

A photograph of the United Kingdom flag and the European Union flag flying on white poles against a clear blue sky. The UK flag is in the foreground, and the EU flag is behind it.

The Impact of Brexit

This paper assesses the impact of Brexit on cash management and trade. It highlights the most important factors that corporate treasurers need to be aware of in this period of uncertainty. Evolution of corporate treasury structures may prove to be a necessary step; but this should be cautiously undertaken with clear sight and understanding of the significant changes in the tax and regulatory environment. We are committed to working with you closely and to having an open dialogue so that we meet your banking needs.

Commitment

Citi is very well positioned to support its clients through the UK's withdrawal from the EU. As a global bank, Citi has invested significantly in its presence across 97 countries including 22 European Economic Area (EEA) countries. We have organised our businesses to operate efficiently and effectively across Europe and the EMEA region and do not just rely on our UK operations. Indeed, one of our strongest competitive advantages is our network and our ability to serve our clients globally.

Planning

The UK's formal departure process from the European Union - Brexit - does not begin until Article 50 of the Lisbon Treaty is invoked. Once invoked, there will follow a two-year negotiation period during which the UK will negotiate the terms of its exit. This means that, even assuming Article 50 is triggered in early 2017, the status quo remains until early 2019.

[Citi is very well positioned to support its clients through the UK's withdrawal from the EU.](#)

Much has been said about the post-Brexit trading model that UK may end up with. Given that the UK is such a powerful and significant trading partner of the EU, it is also possible that a unique trading model comes into existence as a result of the negotiations.

Despite uncertainty around the exact timing of the exit and the nature of the final trading model with the EU, it is incumbent upon forward thinking corporate treasuries to prepare themselves for any possible outcome.

[We view Brexit as a challenge but also as an opportunity.](#)

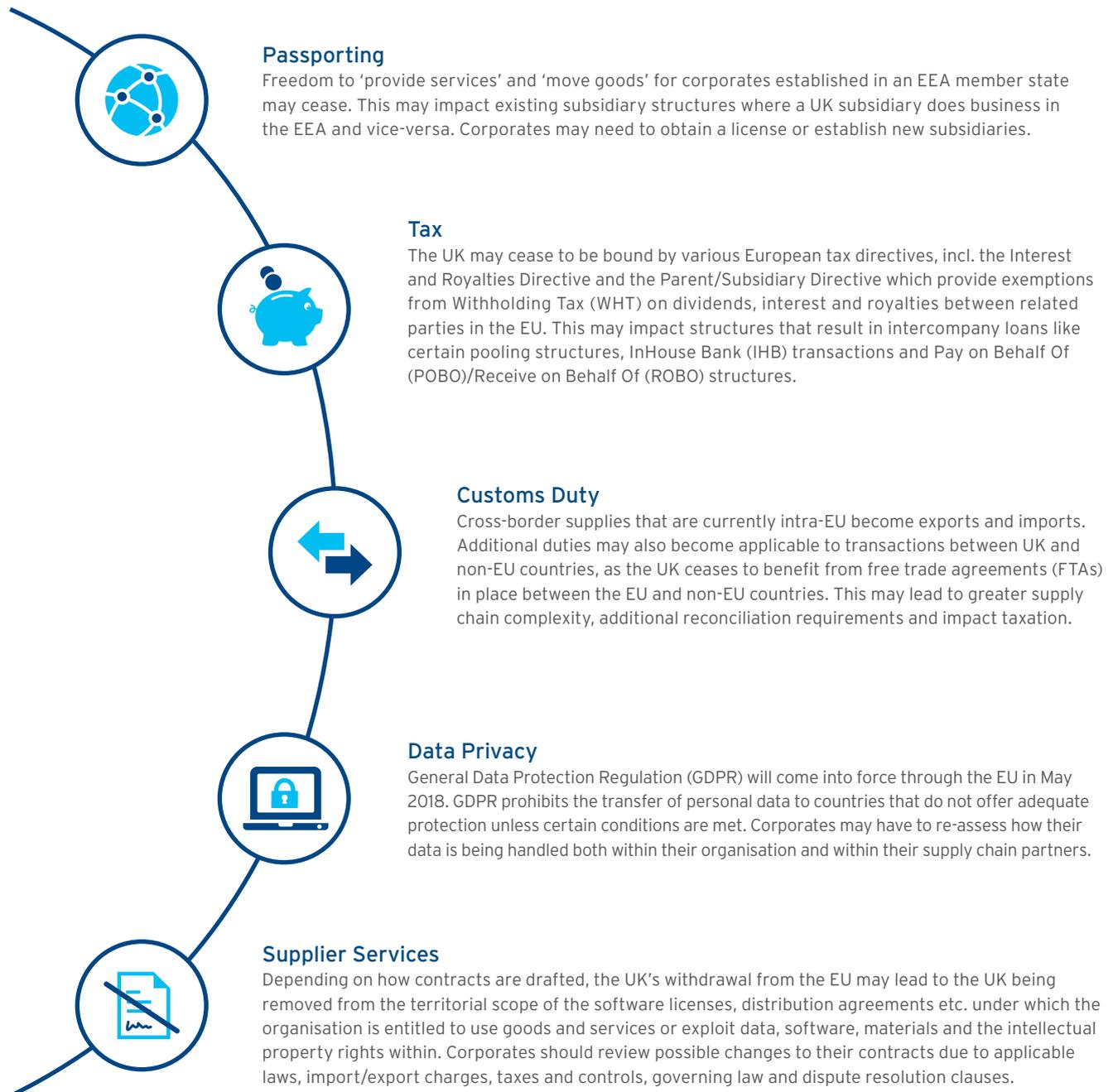
We are currently planning for those critical areas where we provide the essential financial infrastructure to your business as this is a fundamental and core part of our offering to our institutional clients globally.

We want you to have full confidence that we have your interests in mind. Should there be any changes to our infrastructure which would have an impact on you or our services to you, we will let you know promptly. We are committed to work with you to continue to provide core services with minimal or no disruption.

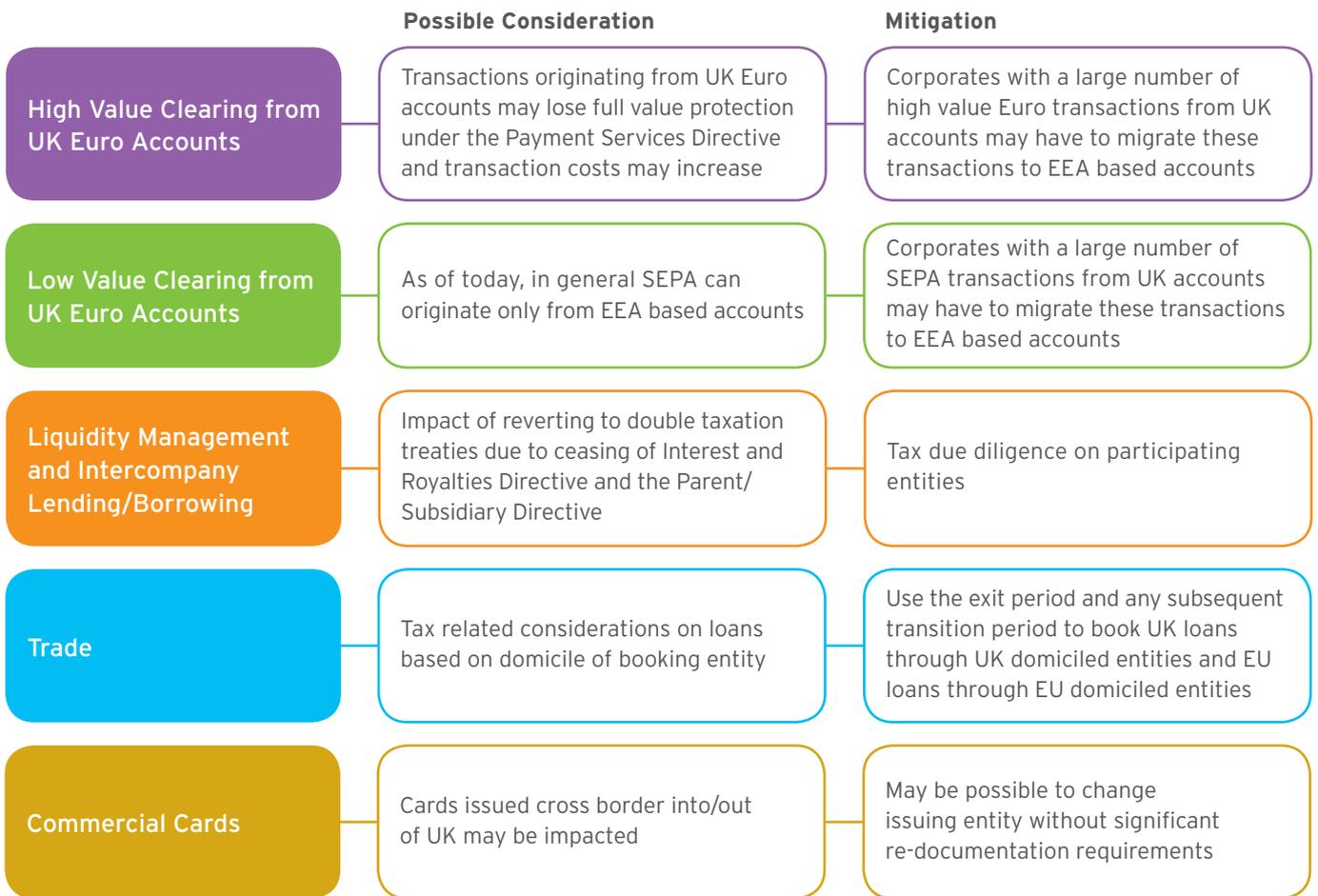
We view Brexit as a challenge but also as an opportunity. An opportunity to partner with our clients in their treasury journey, an opportunity to widen our capabilities and an opportunity to demonstrate once again why Citi is a global, European and UK banking partner for our clients.

The Potential Impact on Trading and Treasury Models

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. Here are some of the areas that may be affected, depending on the outcome of the UK's negotiations with the EU.

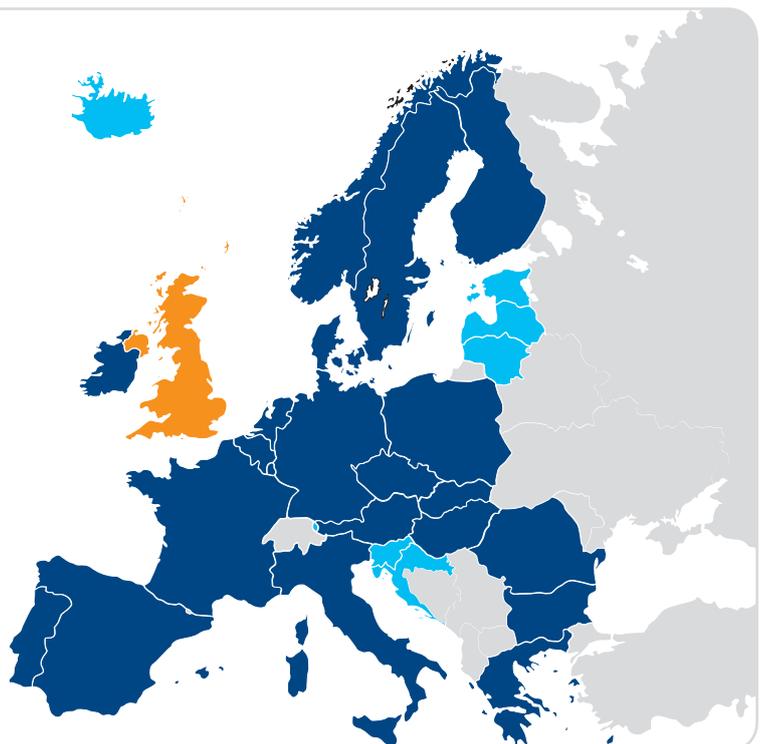


The Potential Impact on Banking Services



Our Presence in Europe

- United Kingdom
- EEA countries with physical presence
- EEA countries with no physical presence¹
- Non-EEA countries



¹ includes Cyprus and Malta (not shown on map)

Brexit in the context of other changes

In addition to the evolving political environment caused by Brexit, other tax and regulatory environmental changes like BEPS and IRC 385 necessitate a re-evaluation of Treasury structures.

IRC 385



Intent

Addresses whether a purported debt instrument is treated as stock or debt (in whole or part) for US federal income tax purposes. Recharacterises related party debt as equity in a wide variety of circumstances where no tax planning is involved.



Impact

Increased cost of intercompany obligations.



Timeline

Finalisation expected by year end. Impact would be retrospective (April 2016).

Base Erosion and Profit Shifting (BEPS)



Intent

Addresses concerns that the interaction between the various domestic tax systems and double tax treaties can often lead to profits falling outside the charge to tax altogether or be subject to an unduly low rate of tax.



Impact

Potential changes to existing group structure and financing arrangements.



Timelines

OECD's Action Plan on BEPS was published in July 2013 and the final deliverable of all action points was published in October 2015. Implementation has commenced (reporting live for many), April 2017 proposed date for interest deductibility in the UK.

Basel Committee on Banking Supervision (BCBS) Consultation on Leverage Ratio



Intent

Leverage ratio was proposed by the BCBS as, in addition to risk-based capital ratios, the means to measure the extent of capital versus the exposure for a bank. Under these guidelines, netting of deposits and loans is not allowed. In addition, collateral, guarantees or other credit risk mitigation techniques are not taken into account.



Impact

If the consultation results in regulations that require gross reporting of balances, the costs of notional pooling will significantly increase.



Timelines

Consultation closed on 6 July 2016. Comments are being considered by BCBS.

We want to have an open dialogue with you on how we can best support your banking needs during this period of uncertainty. The Citi team will be in touch to discuss this topic, and in the meantime, please contact your Citi representative if you have any questions.

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