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SUBSTANCE REQUIREMENTS
WHAT IS “IT” AND WHERE IS “THERE” ?

BRUEGEL
BRUSSELS
2 JUNE 2017

WHAT IS ORTHODOXY IN THIS CONTEXT?

THE PRE-BREXIT UK POSITION

What would the PRA do?

The firm's head office and registered office must be in the United Kingdom.

REQUIREMENT - firm's policy must be formulated and overall management directed from the UK.

The UK authorities will need to be satisfied that the firm's relationships with persons with whom it has "close links" (such as its parent undertakings, subsidiaries, controllers, controllers of parent undertakings) are not likely to prevent their effective supervision of the firm.

REQUIREMENT – local management must be free-standing and independent of group management where necessary

The authorities will need to be satisfied that the firm's capital is adequate in relation to its proposed regulated activities. In making this assessment, the authorities may take into account the resources and financial arrangements of the group of companies to which the firm belongs.

REQUIREMENT – firm must be capable of being free-standing economically

THE PROBLEM DEFINED

THE POST-BREXIT EU POSITION

“First of all, we will not accept shell companies. Any bank that operates in the euro area must be a “real” bank. And a “real” bank has adequate local risk management, sufficient local staff and operational independence. A “real” bank also does not permanently book all of its exposures back-to-back with another entity in the group; this would make it way too reliant and limit control over its own balance sheet.”

Sabine Lautenschleger, May 2017

So we need

Local risk management

Local staff

Local operational management

Local booking which is not back-to-backed

WHAT IS “RISK MANAGEMENT”?

On average 50% of those who work in bank risk management are engaged in credit analytics
moving those who analyse the credit of local customers is likely to be do-able

The bulk of the remainder work in analytics – in particular risk modelling

Is any useful purpose served by moving the physical location of those who design and operate models?
A risk model is not a “thing” in a “place”

Remember FRTB – model approval will be desk by desk, and desks are required to be coherent.

Will it be possible to have “desks” straddling multiple legal entities?
If not, will local desks have to have local modelling support?

LOCAL STAFF

...BUT WHICH STAFF?

Local client coverage

These are the people who are almost certain to relocate

Local traders

How likely is it that local markets will generate local specialised trading desks?

Local heads of desk?

How do we deal with global heads?

Local managers

How do they interact with group senior management?

OPERATIONAL MANAGEMENT

WHAT DO YOU HAVE TO MANAGE TO BE A MANAGER?

Must be an independent local board

Photocopier leases & support staff

Employment issues – discipline, recruitment, dismissal

Business risk decisions?

How much can local management be integrated into the global management chain?

LOCAL BOOKING WHICH IS NOT BACK-TO-BACKED

Some risk must reside in the local entity – can't retain a completely flat book

Daily sweeps?

Macro-hedges & risk sales?

Collateralised protection from parent?

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