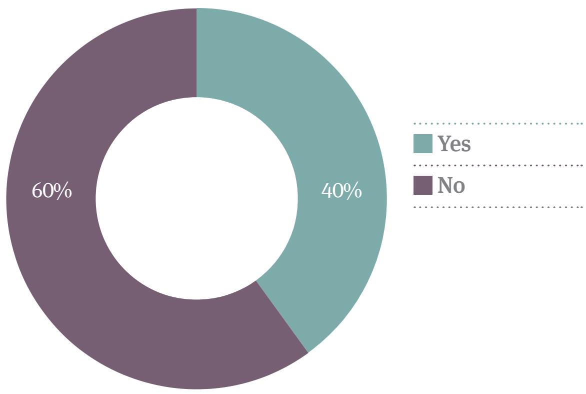
> Uncertainty around passporting arrangements could result in the reluctance of pan European candidates who may wish to join...

Where your UK entity has pan-European operations, in order to continue these operations post Brexit, which of the following operating models are you considering (select all that are relevant):

Seconding your staff to other group entities that have the right pan-EU permissions	**10.0%**
Dual-hatting your staff to work simultaneously for both the UK entity and other group entities that have the appropriate pan-EU permissions	**15.0%**
Outsourcing – whether receiving services provided from other group entities to the UK entity or vice versa	**15.0%**
Reconstituting the UK business line in another group entity so it exists in both entities	**10.0%**
Moving the business line into another EU group entity – the UK will cease to provide it	**5.0%**
Restructuring the particular UK business line	**0.0%**
Only providing services into the EU that will rely on 'reverse solicitation' or other exemptions	**5.0%**
None of the above – we do not need to make any changes	**40.0%**

Almost half (40 per cent) of respondents are not considering making any changes to their operating models. This indicated that, although Brexit will impact the way in which UK incorporated subsidiaries conduct their business in the UK post Brexit, this will be to a much lesser extent than EU and non-EU branches. However, 60 per cent are considering changes, with the majority of these planning a variety of the available options. None are considering restructuring a UK business line.

Where you have pan-European/global operations, are you reviewing your booking models? If yes, what changes are you planning?



A majority of respondents (60 per cent) are not reviewing their booking models. Meanwhile, 40 per cent are, possibly indicating that UK incorporated subsidiaries may be more affected by Brexit than might have otherwise been thought to be the case.

Sufficient changes to ensure our EU27 banking head office will have appropriate controls and visibility of activity relative to the entity, whatever the actual location of the activity.

We believe that] the treatment of incoming passported firms to ensure host member states are amenable to similar treatment of outgoing firms in their jurisdiction [is important]

What particular policy areas do you feel the Government could address in order to build up business confidence in the UK as Brexit approaches and to attract future investment in the UK?

In 2017, key areas included the need for the Government to establish a clear, coherent negotiating position on which the UK's post Brexit trading relationship with the EU should be based. The need for the Government to outline the UK's post Brexit immigration system was also seen as important.

In 2018, as expected, clarity was sought from the UK and EU on their post Brexit trading relationship. In the short term, such clarity would help banks determine if / how their UK operations will be impacted by Brexit, but many recognised that, to a great extent, progress on negotiations is heavily dependent on the EU's position.

Respondents were split on what they felt the UK's regulatory environment should be for banks post Brexit. While some sought clarity on what the environment would ultimately look like, a number believed that the UK should commit to maintaining equivalent standards to the EU. Others see Brexit as an opportunity for the country to relax what many see as excessive, over-burdensome regulations. One bank was specific, saying that the Government should ensure that it has a consistent approach in respect of its policies on real estate taxation. Some respondents expressed the need for the country to improve its business environment by looking at successful, business friendly policies used by some Southeast Asian and Nordic countries. A number of banks also said that the UK should take advantage of the opportunities Brexit offers by negotiating independent trade deals with countries around the world.

Some said the Government should continue to expand its small business schemes, since they felt these help to open the overseas market to UK SME businesses.

I think they just need to get an agreement in place and clarify the impact on business. That said, it's in the nature of the EU to negotiate to the wire, so it's quite possible that this may not happen, as it is outside the control of the UK Government

More decisive action by the UK Government. The purpose of Brexit was to enable the UK to be independent like Switzerland.

What other significant issues have you been discussing with colleagues in relation to Brexit?

In 2017, the future of London as a major international financial centre was a key issue, as well as the impact of Sterling's depreciation on banks in the UK.

In 2018, Sterling's depreciation was particularly an issue for banks whose business income is received in a non-Sterling currency such as the Dollar, whilst their costs are in Sterling. The EU's political instability and the Euro's prospects were also mentioned, indicating that there are still concerns from banks regarding these areas.

Some banks have been assessing what actions their clients may take pre Brexit, and the impact this could have on them. Some respondents are discussing how their business models may be affected by Brexit, with topics including the delegation of activities between intra-group entities, the outsourcing of activities in line with the group's global operating model, and business growth opportunities. Banks' timetables for executing their Brexit contingency plans have also become increasingly important, with some considering what collateral may be required in their EU27 entities.

However, some operations in the UK are less affected by Brexit and see more of an indirect impact than a direct one. This is especially the case where banks' clients are mainly based outside the EU, meaning that their exposure to changes to the EU passport, for example, is not as big an issue as for those whose focus is on the EU market.

> None – Brexit really has little effect on the operations of smaller non-EU banks.

A number expressed their concern at the UK's current level of taxation, with the 8 per cent bank corporation tax surcharge for profits above £25 million being a particular issue. The policy is viewed as an overtly aggressive levy, with one respondent saying that the Government should consider introducing a tiered system which would help reduce its adverse impact on banks' capital growth and, therefore, lending.

> ...The current taxation environment is aggressive, in particular the extra corporation tax where profits rise above £25million.

Are there any areas or policies which may lead your bank to reassess its presence in the UK?

In 2017, the vast majority of banks were committed to the UK, regardless of Brexit, though some within this majority said that the scale and size of their operations may be affected by political decisions made in the UK.

In 2018, most banks remain committed to the UK, regardless of Brexit. Many have a significant client base in the UK and see the country as a key market. A number have gone further and are implementing a strategy which continues to grow the UK business, while others said that the UK is, and will remain, an attractive global financial centre, regardless of Brexit. It would therefore take a significant policy shift to lead these banks to reassess their presence in the UK.

> Our business is comparatively simple and can be done here. The UK continues to be an attractive place to do business from a tax and regulatory point of view. London is an incomparable financial metropolis and will be for some time even in the downside case.

> No. We are committed to our business in the UK and have a strategy to continue to grow that business.

Some banks' expansion plans include focusing on countries outside Europe and, given various non-European jurisdictions have what are seen as taxation and cost advantages, it may become increasingly attractive in the future for banks' UK operations to be relocated to these non-EU entities. Respondents also felt that the current regulatory burden for banks is affecting the UK's attractiveness relative to other countries. If the UK continued increasing banks' regulatory requirements, this would limit their profitability, and raise further questions as to the UK's competitiveness in the future. There was also concern, from one bank, as to what policies a Labour Government would pursue and their impact on banks operating in the UK.

> We have no current plans to relocate away from the UK, however, as expansion plans progress in countries outside of Europe, it will become increasingly attractive to place some operations away from the UK given the cost and taxation advantages.

In your engagement with the PRA and the ECB (where applicable) to date (a) what has been helpful and (b) what could they do better?

There was a mixed response to this question as many UK incorporated subsidiaries have little, if any, dialogue with both the PRA and ECB on Brexit. Engagement with the PRA was generally viewed as positive, including a willingness, when required, to engage and discuss banks' Brexit plans.

> PRA [are] generally helpful...We have not engaged with the ECB, but with the local regulator in the country we propose to have our branch. They have been extremely positive, offering to fast track our application once approved by the PRA

However, a small number of concerns were raised and some areas where respondents felt the PRA could improve include:

- A shorter response time-frame when responding to banks' queries; however, respondents recognised that, given the political nature of Brexit and that some replies to their questions may depend on stakeholders beyond the PRA, it may prove challenging for the PRA to reduce its response time

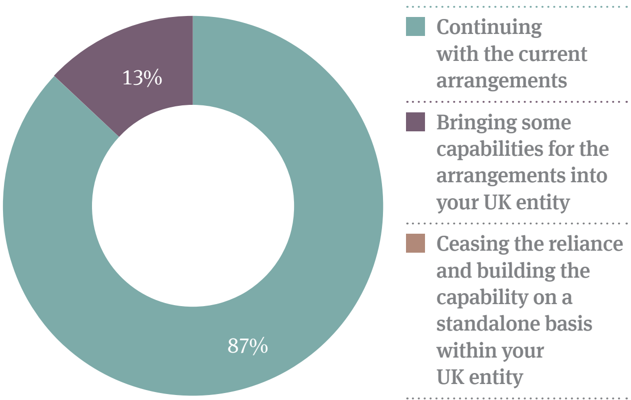
- Providing, where possible, more clarity in its responses to banks' queries, though, as mentioned above, banks recognised that given the current political climate and that answers to queries may be outside of the PRA's remit, then providing further clarity may be challenging

Many banks have had little, if any, engagement with the ECB on Brexit, although for the small number of respondents who have, the ECB has been helpful. One bank called for both the PRA and ECB to reconsider requesting that banks plan for multiple Brexit scenarios, as they felt the political uncertainty rendered the exercise unhelpful.

> Reduce Brexit planning multi-scenarios (unhelpful given lack of political clarity).

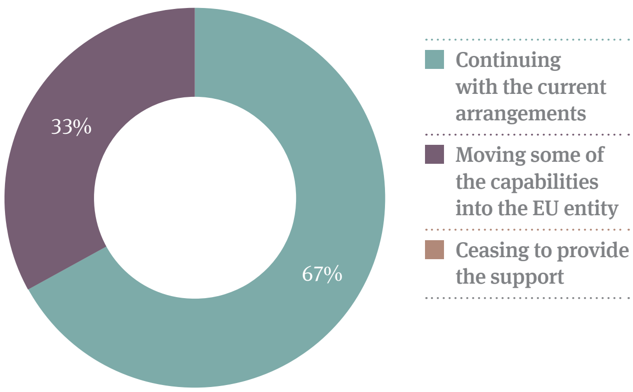
> Not at this stage but if overtime the UK loses its global financial presence and influence it would be natural to consider if the UK is a suitable location to operate a global financial business

Where you have relied on group entities/head office outside the UK to provide support for the UK entity (e.g. human resource, IT systems, governance and oversight, middle office, or back office, etc.) are you considering:



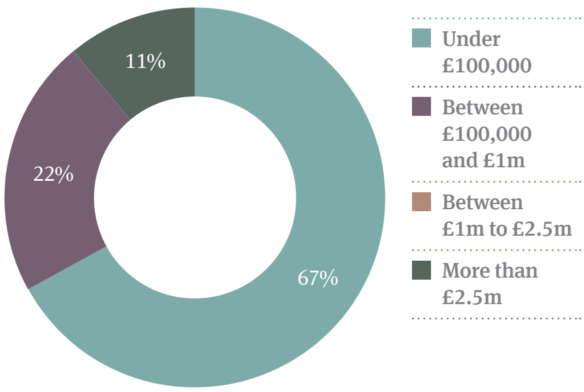
Almost 90 per cent of respondents stated that they are considering continuing with their current arrangements. Only a very limited number (13 per cent) are considering bringing some of their capabilities for the arrangements into the UK entity, with none considering ceasing the reliance on their group entities/head office and building the capability on a standalone basis within the UK entity. Unlike some EU branches which are considering a number of these options, each UK incorporated subsidiary is only considering one option.

Conversely, where the UK provides support for onshore EU business, are you considering:



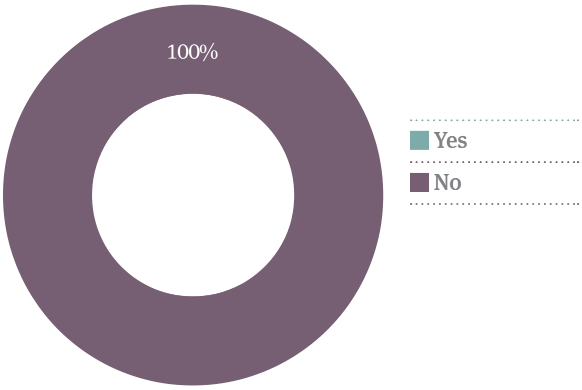
The majority (67 per cent) of respondents are considering continuing with the current arrangements. Only a third (33 per cent) are considering moving some of their capabilities into their EU entity, while no bank selected the third option

If you could quantify the total, current, cost of preparing for Brexit across your banking group, would it be:



The majority of banks (67 per cent) stated that their costs are under £100,000. Only 22 per cent said they are between £100,000 to £1 million, while just over one in 10 selected more than £2.5 million. This is likely reflected by a number of UK incorporated subsidiaries which see that Brexit will not have a sizeable impact on their UK operations.

Is this more than you originally anticipated?



All respondents, regardless of the size of their UK operations, said that their total current cost of preparing for Brexit has not been more than originally anticipated. This contrasts sharply with EU branches, where 40 per cent have seen their costs being more than originally anticipated. Once again, this cost differentiation is likely reflected by various UK incorporated subsidiaries seeing Brexit as having less of an impact on their UK operations.

The Association of Foreign Banks' Position Statement on the foreign banking sector's key Brexit issues

Association of Foreign Banks

UK's post Brexit trading relationship with the EU

Many foreign firms base themselves in the City to passport into the other 27 EU member states; however, formal passporting rights under relevant EU legislation will no longer be available when the UK leaves the Single Market. This means that other post Brexit UK-EU trading structures, such as 'Mutual Recognition' (where market access is based on regulatory outcomes rather than prescriptive regulations), are being considered by the UK Government as a possible replacement. Even though the UK and EU have agreed, in principle, to a 'standstill' transition period which would provide firms with more time to prepare for the UK's exit, banks still await clarity and further detail from the UK and EU as to what their post Brexit trading relationship will be.

As firms prepare for the UK's exit in 2019, European banks have recently been submitting their branch licence applications to the PRA to become a third country branch. Some have also been considering whether they will need to repatriate some of their UK operations to their home state/another EU 27 country to ensure that they can continue to service their EU clients post Brexit. A number of non-European banks have been assessing whether they need to establish an entity in an EU 27 country, if they do not already have one. This will require authorisation from the local regulatory authority, and some have already started this process. Non-European banks which already have an entity in an EU 27 state have been considering whether they will need to increase their presence in those entities. Brexit will therefore affect foreign banking entities across the EU, not just in the UK.

Recruiting staff from overseas

One of the UK's key strengths is its ability to attract talent from across the globe, whether from the EU or outside it, providing foreign banks in the UK with a wide and diverse talent pool. The UK-EU agreement earlier this year on EU citizens' rights in the UK post Brexit has provided a great deal of certainty for those EU citizens currently in the UK.

The short-term focus more recently has turned to whether banks are able to recruit the talent for their UK operations; this affects both European firms, many of which employ nationals originating from their home state, and non-European firms, where the UK's Tier 2 Visa requirements limit the scope of employing nationals from outside the EU. Longer-term, banks seek clarity as to what the UK's post Brexit immigration system will be; this is not just in respect of EU nationals, but the wider immigration system in general. For example, if the UK secures control of its immigration policy regarding EU nationals post Brexit, could the Government's aim to reduce net migration overall into the UK lead to further restrictions being placed on non-EU nationals? This shows that the current immigration debate in the UK is not limited to the UK's approach to EU-citizens, as any changes could affect the approach taken with non-EU citizens as well.

Business confidence and conducting business in the UK

During the past 12 months, banks have been assessing how Brexit will impact their customers, with a key area of focus being contractual continuity, where banks have undertaken significant work so that disruption to banking relationships and investment decisions are mitigated as much as possible.

In respect of investment in the UK by foreign banks, there is a mixed picture. Some continue to expand their presence in the UK regardless of Brexit, while there are suggestions that others have held back or reduced the level of investment in the UK given the uncertainty around the UK's post Brexit relationship with the EU. Overall, however, much of the focus since the 2016 Vote has been on the negative implications that Brexit will have on business, with less time being given to potential opportunities such as the ability for the UK to negotiate bilateral trade arrangements with non-EU countries.

Political instability in the UK

There has been increasing focus over the last 12 months on the stability of the UK Government and its strength to negotiate with the EU. Due to the sequencing of the Brexit negotiations, the emphasis since Article 50 was triggered has been on the withdrawal agreement, with very limited time spent on the UK-EU post Brexit trading relationship. Even when the negotiations move onto the future relationship, the increasing cross-party opposition in parliament and the perceived fragility of the Government may create doubts as to whether the Government can realistically achieve the type of relationship it seeks with the EU.

Post Brexit, the UK will need to conduct trade negotiations on a significant scale with non-European countries – something it has not done in almost 50 years. This will require the Government to have the stability, strength and expertise so that it can take full advantage of the opportunities which lie ahead for the UK outside of the EU.

About Norton Rose Fulbright

Norton Rose Fulbright is a global law firm. We provide the world's preeminent corporations and financial institutions with a full business law service. We have more than 4000 lawyers and other legal staff based in more than 50 cities across Europe, the United States, Canada, Latin America, Asia, Australia, Africa and the Middle East.

Recognised for our industry focus, we are strong across all the key industry sectors: financial institutions; energy; infrastructure, mining and commodities; transport; technology and innovation; and life sciences and healthcare. Through our global risk advisory group, we leverage our industry experience with our knowledge of legal, regulatory, compliance and governance issues to provide our clients with practical solutions to the legal and regulatory risks facing their businesses.

Wherever we are, we operate in accordance with our global business principles of quality, unity and integrity. We aim to provide the highest possible standard of legal service in each of our offices and to maintain that level of quality at every point of contact.

About the Association of Foreign Banks

The Association of Foreign Banks (AFB) is a trade body which represents the interests of the foreign banking sector in the UK to industry stakeholders including the Government, regulatory bodies, and financial services organisations. Founded in 1947, the AFB today has around 200 international banking group members, representing about 80 per cent of the UK's foreign banking market, providing financial services through branches, subsidiaries, and representative offices in the UK.

The AFB's membership includes some of the world's largest banks; their UK firms, and affiliated organisations range from the largest with several thousand staff to the smallest with ten or less staff. Foreign banks engage in a wide range of banking and investment business activity in the UK, primarily in the wholesale banking markets.

As a trade body, the AFB represents the views of all foreign banks in the UK and ensures that their views are represented to policy makers. The AFB works with the foreign banks to ensure that they have the opportunity to engage in and help shape the AFB's activities with the industry's key stakeholders.

In addition to representing the sector, the AFB also provides a platform for foreign banks to discuss key industry topics and share information which may be of mutual benefit to the sector. This helps to ensure that the foreign banks continue to thrive in the UK and that London's standing as a major global financial centre continues.

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