

Brexit: Challenges for Banks and Supervisors - A Supervisor's Perspective

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IMFS Working Lunch

Potential cliff effects

Market access after lapse of EU-Passport

- **licensing requirement**
- reshuffle business allocation inside a group

Contract continuity

- contracts remain in force
- winding down or licence required

Financial Market Infrastructur

- securities settlement systems; **central counterparties (CCP)**

Co-operation between authorities

- MoU

Equivalence decision

- financial regulation, data protection ...

Macroeconomic impact

- to ensure the proper functioning, stability and integrity of the German financial system
 - reliable and professional partnership
 - minimising the operational risk with respect to and for institutions applying for a banking licence in Germany
 - compliance with existing prudential & conduct framework
 - honouring the institutional division of tasks in the SSM
 - taking into account banks' well established risk management and servicing processes and demanding it for the new EU27 entity
 - in good co-operation with EU 27 and UK authorities

...resulting in 3 key questions and several responses ...

How can we avoid
arbitrage?

- Raise issue at EBA and SSM level
- SSM Brexit WG
- BaFin internal regular information exchange

How can
banks/competent
authority achieve
finalization of approval
processes in time?

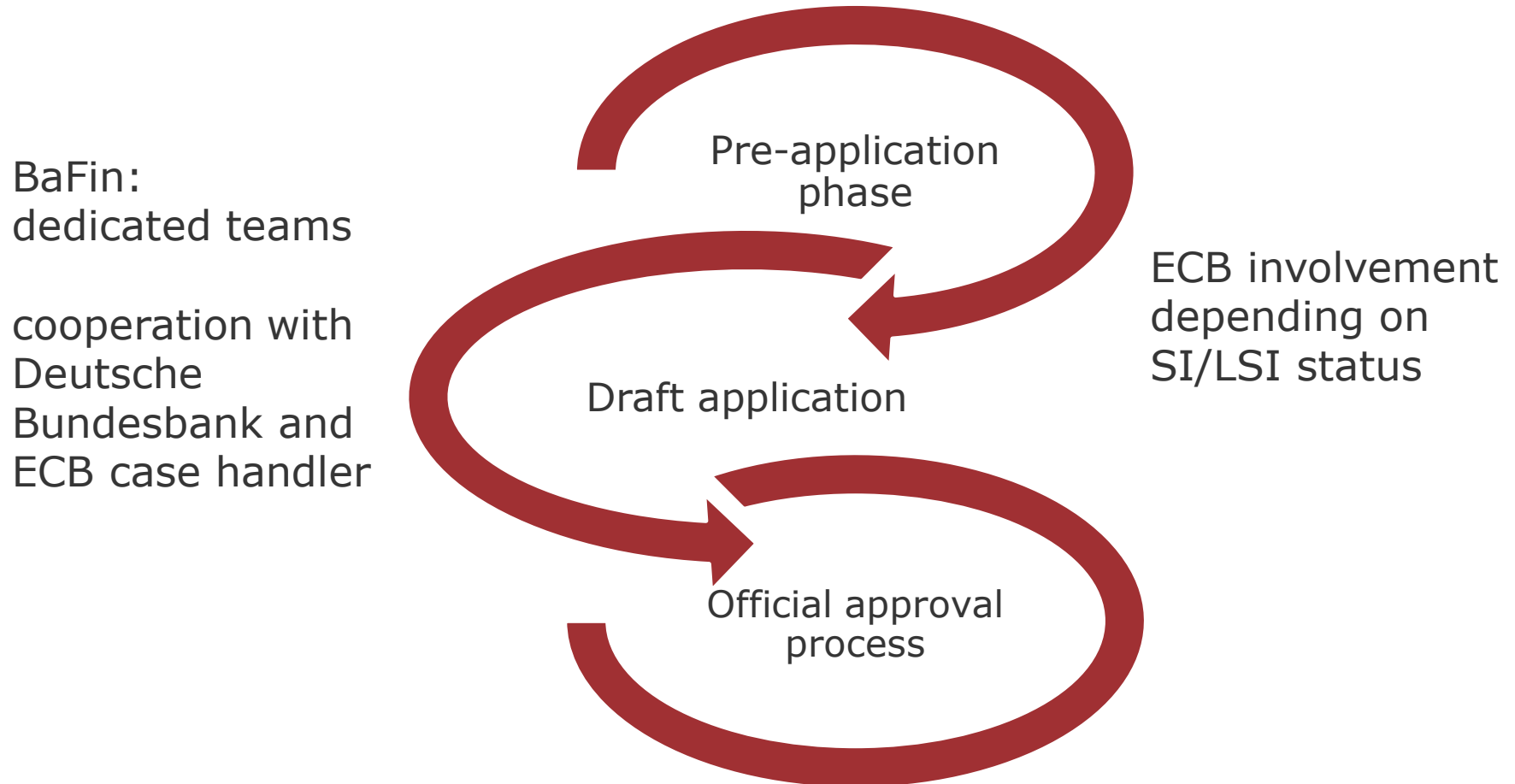
- Transparency about requirements
- Form dedicated teams at BaFin
- Regular exchange about status of project

What are the operating
models / governance
arrangements we want to
be in place in which time?

- SSM Brexit policy fiches
- Accepting build-up phase

Authorisation is an SSM common procedure

Quasi-licensing if change of business model / scope



Operating model

Frequent issues of discussion

No letterbox

- Adequate management & control functions
- staffing

Booking model

- Remote booking
- Intragroup back-to-back hedging
- Split hedging

Dual hatting

- Cross border
- Domestic

3rd country branch in UK

- Passporting back to EU 27?
- Providing service functions

Internal Risk Models

– Phased Model Approval Process

Brexit → approval decision under time pressure

Keeping supervisory balance:

- Equal treatment, maintaining level playing field
- Being reasonable, making allowances for Brexit being an external effect

Efficiency Measures

- Utilizing preparatory pre-application phase
- Leveraging on track record
- Targeted on-site phase
- Minimum requirements

Prudence

- “temporary tolerance confirmation – non objection declaration”
- Conditions and obligations
- Floors/capital add-ons
- Restricted scope of model usage
- Follow-up audits + intense model monitoring

Uncleared contracts

- Need for a licence?
- Phasing out
- Lifecycle events
„Repapering“

Cleared contracts

- 3rd country CCP needs to be recognised by ESMA [Art. 25 EMIR]
- Change of CCP necessary
- Increase in capital requirements due to CRR

How well prepared are we?

Overarching issue is the still missing agreement

- Outgoing banks
 - EU 27 banks with a physical presence in UK have or are going to apply for a license
- Incoming banks
 - Licensing processes or corresponding procedures although being late can still be finalized in time
- No significant impact on funding to be expected
- Co-operation agreements waiting for Brexit agreement
- Contract Continuity and CCP might need some legislative measures in addition to private solutions