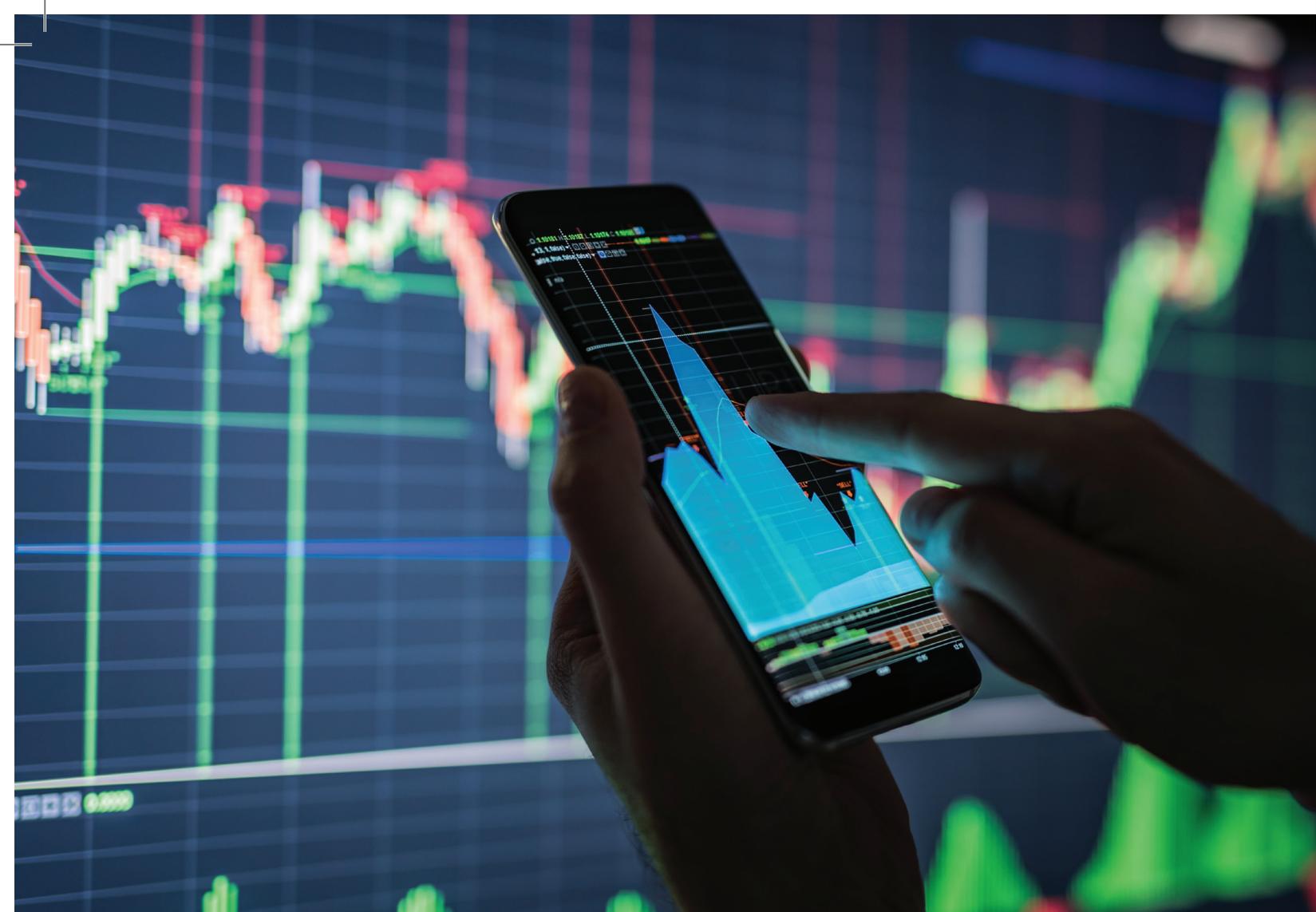


Brexit: front office controls

Minds made for transforming
Financial Services

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Introduction

Political uncertainty continues, and banks have been left with no choice but to prepare for a no-deal Brexit. While cross-border passporting will remain in effect until the UK leaves the EU, many banks already have new or expanded EU27 entities up and running with live trading activities to serve their EU clients.

Getting clients to migrate to these new EU27 entities has not always been straightforward. Many have not wanted to transfer their business away from a UK entity until it is absolutely necessary. As banks grapple with this complex migration, they must ensure there is appropriate governance in place to ensure clients are receiving the right outcome and there is transparency around the transfer process and any change in relationship.

This paper focuses on how firms can enhance their control environment in response to the main questions being raised on the front office process, their associated control requirements and the risks of inaction. Further information on client migration can be found in our related paper on this topic.

There are only a few more weeks until a possible no-deal on 31 October for banks to evaluate their front office control frameworks to mitigate the risk of unauthorized or unregulated trades on "Day 1". This time should be used sensibly.

Banks are considering 5 main questions in advance of "Day 1" Brexit ...

<p>1</p> <p>Do you have the relevant controls and reporting processes in place to ensure that the sales team will only deal with permissible clients and counterparties post-Brexit?</p>	<p>4</p> <p>Are you communicating with clients to ensure they are aware of any changes in your relationship with them?</p>
<p>2</p> <p>How will you ensure UK and EU sales teams are booking the correct clients?</p>	<p>5</p> <p>How are you ensuring that migrating clients to your new European entity is the right outcome for them at this point in time?</p>
<p>3</p> <p>Have you clearly defined the rules for permissible trading per product and jurisdiction, are the traders aware, and is it enforceable?</p>	

... and are enhancing controls across 6 dimensions

Cutover governance	Appropriate governance must be in place to evaluate the appropriateness of migrating clients over to the new entity. This should be followed with the relevant communication to clients to inform them of changes in their relationship.
Client onboarding	Successful client onboarding will need to address complications around onboarding to the new EU entity, and offboarding from the old entity, ensuring sales teams are booking to, and liaising with, the correct client/account.
Data attribute capture	Clients who are moved over, or are onboarded, to the new entity should be captured in the system appropriately so that controls can be applied to their accounts.
Account closure	UK accounts belonging to migrated clients should be evaluated for closure to minimize the risk of unauthorized trading and to reduce maintenance costs.
System functionality	System based preventative controls at the trader level will be difficult to implement in the short-term. Subsequently, tactical, more primarily detective solutions can be devised for "Day 1" and adapted for more strategic preventative measures.
Jurisdictional control implementation	Control requirements will differ depending on jurisdiction and product type. Banks may need to enhance controls in local country locations.

Failure to enhance controls could lead to the 4 main risks:

1 Non-authorized client interaction: due to client reluctance to migrate there may be a large group of clients for which the potential to conduct activity without authorizations is high. This may lead to legal and regulatory challenges, including licensing risk, further down the line.

2 Delays in on/offboarding and consequential impact on client relationships: the inability to trade despite client demands may negatively impact existing client relations and future revenue prospects.

3 Capital risk: with new limitations potentially coming into effect overnight on "Day 1", it is likely that some unauthorized transactions will be made. There is a risk that there may be the need to unwind trades. This does not only have regulatory and reputational implications, but is often an expensive and lengthy process for the business.

4 Conduct risk: clients should be made aware if their relationship with the bank is changing (e.g., new sales coverage, new booking entity, etc.). A failure to do so may be in breach of FCA principles around treating clients fairly, and may go against the "Dear CEO" letter provided earlier this year about behavioral expectations around Brexit.



How EY teams can help: Preparations for “Day 1” and beyond:

Given the current timeline, there is time to define a strategic solution for “Day 1”; however, with an ever changing regulatory environment an agile control framework is essential to implement longer term effective controls in the most efficient manner. EY teams can offer support in the following:

1 Cut-over governance

EY professionals have developed a framework which highlights the key activities and controls required pre, during and post cut-over to support successful migration.

2 Gap analysis

EY teams can support the identification of controls required in the event of a no-deal Brexit, design the relevant control standards and assess current state against them.

3 Training and awareness

- ▶ It is plausible that the criteria for permissible trades will change overnight. In addition, trading systems may not be updated to reflect this in real time
- ▶ EY teams can offer scenario based training, workshops and educational material to improve awareness of the necessary procedures for “Day 1” compliance for sales and trading staff

4 EY cross border solutions

- ▶ EY professionals have supported major retail and investment firms design, implement and enhance their cross border regulatory risk and control frameworks (e.g. procedures, governance, reporting, MI, etc) within the EEA and globally
- ▶ EY experience includes supporting legal counsel map applicable legislation, and evaluate permissible activity by business and jurisdiction
- ▶ EY professionals have also developed and deployed digital tools to help manage cross border regulatory risk, and immigration and tax risk

5 Control reporting

- ▶ “Day 1” reporting will be essential to highlight the strength of the control environment and transparency on the performance of detective controls used to identify breaches in the immediate transition
- ▶ EY teams can provide support with control design and effectiveness testing

6 Post-Brexit roadmap

- ▶ EY teams can support the development of a strategic control roadmap to transform from tactical interim solutions (often detective) to preventative controls in the medium to long term

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EY professionals have been supporting multinational investment banks with pre-Brexit analysis, control design and implementation. We welcome the opportunity to discuss tailoring your business now and in the future.



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