
Press release

AFME sets out challenges of Brexit implementation for wholesale banking

5 April 2017

Following the UK Government's decision to invoke Article 50, AFME has today published a paper outlining the implementation issues facing wholesale banks, their clients and supervisory authorities.

The paper, entitled "**Implementing Brexit: practical challenges for wholesale banking in adapting to the new environment**", assembles the available evidence to help Europe's policymakers reach an informed view of the potential challenges in Brexit implementation for wholesale banking and capital markets and how best to mitigate the risks arising to financial stability and market functioning of the two-year timeframe.

Simon Lewis, Chief Executive at AFME, said: "Financial stability and market efficiency must be safeguarded during the Brexit implementation process and thereafter. These are essential 'public goods' for the European economy. Given the tight Brexit timescale dictated by Article 50, market participants and regulators are already having to consider important decisions amid considerable uncertainty. Building on our February study with PwC on operational complexity, this paper seeks to provide Europe's policymakers with insights on the range of implementation challenges facing Europe's capital markets."

Main implementation challenges outlined in the paper:

Implementation challenges for clients:

- Brexit creates significant uncertainty for clients and counterparties and the potential for disruption to essential contracts; particularly for clients holding (or planning to hold) long-dated contracts such as swaps, loans or cross-border revolving credit facilities.
- After Brexit, a bank which had signed a contract may no longer have the required approvals to lawfully perform the services it had committed to, or can no longer access market infrastructure.
- There is particular concern about 'cliff edge' risk to the operations of UK central counterparties, which currently manage more than a quarter of global clearing activity.
- There could be an impact on capital raising as EU27 companies may be uncertain whether they can or should rely on a single European hub for ECM and DCM services.

Implementation challenges for supervisory authorities:

- Brexit will require supervisory capacity to follow a changing pattern of markets and banking business. In much of the EU27, expertise in markets supervision is in relatively short supply.
- There will be a major challenge for the SSM and national authorities to ensure that sufficient resources and expertise are in the right place to provide timely delivery of licence and model approvals and maintain or supervise rigorous, common standards for wholesale markets business.
- New mechanisms are also required for cross-border regulatory cooperation, avoiding fragmented capital markets and ensuring financial stability.

Implementation challenges for wholesale banks:

- For international banks based in the UK, the main operational impacts of restructuring for Brexit are: establishing or expanding entities in the EU27; obtaining necessary licensing and approvals; securing the right people and premises; building technology; and integrating with new market infrastructure.

- A recent study by PwC for AFME¹ found considerable variation in the required scope and scale of transformation activities across different banks. Overall the evidence that suggests that a 3-year implementation period will be required following the completion of the Article 50-exit negotiations.
- The eventual plans that banks will implement depend heavily on the requirements set by regulators and supervisors, adding a dependency and additional source of variability to the process.

Key recommendations from AFME

Given the scale, complexity and risk of the Brexit implementation challenges for wholesale banking, AFME is highlighting the need for significant support from policymakers and regulators comprising three elements: coordination; flexibility; and time.

- **Coordination:** Market functioning and the implementation process would benefit greatly from coordination by EU27 and UK policymakers in four key aspects: legal certainty, financial stability risks, market capacity and supervisory policy.
- **Flexibility:** Policymakers should be prepared to provide flexibility where it is necessary to support successful implementation of any change programs by the wholesale market participants, including on contracts, entity approval and licensing, as well as model approval.
- **Time:** Transitional arrangements could comprise: a bridging period to avoid short-term disruption until the new trade relationship between the UK and the EU27 is ratified, should that prove unachievable within the two-year Article 50 period; and an adaptation period, following the bridging period, which would enable phased adjustment to the new trade relationship. The sooner that a phasing-in period is confirmed then the smoother the adjustment process will be.

The paper is available to download from the [AFME website](#).

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About AFME:

1. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu.
2. Follow us on Twitter [@news_from_afme](https://twitter.com/news_from_afme)

¹ PwC report: (2017): Planning for Brexit – Operational impacts on wholesale banking and capital markets in Europe