

Brexit

The key issues that
asset managers face

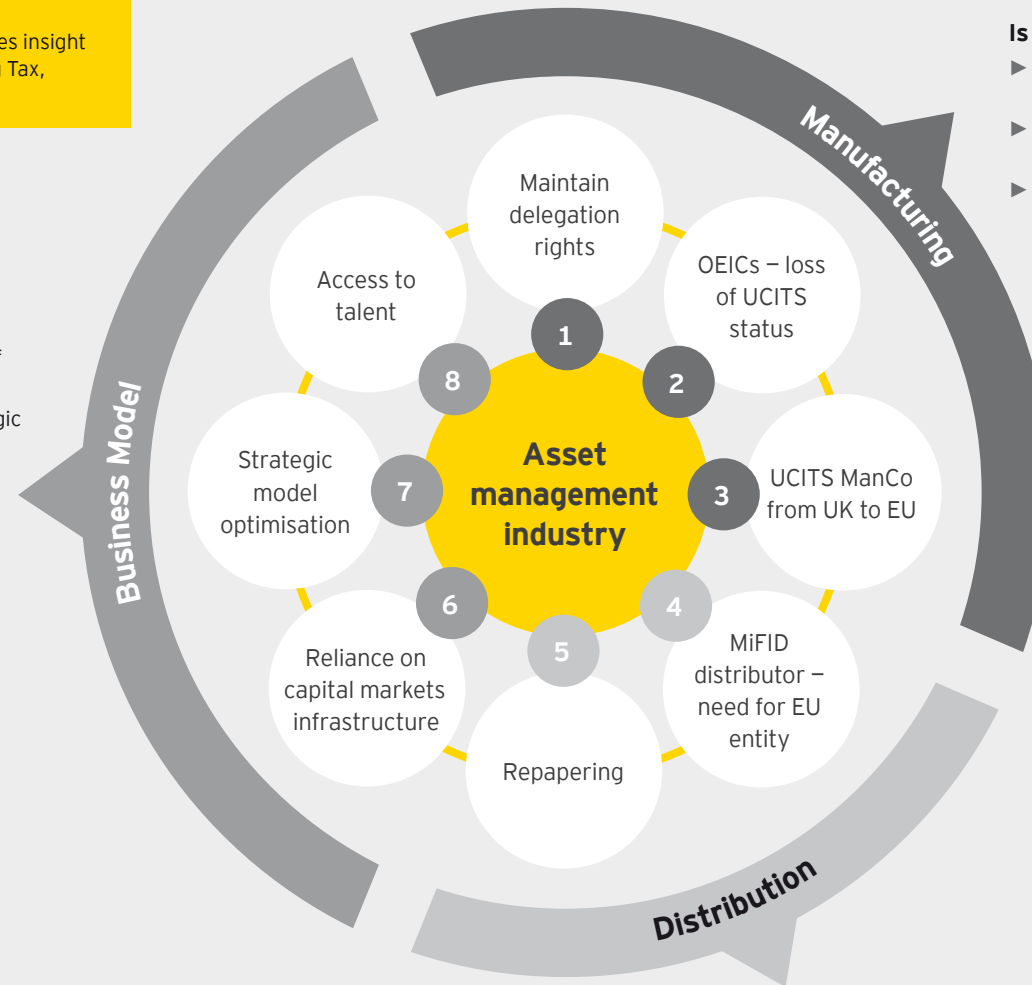
Eight key issues

for asset managers as a result of Brexit

- ▶ With experience across many Brexit engagements EY has a clear view of the issues affecting clients.
- ▶ Our dedicated Asset Management practice provides insight across both jurisdictions and capabilities including Tax, Assurance and Advisory services.

Is my business model impacted?

- ▶ What is the post Brexit location strategy of your third-party suppliers?
- ▶ Have you established the long term strategic implications of your European operating model in terms of:
 - ▶ Capital requirements
 - ▶ Regulatory implications
 - ▶ Future distribution
 - ▶ Cost of operation
 - ▶ Transfer pricing
 - ▶ Substance requirements
 - ▶ Access to talent



Is my product manufacturing capability impacted?

- ▶ How do you delegate portfolio management services from your EU funds?
- ▶ What products do you use for EU/international distribution?
- ▶ What is the domicile of your UCITS ManCo or AIFM?

Is my distribution impacted?

- ▶ What is the location of your MiFID distribution firm?
- ▶ What is the quality and make-up of contractual documentation for your Asset Management, ManCo and distribution entities?

1 Maintain delegation rights

Description

At its core the asset management industry offers portfolio management services to a wide range of UK and EU investors. Individuals, funds and institutional investors delegate the management of their portfolios to UK based experts.

These delegation rights may be impacted by the Brexit negotiations. A benign view is the EU would have difficulty isolating UK based managers as delegation rights are currently

given to amongst others US, South African, Japanese, Chinese and Latin American firms.

Key questions

- ▶ Do you have a clear view of which entities and in what jurisdictions portfolio management duties are (a) authorised and (b) performed?
- ▶ Will you need to create an EU based portfolio management entity with substance?

2 OEICs – loss of UCITS status

Description

Some firms have been using the UK Open-Ended Investment Company (OEIC) as their UCITS vehicle for distribution to international investors. UCITS by definition have to be EU-based.

Unless the Brexit negotiations create an exception, post-Brexit the UK OEIC funds will become Alternative Investment Funds (AIFs) and consequently may lose some of their attractiveness to international investors.

Key questions

- ▶ Are the expectations of your international client base being met by your current product and will this continue to be the case post-Brexit?
- ▶ Do you need to make changes? If so, do you have an understanding of the tax, regulatory and operating model considerations?

3 UCITS ManCo from UK to EU

Description

Undertakings for Collective Investments in Transferable Securities (UCITS) funds require an EU-based Management Company (ManCo). For managers who currently have a UK-based ManCo, they will need to utilise an EU-based entity post-Brexit.

Key questions

- ▶ Do you have an existing entity that can be used or re-purposed?
- ▶ If not, do you have a clear location strategy for the new entity?
- ▶ Have you considered the MiFID II, GDPR, conduct and regulator implications in your decision making?

4 MiFID distributor – need for EU entity

Description

To comply with EU regulations such as Markets in Financial Instruments Directive (MiFID), UK firms have created legal entities to fulfil the regulatory role as 'distributors'.

Post-Brexit, UK-based firms may be obliged to create new entities based in the EU to fulfil the required 'distributor' roles to serve existing and new investors.

Key questions

- ▶ If not, do you have a clear location strategy for the new entity?
- ▶ Have you considered the UCITS, AIFMD, GDPR, conduct and regulator implications in your decision making?
- ▶ Do you have a clear view of the operating model considerations (Client preferences, language, proximity, staffing considerations, local substance rules, etc)?

5 Repapering

Description

In the event of the creation of a new entity or entities to fulfil UCITS ManCo or MiFID distributor duties, there will be a need to establish new or novated distribution agreements, investment management mandates, service agreements between the new entities and contractual partners.

Key questions

- ▶ Do you have an understanding of the number of contractual agreements in place for each of the potentially impacted entities?
- ▶ Have you created contingency plans for the wholesale contract novation work?
- ▶ Do you have a clear view of the right to left planning and key milestone dates to meet the potential March 2019 deadline?

6 Reliance on capital markets infrastructure

Description

Asset Management as an industry relies on the capital markets bank settlement infrastructure. With high profile migrations of bank activity being discussed, to what extent do asset managers operating models remain unaffected? Potential challenges could include: increases to transactional costs, disruption to the custody and settlement system.

Key questions

- ▶ Do you have a clear understanding of the ramifications to you of the Brexit impacts of your service providers and contractual partners?
- ▶ Euro clearing threat to move from London; what are the ramifications?
- ▶ What are the plans of the key players?

7 Strategic model optimisation

Description

UK-based asset managers are not expected to be able to operate in the EU27 without an EU27 presence. There is the potential to make strategic change and establish a new pan-European operating model with a revised entity structure that seeks to optimise: operational efficiency, capital requirements, regulatory implications (bonus caps), and substance requirements.

Key questions

- ▶ Have you conducted a Brexit impact assessment on your current entity structures across regulatory and compliance, tax, finance and strategic footprint?
- ▶ Have you considered conducting a strategic assessment of your post-Brexit structures?
- ▶ Have you considered the pre-emptive actions to keep options open for EU27 location selection and create strategic flexibility?

8 Access to talent

Description

The UK is recognised globally as capable of attracting and retaining top talent from across the globe. A pressing concern for UK asset managers will be their ability to continue to retain and recruit talent after Britain leaves the EU. It is not uncommon today for 30% to 40% of an asset manager's staff in London to be comprised of individuals who are not UK citizens.

So, as the Government attempts to consider new means of controlling the flow of people into the

UK, it should keep the doors open for the highly skilled talent the industry will continue to demand.

Key questions

- ▶ Do you know the proportion of your workforce impacted?
- ▶ Have you considered plans to handle the uncertainty?
- ▶ Do you have an understanding of the flexibility, agility and preferences of your workforce?

Contact

Simon Turner

Partner, Wealth & Asset Management

T: + 44 20 7980 9215

E: sturner@uk.ey.com

Paul Stratford

Associate Partner, Wealth & Asset Management

T: + 44 131 777 2142

E: pstratford@uk.ey.com

Amarjit Singh

Partner, Wealth & Asset Management

T: + 44 20 7951 4419

E: asingh@uk.ey.com

Ioanna Pantazopoulou

Senior Manager, Wealth & Asset Management

T: + 44 20 7951 6808

E: ipantazopoulou@uk.ey.com

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EYG No. 05973-174GBL

EY-000038269.indd (UK) 10/17. Artwork by Creative Services Group London.

ED None



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