

Brexit - two years and ticking. Will your organisation be ready?

Asset and wealth managers - how prepared is your business?

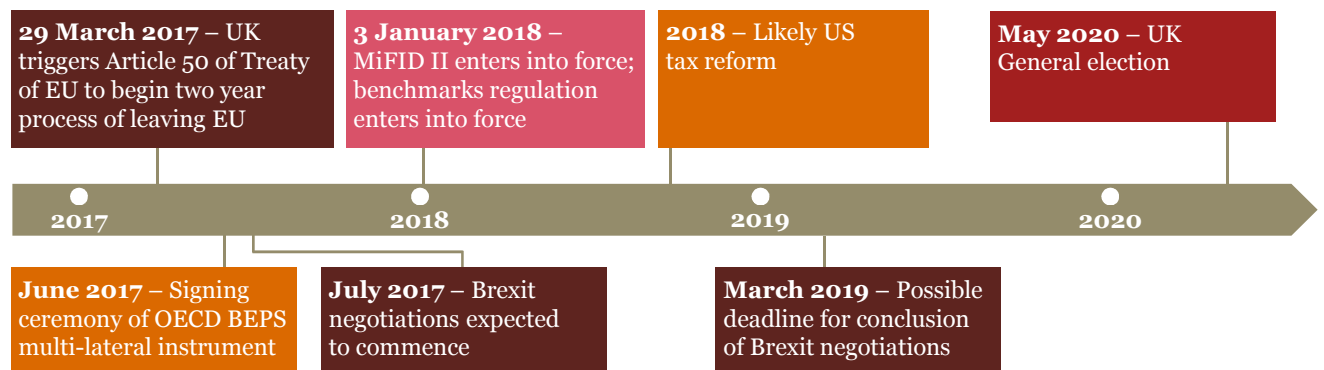
Asset and wealth managers operating across the EU must now begin to implement their plans to respond to the formal triggering of Article 50. Firms are considering possible worst-case scenario outcomes, what that would mean for their business and what no-regrets actions can be prioritised.

With the two year clock ticking, firms should deepen their analysis beyond simple equivalence and passporting concerns. The interaction between strategy, regulation, tax and immigration requires firms to take a more holistic approach, not just to comply with existing regulatory initiatives and to prepare for Brexit, but also to design and execute strategy beyond 2020.

More detailed concerns that firms are addressing through their contingency and implementation plans, include:

	UCITS	AIFMD	MiFID II
Passporting and equivalence (funds and/or ManCo)	Not available – firms will need to re-domicile funds and management activities.	Possibly available, but implementation has already been political.	Possibly available, regime for third country access but untested.
Delegation of functions to the UK post Brexit	Available, unlikely to change because of impact to US and Asian managers.	Available, unlikely to change because of impact to US and Asian managers.	Possibly available, third country regime facilitates access.
Illustrative concerns	<p>EU UCITS possibly restricted from depositing with UK banks.</p> <p>Limitations of EU UCITS investing in UK retail investment schemes if deemed non-equivalent.</p> <p>UCITS will need approval to have UK counterparties.</p>	<p>If equivalence is not granted, analysis of re-domiciliation of funds and ManCos may be required.</p> <p>Need to consider access to EU market such as fund mergers, master-feeders, hosting by EU managers.</p> <p>If equivalence and passporting granted, will need to meet most AIFMD requirements in Member State of reference.</p>	<p>Thresholds based on a reduced EU market may be re-calibrated and change scope (e.g. commodity position limits and dark pool trading restrictions).</p> <p>MiFID firms based in the UK using the passport to distribute products will need to assess their distribution strategies and EU presence.</p> <p>Consider local licensing requirements for offering segregated mandates in each Member State.</p>

Expected political, regulatory and tax timeline of events



Key questions each firm should be asking ...

Strategy



- Are you engaging with trade associations and government to ensure that industry preference for passporting arrangements and strengthened equivalence are considered?
- Is your analysis based on worst-case scenarios, with no passporting or equivalence post-Brexit?
- Have you considered what you need to do to ensure that EU firms and services can continue to access the UK?
- What are your controls around sensitive data?
- What are you doing about your product mix offering?
- Have you engaged with your stakeholders (for example: clients, investors, counterparties)?
- Do you have a five year business plan for product offering and target investors? Where do you need to locate your business to achieve this plan?

We expect asset and wealth managers to be impacted across five key areas:

Product and distribution	Operating model	Group structure	People	Transparency
<ul style="list-style-type: none"> • What is the extent of your EU footprint and how reliant are you on cross border services? • Do you understand your structuring options to move funds and activities to the EU, such as master-feeder funds and mergers? • Have you reached out to end clients? • Have you considered how increased fee disclosures highlights post-tax fund performance and fund comparability? • Do you have sufficient focus on operational taxes (e.g. transaction/withholding/capital gains taxes)? • Have you modelled greater VAT costs arising from a ban on inducements? • Is 'tax service alpha' now a key market differentiator? 	<ul style="list-style-type: none"> • Can you centralise functions and create centres of excellence? • What are the substance requirements under BEPS and EU regulatory regimes for EU operations vs. UK? • Where do you locate your key value drivers for optimal tax efficiency? Have you considered the stability of the local tax regime and investor perception? • What is the optimal location for existing or newly developed IP and associated people? • Have you considered the availability of incentive regimes (tax/ regulatory/ wider business regimes) (e.g. R&D, Patent Box)? • Are you taking steps to remain/become compliant with current EU requirements – MiFID II, PRIIPs, etc.? • Have you explored how much activity can be delegated back to the UK even if other operations are moved to EU? 	<ul style="list-style-type: none"> • When looking at EU jurisdictions for possible re-domiciliation are you considering factors beyond market access: labour law, taxation, corporate governance rules? • Have you considered the choice of EU holding locations from a tax perspective? • If UK branches need to convert to subsidiaries or create new EU MiFID entities, have you considered tax costs and exit charges on conversion or merger of entities? Are there exit charges on the transfer of IP? • Is EU merger relief available? • Does Brexit present an opportunity to rationalise group entities to minimise compliance costs? • Have you undertaken a VAT analysis of transactional flows and your transition plan? 	<ul style="list-style-type: none"> • Do you have greater EU permanent establishment risks from increased mobile workforce? • Does your dependent agent PE risk increase? • Do you need to consider the impact on short term business travellers? • Have you considered individuals working abroad in relation to the impact on their UK state pension entitlement? • For intended delegated portfolio management to UK, do you understand EU remuneration requirements? • Are you prepared for EU regulations on social security coverage and benefits no longer being applicable? • Will your EU employees require support with obtaining permanent residence/or registration in the UK, and UK employees in the EU? • Do you need to review HR policies and processes to determine whether these need amendment and support the wider EU population (in addition to third country nationals)? 	<ul style="list-style-type: none"> • Does your reporting under MiFID II, AIFMD, CBCR provide consistent information to tax authorities and regulators? • Have you considered the impact of greater transparency on comparable pricing under MiFID II on your TP model? • What does your CRM system reveal about who does what where? • Is your MiFID II transaction reporting consistent with your operational tax disclosures and compliance (FTT, WHT, CGT)?

Potential roadmap for action ...

Asset and wealth managers are by now aware that passporting or equivalence may not be available, and that MiFID II will enter into force in January 2018. Uncertainty can no longer be used as a justification to hold off making concrete plans. Asset and wealth managers need to ensure that they are compliant with MiFID II by December 2017, and have executed a plan for the worst Brexit scenario by March 2019.

Phase 1

- Understand the status of your current regulatory programme
- Map commercial needs vs. required permissions
- Consider “pros and cons” of revised structure options

Phase 2

- Identify preferred structure and any resulting business model changes required

Phase 3

- Consider tax implications – managing risks and maximising opportunities

Phase 4

- Produce detailed implementation plan
- Obtain stakeholder approval
- Consider external communications

March 2017

March 2019

How can PwC help

PwC is able to offer a multi-disciplinary team that draws on subject matter experts in Regulation, Tax, Transfer Pricing, People Matters and Consulting with experience of advising Asset and wealth management clients. Our team has also helped businesses successfully plan and implement their regulatory programmes. We can assist with the following services:

Regulatory/Political impact assessment

Helping you to understand the impact of regulatory and political changes on your organisation and understanding the status of your current regulatory programme (e.g. MiFID II/AIFMD/UCITS).

Business model change

Advising you on the business changes that will result from current and future regulatory and political change across your organisation, from front office through to back office.

Tax analysis

Helping you to understand and prioritise the tax consequences of business change – identifying opportunities for efficiency and managing adverse tax cost and reputational impact.

Implementation

Supporting you with all aspects of implementing changes to your business model, including areas such as legal, operational and tax aspects.

Ongoing assistance

Ongoing support with operating your new business model, including in areas such as reporting disclosures to ensure consistent messaging to regulators, tax authorities, investors and the public and looking ahead to future regulatory and political change.

Who to contact?

If you would like to know more about the changing regulatory, political and tax landscape and how PwC can help your organisation ensure its business operating model remains fit for purpose, please contact:



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