The Impact of Brexit: What Treasurers Need to Know

22 March 2017
Citi has a strong, diversified footprint in the UK and EEA, through several entities and their branches. Additionally 58% of Citi headcount is already in the EEA.

We are putting a plan in place to address the likely loss of passporting:

- We are hopeful that the UK will be successful in negotiating the continued freedom to provide financial services across national borders, but are preparing for a downside scenario.
- London is and will remain a vital international financial hub for clients from all over the world, not just from the EU.
- It is critical for us to understand how our clients are reacting to Brexit, and any possible changes to their business models.

We are confident that Citi will be able to continue to meet the needs of its clients, regardless of the outcome of the negotiations:

- Brexit was not our preferred outcome, but Citi has significant flexibility and is well positioned.
- We have a significant on-the-ground presence in 21 of the remaining 27 EU states.
- Less than 50% of Citi’s EU employees work in the UK at present.

Citi’s Footprint in the European Economic Area (EEA)

<table>
<thead>
<tr>
<th>Citibank Europe Plc</th>
<th>Citigroup Global Markets Ltd</th>
<th>Citibank N.A.</th>
<th>Citigroup Global Markets Deutschland AG</th>
<th>Bank Handlowy</th>
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<tr>
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<tr>
<td>Ireland</td>
<td>UK</td>
<td>US</td>
<td>Germany</td>
<td>Germany</td>
</tr>
<tr>
<td>CBI, ECB</td>
<td>PRA, FCA</td>
<td>Fed, OCC</td>
<td>BaFin</td>
<td>BaFin</td>
</tr>
<tr>
<td>EEA Branches</td>
<td>20</td>
<td>4</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

1) Iceland and Cyprus (EEA countries with no physical presence) not shown in the map.
Citi is Preparing for the ‘Downside Scenario’

Citi’s Brexit planning is focused on ensuring a continuity of service for our clients under a scenario where the UK will lose its passporting abilities.

**Assumptions**

From 1Q19 the UK will lose its “passporting” abilities within the EEA and be required to operate under a 3rd country regime.

**Objective**

Design and implement a strategy that would allow Citi to continue servicing its clients throughout the EEA with minimal disruption, while optimising operational and financial resources, and maintaining simplicity and transparency for recovery and resolution purposes.

**Priorities**

- Continuity on service to our clients without disruption
- Regulatory Compliance (ECB, US & UK and local Regulators)
- Safety and soundness of controls and processes
- Clarity of models, booking principles and governance
- Capital and Balance Sheet efficiency
- Resolvability

For cash and trade purposes, Citi’s entity footprint across the EEA will not be materially impacted by the loss of any passporting.
Impact Assessment for Corporates

The withdrawal of the UK from the EU may lead to commercial disadvantages due to changes in taxes, regulation and access to the single market.

### Overall Business Impacts

**Trade Partnerships**
- Which countries do you trade with?
- To what extent do you trade with the EU?
- Do you have alternate partnerships that can be leveraged?

**Regulation**
- What regulations do you currently have to adhere to?
- How much dependence does your business have on harmonised regulatory standards in the EU?

**Rules of Origin**
- Do you manufacture in the UK using products sourced internationally?
- How will EU rules of origin impact your business?

**Customs & Certification**
- How will certification requirements change?
- If you are an exporter, what is your cost of compliance of different certification requirements?

**Tariffs and Non-Tariff Barriers**
- What impact will new tariffs have on your business?
- What impact will non-tariff barriers have?
- How will this affect growth and investment?

### Business Impacts That Affect Treasury

**Tax**
- Are there any EU Directives/regulations that currently protect your flows?
- Do you need to establish new operating entities?

**Supply Chain**
- How does the restructure of your supply chain impact your business flows?
- How does this impact your financing arrangements?

**Passporting**
- What impact will loss of passporting have on your intercompany arrangements?
- Did any of the existing Treasury structures rely on passporting?

**Transaction Services**
- How does this impact your banking infrastructure?
- How will centralisation initiatives be impacted?

**Resources**
- Resource allocation for the migration/restructuring of your treasury model?
## Analysing the Impact on Treasury Flows

In the absence of access to EU clearing systems and protection of EU Directives, Brexit will impact those Treasury flows that originate from UK destined for the EU and those that originate from the EU destined for the UK.

<table>
<thead>
<tr>
<th>Possible Consideration</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low Value EUR Flows from UK to EU</strong></td>
<td>As of today, in general SEPA can originate only from EEA based accounts</td>
</tr>
<tr>
<td><strong>Treasury High Value Flows from UK to EU</strong></td>
<td>Transactions originating from UK based EU currency accounts may lose full value protection under the Payment Services Directive and transaction costs may increase</td>
</tr>
<tr>
<td><strong>EU Currency Flows from EU to London</strong></td>
<td>Payments from EU based currency accounts to UK beneficiaries may lose full value protection under the Payment Services Directive and transaction costs may increase. E.g GBP</td>
</tr>
</tbody>
</table>
## Analysing the Brexit Related Tax Impact on Treasury Models

<table>
<thead>
<tr>
<th>Treasury Vehicle Header</th>
<th>Pool Participants</th>
<th>Impacts/Considerations</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Taxation Impact</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Pool Location Impact</td>
<td></td>
</tr>
<tr>
<td>UK EU Non-EU</td>
<td>UK EU Non-EU</td>
<td>No impact</td>
<td>None</td>
</tr>
<tr>
<td>UK EU EU</td>
<td>UK EU EU</td>
<td>No impact</td>
<td>None</td>
</tr>
<tr>
<td>UK EU Non-EU</td>
<td>UK EU</td>
<td>Non-IRD and PD</td>
<td>None as account location does not determine tax residence of account holder</td>
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<td>UK EU Non-EU</td>
<td>Impact from removal of IRD and PD</td>
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Citibank Future State Model for European Cash Management

TTS is dedicated to ensuring the provision of service to our customers and seamless migration, leveraging the strong and diversified footprint across 21 of the 27 EU/EEA states.

Wire transfers in EUR and PSD currencies
- Same currency offering
- Same competitive cut-off times
- Same reporting capabilities

Notional Cash Pooling
- Full fledged Notional Pooling

SEPA transactions
- Capability in 21 EU branches
- Available now

Transition
- Simplified account opening documents
- Dedicated implementation manager
- Automation of process where possible

No/Minimum impact
- Trade Products

UK
Citi Presence EEA Countries (Full Suite of Cash and Trade Capabilities)
- Non-presence EEA Countries (includes Cyprus and Malta)
- Non-EEA Countries
Brexit Timeline

**Events and Political Process**

**2017**
- 25th March Rome Summit: EU Leaders celebrate 60th anniversary of the Treaty of Rome

**2018**
- 1st Jan: Bulgaria takes over Council Presidency
- 1st July: Estonia takes over Council Presidency

**2019**
- 1st Jan: Romania takes over Council Presidency
- 1st July: Austria takes over Council Presidency

**2020**
- 1st Jan: Croatia takes over Council Presidency
- 1st July: Finland takes over Council Presidency

**Beyond**
- 1st Jan: EU Parliament Elections

**Article 50 Exit Negotiations**

- 29th March: A50 served
- 28th – 30th March: UK leaves the EU
- 16th March: A50 Bill receives Royal Assent
- 7 May: UK Parliament Elections

**EU/UK future relationship agreement negotiations?**

- Autumn 2018/Spring 2019: Possible Scottish Independence Referendum?

**Transitional/implementing arrangements?**

- 3 Nov: US Presidential Election

**Future Bilateral FTAs?**

- May: Queen’s Speech – Great Repeal Bill included?
- 15 March: Dutch Parliamentary Elections
- 23 April & 7 May: French Presidential Election

**EU legal framework still applies to UK**

- EU legal framework will not apply to UK, unless some form of agreement reached
Brexit: UK to Leave UK Single Market

In Lancaster House speech Prime Minister set out 12 objectives in the forthcoming negotiations, confirming that the UK will exit the Single Market. Limited further detail given in Brexit White Paper

Hard Brexit Confirmed

- Theresa May confirmed that UK will leave the EU’s Single Market.
- Rejected being "half-in, half-out" of the EU, signalling UK is heading for a clean break in 2019.
- Will seek to agree a “new, comprehensive, bold and ambitious free trade agreement” with the EU.
- Aims to leave most of Customs Union but retain ability to import and export goods unimpeded by tariffs and customs checks.
- Will take full control of the UK’s borders and immigration policies.
- Will remove the UK from the jurisdiction of the European Court of Justice (ECJ).

A Great Global Trading Nation…

- UK Govt committed to building trading relationships with countries beyond EU - part of a “global Britain” strategy.
- Estd Dept for International Trade to sign new FTAs.
- Exiting elements of the Customs Union enables UK to set its own tariffs at the WTO.
- President Trump raised prospect of US UK Trade deal
- Welcomed by Prime Minister May: “I look forward to pursuing talks with President Trump and his new administration about a new UK-US free trade agreement in the coming months.”
- But can negotiations begin before Brexit – 2019?
- Terms likely to be weighted in US favour – although US keen to demonstrate support for UK & bilateralism.

Article 50 Bill

- A50 bill finally passed through both Houses of Parliament unamended on 13 March.
- Lords amendments on rights of EU citizens and a meaningful Parliamentary vote on the future. UK/EU deal were overturned by the Commons.
- UK Government have now confirmed they will serve Article 50 Notice on 29th March, in time to meet PM’s end of March deadline.

Financial Services?

- May heeds industry calls to avoid cliff edge: “a phased process of implementation … might be about the future legal and regulatory framework for financial services.”
- But does it equal ‘transition’?
- Exit from Single Market likely to mean loss of passporting
- But proposed May wants FTA to include “the freedom to provide financial services across national borders”
- Could this be based on enhanced equivalence?
- Does Barnier want a special deal?
  “There will need to be work outside of the negotiation box … in order to avoid financial instability.”
**Brexit: The Next Steps and Implications for the United Kingdom**

As the Prime Minister prepares to serve Article 50 on 29th March and pass legislation to prepare for life outside the EU, nationalists in Scotland & Northern Ireland look to a future outside the UK

### Beginning of negotiations

- Government will serve Article 50 letter formally notifying Donald Tusk, president of the European Council, of UK’s intention to leave the EU, on 29th March.
- Likely to include UK’s key negotiating objectives from PM’s speech + Brexit White Paper but little more.
- Tusk to reply in 48 hours with draft guidelines – principles for final deal, not details.
- Tusk will hold an EU27 Summit to finalize the draft negotiating guidelines – likely late April/May.
- These are sent to European Commission negotiators who draw up Council Directives, which return to Council for final agreement.
- This final agreement probably reached in June/July is the negotiating mandate – maybe 20 June Luxembourg Summit?
- Then UK/EU negotiations can begin – but first item will be ‘how’?

### Great Repeal Bill

- Bill will incorporate entire ‘acquis communautaire’ into UK law
- Contained in Queen’s Speech (May) but will come into effect on Brexit day 1, meaning UK law will be identical to EU law.
- David Davis told Select Committee: White paper to be published, followed by consultation with devolved nations.
- Bill will be accompanied by at least 7 sectoral bills including
  1. immigration
  2. tax
  3. agriculture
  4. trade & customs regimes
  5. fisheries
  6. data protection
  7. sanctions
- Opportunities for reform and repeal of previous EU laws will be provided by Great Repeal Bill
- Devolved governments likely to argue for return of EU powers to them, not Westminster

### Scotland

- Scottish First Minister announced her intention to call a 2nd independence referendum (13 March).
- Scottish Parliament will vote on whether to give Scottish Govt permission to ask Westminster to grant Section 30 order, required for a binding referendum. (21-23 March).
- Theresa May responds “now is not the time” but does not rule one out after Brexit.
- SNP are likely to increase the pressure on May’s Govt throughout ongoing Brexit negotiations.
- Could also call an ‘advisory referendum’ – but, polling not currently favourable to Scottish Independence - 57% Yes - 43% No.

### Northern Ireland?

- Brexit provides opportunities for potential disruption to the UK’s constitutional relationship with Northern Ireland.
- Sinn Féin already seeking to capitalise with its leader in NI, Michelle O’Neill, calling for a ‘border poll’.
- 56% of NI voters backed remain in EU referendum & many will be concerned about status of land border post Brexit
- Opposition to Brexit seen as factor in recent strong showing of SF in recent Stormont Assembly elections. (2 March).
- However, combined Unionist vote still above combined Nationalist (44.3 % v 39.8%) & polling shows clear majority for remaining in UK (63% v - 22%)**
- Only UK Govt has power to call a border poll and PM has ruled one out.

*YouGov, The Times, 9-14 March 2017

** BBC Northern Ireland poll, Sep 2016
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