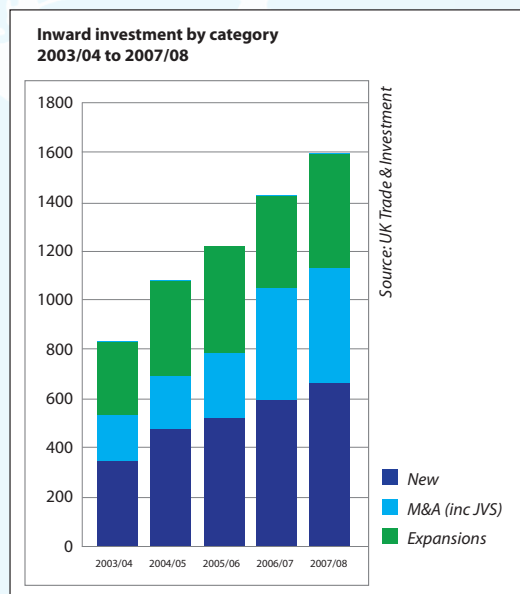


Doing business in the United Kingdom

A springboard for global growth

Consisting of four nations, England, Wales, Scotland and Northern Ireland, the United Kingdom is a world renowned financial and business centre. A member of the European Union since 1974, the UK has retained its own currency, the pound sterling, and talks of adopting the euro appear to have subsided as monetary policy has turned to addressing the causes and effects of the current economic crisis. The UK authorities have been proactive in providing support for the country's ailing banking system, cutting interest rates to 0.5%, their lowest ever level, and embarking on a quantitative easing programme.

In the World Bank's 2009 survey comparing regulation across global economies, the UK ranks 6th out of 181 countries for ease of doing business worldwide. The UK operates a business-friendly regulatory environment and has attracted significant amounts of foreign direct investment in recent years (see diagram).



Competition is actively encouraged in the UK market. This is particularly true within the financial services sector, and consequently the UK has grown to become the location of choice for overseas financial institutions and investors. The volume of transactions being carried out in the UK each year also illustrates the leading position of the UK financial services sector, with 53% of world foreign equities turnover and 70% of global bond trading taking place in the UK in 2007.

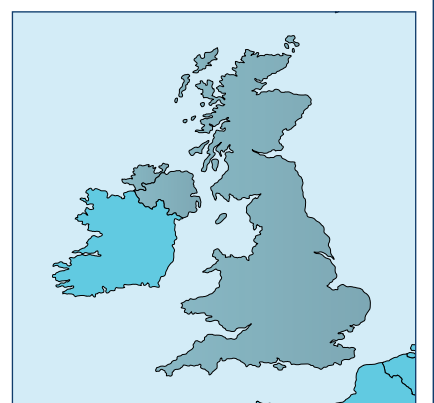
The UK is an ideal business location for companies looking for both a high-growth and high-value economic environment. As a global leader in innovation, the UK provides

the benefits of a world-class reputation and well-forged business links with other major global economies.

Legal and regulatory requirements

The UK regulatory environment is specifically designed to be pro-business and is in many ways less strict than the regimes operated by other European countries:

- As the UK's central bank, the Bank of England (BoE) is responsible for the overall stability of the UK's financial system and one of the statutory responsibilities of the bank is setting interest rates. There are no central bank reporting or reserve requirements in the UK.
- Financial services in the UK are regulated by the single statutory regulator – the Financial Services Authority (FSA). The FSA's role as legislator has been significantly reduced by the introduction of EU Single Market Directives – in particular the Markets in Financial Instruments Directive (MiFID), which was implemented on 1st November 2007.
- Companies operating in the UK must adhere to both general company and industry-specific regulations. One notable regulation is the Data Protection Act 1998, which governs the protection of personal data in the UK. When establishing a business in the UK, it is likely that it will be necessary to obtain a Data Protection licence.



Key facts

Geography and society

- **Population:** 60.1 million
- **Population growth rate:** 2.7%
- **Countries:** England, Wales, Scotland and Northern Ireland
- **Time zone:** GMT/ CET-1
- **Land boundaries:** Ireland (360km)
- **Coastline:** 12,429km

Economy

- **Currency:** British pound (GBP)
- **GDP per capita:** £23,500
- **FX regime:** free float
- **Member of:** FATF, IGTA, WTO
- **Fiscal year begins:** 6th April
- **Financial capital:** London
- **Average days to start a business:** 13

History and politics

- **Government type:** constitutional monarchy
- **Head of state:** Queen Elizabeth II
- **Prime Minister:** Gordon Brown
- **Legal systems:** English law, Northern Ireland law and Scots law

Country credit rating

- AAA

Trading partners

- **Top import sources:** Germany, US, China, Netherlands, France
- **Top export destinations:** US, Germany, France, Ireland, Netherlands

Country Profile

- UK company law is set out in the Companies Act 2006 (a revision of the 1985 version), which is due to come into full force in October 2009.
- UK accounting standards are set by the Accounting Standards Board (ASB) and apply to all companies operating in the UK. The UK's ASB is working closely in conjunction with the International Accounting Standards Board to bring UK GAAP in line with IFRS.
- There are no exchange controls in operation in the UK, and no authorisation is required either to invest in the UK or to export funds from the UK. However, money laundering is closely monitored under various legislatures such as the Money Laundering Regulations 2007, the Proceeds of Crime Act 2002 and the Terrorism Act 2000.
- According to UK trade regulations, goods exported from the UK must be cleared by UK customs but most services can be both imported and exported freely.

Taxation framework

Compared to most other European countries, the level of taxation in the UK is relatively light.

- Corporation tax is levied on company profits, ie trading income and capital gains, on a tiered basis:

Corporation tax	Profits (£)	Year ended 31 st March 2009	Year ended 31 st March 2008
Full rate	Over 1,500,000	28%	30%
Upper marginal rate	300,001	29.75%	32.5%
Small companies rate	0-300,000	21%	20%

- The UK operates two systems of annual self-assessment for companies, whereby SMEs have nine months after the end of the accounting period to pay their tax and larger companies (that have profits in excess of £1.5m) pay in quarterly instalments, two of which must be paid within the relevant tax year.
- Foreign companies operating a branch have been subject to revised tax legislation since 1st January 2003. Under this new legislation, a branch is treated as if it were a separate enterprise operating in the UK. This means that the deduction of interest that can be claimed for tax purposes will be reduced.
- Dividends received by a UK company from a foreign company will be subject to corporation tax.
- A withholding tax of 20% is applicable on dividends paid to non-residents by REITS (Real Estate Investment Trusts). The same amount of withholding tax is also levied on interest paid to non-residents, unless subject to a tax treaty or exempt under the EC Interest and Royalties Directive. Royalties paid to non-residents are subject to 22% withholding tax, unless the above exceptions apply.
- Stamp duty is charged on the transfer of UK shares at 0.5%. Stamp duty is also payable on property at rates on a sliding scale of 0% - 4%, depending on the value of the property.
- The UK government lowered its standard VAT rate from 17.5% to 15% on 1st December 2008 as an incentive to boost retail sales. The cut will remain in force until 31st December 2009. Companies with a turnover in excess of £67,000 (2008) are liable to register for VAT purposes. The UK does not charge VAT on basic goods such as food, transport and children's clothing.
- Transfer pricing rules in the UK are extensive and apply to transactions with both domestic and foreign companies. Transactions must be carried out at arm's length, although SMEs are now exempt from this requirement, except in specific circumstances.

Treasury activities

Local banking sector

The UK's banking sector has been hard hit by the financial crisis, and has had to lean on the Bank of England, the UK's lender of last resort, for support against toxic assets. Under the UK Banking Act 2009, which came into force on 21st February 2009, the BoE can provide support to financial institutions in distress without disclosing its actions publicly. This provision is intended to prevent a 'run' on an ailing institution, ie to stop customers and shareholders from withdrawing all their funds. The Act also guarantees that eligible depositors are insured up to the value of £50,000, should a financial institution fail.

Payments

The UK's trade association for payments and clearing is APACS (Association of Payment Clearing Services), which was set up in 1985. In March 2007, however, the UK Payments Council was established, and tasked with setting a strategy for UK payments. The Payments Council initiated a public consultation on a National Payments Plan (NPP) for the UK at the end of 2007. The aim of the plan is to improve the existing domestic payments framework within the UK as well as adopting wider developments such as the Payment Services Directive (PSD) and the Single Euro Payments Area (SEPA). The consultation on the plan covered all major payment instruments in use in the UK, namely:

- **Cash.** Approximately two-thirds of personal transactions are currently carried out using cash and estimates suggest that by 2016, 45% of personal payments will still be made in cash.
- **Cheques.** The usage of cheques has declined significantly in the UK in recent years, from 9.5 million users in 2000 to 5.7 million in 2008. Under the NPP the Payments Council is aiming to eliminate cheques altogether.
- **Direct debits.** Over 50% of regular bills in the UK are paid by direct debit and discounts are frequently offered for paying by this method. Development of a business-to-business direct debit scheme is being investigated under the NPP.

Enhancing and expanding cross-border payment capabilities

Xafinity Paymaster

London-based Xafinity Paymaster, a premier provider of pensions administration, collections, and payments, handles more than £2 trillion in transactions annually for 150 UK public sector and private organisations.

The challenge

With an increasing number of UK pensioners spending their retirement years in various destinations around the world, Xafinity Paymaster (Xafinity) needed to find a faster, more efficient way to deliver pension payments to retirees in their currency of choice. Each year, Xafinity administers approximately £10 billion in payments to two million pensioners, more than 30,000 of whom now request payments in foreign currency. Looking forward, an estimated three million UK pensioners will be living abroad by 2050.

As a third-party pension administrator, Xafinity's cross-border payment capabilities are determined in large part by the global reach, payment processing, and data management capabilities of its banking partner. Xafinity approached Citi to help it expand and streamline its foreign currency payment offerings and gain better access to, and control over, critical data related to its cross-border payments.

The solution

Recognising the combined potential of Citi's global reach, together with its technological capabilities, including WorldLink® Payment Services and the CitiDirect® Online Banking platform, Xafinity chose Citi to create a cross-border payment solution that would both enhance its current capabilities and enable it to realise new business opportunities.

As one of the most comprehensive cross-border payment portfolios in the marketplace, WorldLink® provides Xafinity with the ability to make electronic or paper-based payments in 180 countries and 137 currencies. The flexibility and ease of integration of the Citi solution enabled Xafinity to migrate cross-border payments to 24,000 pensioners to the new platform smoothly in less than three months.

This transition was invisible to payment beneficiaries and required no changes to Xafinity's host system. In addition, straight through processing resulted in faster execution of payments, in some instances 20% faster. One-stop web-based access to transaction information has also given Xafinity more control over both its transactions and information about them. Whereas in the past Xafinity relinquished much of this control to its previous payment provider, it can now access real-time transaction information and reports, allowing the company to provide better service to its customers and more timely responses to pensioners' enquiries about the status of their payments.

The benefits

By partnering with Citi for its cross-border payment needs, Xafinity is reaping the benefits of increased automation, reliability and security. Moreover, the company can leverage its new flexible and expanded cross-border payments capabilities to both grow its business with existing clients and attract new ones. David Nunn, banking service director at Xafinity describes Citi's solution as "a market-leading international payments service that is fully integrated with the services that we offer to public and private sector clients."

- **Direct credits.** Frequently used by businesses to pay employees and suppliers, direct credits have been significantly improved by the introduction of the UK Faster Payments Service in 2008, enabling funds to be transferred within hours rather than days.
- **Debit/credit cards.** Plastic cards are extremely popular in the UK, with over 90% of the adult population having at least one debit or credit card.
- **Contactless and prepaid cards.** This is a growing technology in the UK, which has been boosted by success of stored value cards such as Transport for London's Oyster card. Business use of such technology is slowly increasing.

Clearing and settlement

There are four main inter-bank clearing systems in the UK. A two tier-access structure is in operation in each of these clearing systems, with direct settlement members and indirect participants. Settlement between direct members is effected using accounts held at the Bank of England.

- **CHAPS.** The UK's sterling-based RTGS for urgent, typically high-value wholesale payments. There is no upper or lower limit on the value of the payment and the system operates between 0600hrs and 1600hrs.
- **UK Faster Payments Scheme.** Launched on 27th May 2008, this 'near real time' clearing system is operated by CHAPS Co and allows both businesses and consumers to generate or receive payments at any time of day. Payment values are currently restricted to £10,000 for immediate payments and £100,000 for standing orders. Funds are normally made available to the beneficiary within two hours and in January 2009, the system processed 18,679,000 transactions totalling £6,208,000,000.

Country Profile

- **Bacs.** An ACH used to process regular bulk electronic payments and collections. Bacs operates on a three-day processing cycle and also offers a direct credit service for euro payments within the UK. Transactions are subject to a value limit of £999,999,999 and in the 12 months to 31st January 2009, Bacs processed 5,656,620,000 transactions totalling £3,937,323,000,000.
- **Cheque and Credit Clearing.** This covers cheques in both sterling and euro drawn on banks in England, Scotland and Wales. Cheques drawn in Northern Ireland are processed locally. The clearing cycle for cheques in the UK is three working days.

Cash management

Cash management products in the UK are highly sophisticated, helped by the fierce competition between providers. Under UK regulation, both physical and notional cash pooling are permitted between residents and non-residents, and multilateral netting is allowed, as are most common cash management techniques. Corporate bank accounts in the UK are usually current accounts and interest is generally paid on these, but at a low rate. Both residents and non-residents are eligible to open sterling and foreign currency accounts. Overdrafts can usually be obtained through agreement and are commonly used as a source of short-term funding, though fees are of course applicable.

The main short-term investment instruments available in the UK market include:

- **Commercial paper.** Usually issued by large corporates as a means of raising funds, with maturities up to 12 months. Investor appetite has however declined significantly as a result of the financial crisis.
- **Certificates of deposit.** Negotiable certificates of deposit (CDs) allow investors to place money at market rates, generally for a period ranging from one week to five years. CDs are fully tradable but the minimum amount that can be invested is usually £50,000, with increments of £10,000 thereafter.
- **Treasury bills.** Issued by the UK Debt Management Office, usually with a maturity of no longer than 91 days.
- **Money market funds.** These aim to provide an attractive rate of return on short-term deposits, through a diversified portfolio of investments. Many of the UK's larger money market funds have seen significant inflows of investment since the financial crisis began as investors seek to mitigate risk.

Medium-term notes, with a maturity usually ranging between five and ten years, floating rate notes and structured products are also commonly used investment instruments in the UK.

Key websites

Government website: www.direct.gov.uk

Bank of England: www.bankofengland.co.uk

Tax authorities: www.hmrc.gov.uk

Financial Services Authority: www.fsa.gov.uk

UK Statistics Authority : www.statistics.gov.uk

Accounting Standards Board: www.frc.org.uk/asb/

London Stock Exchange : www.londonstockexchange.com

British Bankers' Association : www.bba.org.uk

Citi's capabilities in the UK

Citi was established in the United Kingdom in 1902, when it became the first foreign bank to set up a branch in London. In 1984, Citi became the first overseas financial institution to join the UK clearing system. Today, Citi is one of the largest foreign banks operating in the United Kingdom and holds a pre-eminent position in the London foreign exchange markets. With around 11,000 employees in the UK, Citi covers the whole range of corporate, transactional, trading, retail and private banking services with London being the regional headquarters for the EMEA region.

One of the six largest users and a direct member of the UK CHAPS payment system, Citi is also a founder member of the new Faster Payments scheme. In addition, Citi is able to provide a full range of Bacs and Cheque & Credit Clearing related services through its strategic partnerships with a local correspondent bank. London is also Citi's hub for its euro clearing services.

In the UK, Citi provides innovative solutions that help corporate, public sector and financial institutions meet their diverse business objectives. It offers liquidity management, investment, payments and receivables products as well as a range of commercial and prepaid card programmes. With its unmatched international network, Citi is a leader in the international payments space and offers a full range of basic and structured Trade Services and Finance solutions.

Citi clients include a large percentage of the FTSE 100 companies and several of the largest public sector entities in the UK to whom they provide advisory, financing, treasury and trade solutions.

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