

Brexit

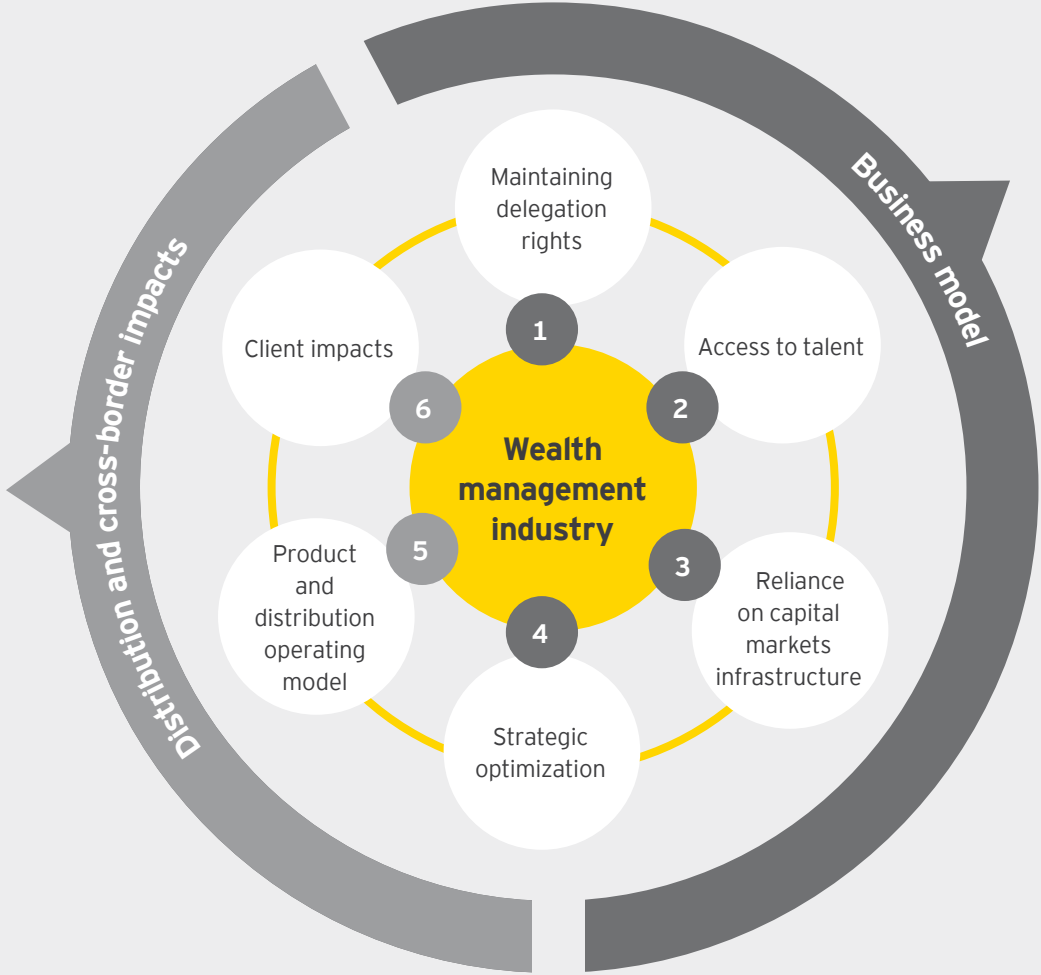
Issues to consider for
wealth managers



EY

Building a better
working world

Six key issues for wealth managers to consider as a result of Brexit



Is my distribution impacted?

- ▶ What products do you use for EU/ international distribution?
- ▶ What is the location of your Markets in Financial Instruments Directive (MIFID) distribution firm?
- ▶ What is the quality and makeup of contractual documentation for your clients, vendors and distribution entities?

Is my business model impacted?

- ▶ What is the post Brexit location strategy of your third-party suppliers?
- ▶ How do you delegate portfolio management services for your EU funds?
- ▶ Have you established the long-term strategic implications of your European operating model in terms of the following factors?
 - ▶ Capital requirements
 - ▶ Regulatory implications
 - ▶ Future distribution
 - ▶ Cost of operation
 - ▶ Transfer pricing
 - ▶ Substance requirements
 - ▶ Access to talent

1 Maintaining delegation rights

Description

At its core, the wealth management industry offers portfolio management services to a wide range of UK and EU investors. Individuals, trusts and charities 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 that the EU would have difficulty isolating UK-based managers as delegation rights are currently given to US, South African, Japanese, Chinese and Latin American firms, among others.

Key questions

- ▶ Do you have a clear view of which entities and in what jurisdictions portfolio management and advice duties are authorized and performed?
- ▶ How will you provide investment advice to EU-based clients out of UK entities and UK relationship managers?
- ▶ Do you have a clear view of which activities across the middle and back office have been delegated to which entity and which jurisdiction?
- ▶ Do you have a clear view of your activities across the operating model landscape, including the use of branches and outsourcing?

As the Government attempts to consider new means of controlling the flow of people into the UK, the industry needs to consider how to react to the resulting measures.

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?

2 Access to talent

Description

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

3 Reliance on capital markets infrastructure

Description

Wealth management as an industry relies on the capital markets bank settlement and custody infrastructure. With high profile migrations of bank activity being discussed, to what extent do wealth managers' operating models remain unaffected?

Potential challenges could include: increases to transactional costs and 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?
- ▶ What are the ramifications to you from the threat that Euro clearing may need to move out of London?
- ▶ What are the plans of the key players?

4 Strategic model optimization

Description

UK based wealth managers are not expected to be able to operate in Europe 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 optimize 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?
- ▶ Have you established the potential tax impacts to you and your clients from any required changes?
- ▶ Have you considered the implications on capital if you are changing your business model?
- ▶ Post Brexit, will your UK and EU branch structure remain compliant?

5 Product and distribution operating model

Description

Some firms have been using the UK Open-Ended Investment Company (OEIC) as their Undertakings for Collective Investment in Transferable Securities (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.

To comply with EU regulations, such as MiFID, UK firms have leveraged UK legal entities to fulfill the regulatory role as "distributors".

Post Brexit, UK-based firms may be obliged to create new entities based in the EU to

fulfill the required "distributor" roles to serve existing and new investors.

Key questions

- ▶ Are the expectations of your international cross-border client base being met by your current product and will this continue to be the case post Brexit?
- ▶ Have you considered the MiFID II, General Data Protection Regulation (GDPR), conduct and regulator implications in your decision-making?
- ▶ Have you considered the implications on cross-border "advice" model? Have you considered the operational implications of the cross border "advice" model? e.g., data/cash/assets etc.?

6 Client impacts

Description

In the event of the creation of a new entity or entities to fulfill product or distributor duties, there will be a need to establish new or novated client agreements, investment management mandates, and service agreements between the new entities and contractual partners.

Key questions

- ▶ Do you know the number of clients impacted and how you are going to communicate with them?

- ▶ Have you established the size of the potential client tax impacts from a migration?
- ▶ 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?

Why EY

- ▶ EY has actively supported wealth and asset managers across EMEIA with their Brexit activities.
- ▶ With experience across many Brexit engagements, EY has a clear view of the issues affecting clients.
- ▶ Our dedicated Wealth management practice provides insight across both jurisdictions and capabilities including Tax, Assurance and Advisory services.

Contact

Simon Turner
Partner, Wealth & Asset Management
T: +44 20 7980 9215
E: sturner@uk.ey.com

Roopalee Dave
Director, Wealth Management
T: +44 7990 652 176
E: rdave@uk.ey.com

Keith MacDonald
Partner, Wealth Management
T: +44 7739 462 438
E: kmacdonald@uk.ey.com

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.
All Rights Reserved.

EYG No. 06117-174GBL

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

ED None



In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com