

# BREXIT: WHAT NEXT?

## UNDERSTANDING THE POTENTIAL IMPACT ON NORTHERN TRUST AND OUR CLIENTS

### EXECUTIVE SUMMARY

The decision by citizens of the United Kingdom (UK) to leave the European Union (EU) continues to reverberate and create waves of uncertainty. What remains certain, however, is Northern Trust's commitment to the UK and to Europe.

We have considered the potential impact of a UK exit (or "Brexit") from the EU and have undertaken contingency planning for various scenarios. Over the next several months, we will:

- Work with local executive leadership to navigate the ramifications of the separation
- Focus on doing what is right for our clients, employees, businesses and communities
- Continually update our clients as the effects of the UK referendum evolve

---

On 23 June the United Kingdom (UK) voted in a national referendum to leave the European Union (EU). The impact of this vote is far-reaching, and has ushered in a period of significant uncertainty for investors and the financial services industry across the UK, Europe and the world.

The terms of the exit (commonly known as "Brexit"), are not yet known. At the time of publication, the required procedures and negotiations were not expected to commence for a while, and significant time will pass before the impact can be fully understood. The UK's exit from the EU is expected to take at least two years.

Prior to the "leave" vote, Northern Trust considered the potential impact of a Brexit and has undertaken contingency planning for various scenarios.

This document shares some of our thinking and is intended to highlight relevant issues to help you understand the impact to us and to your business. At this stage, we do not anticipate a significant impact to our business. We are ready to enact plans to establish a full subsidiary in the EU as needed to ensure we continue to meet our client and business needs. In the meantime, we will continue to closely monitor the situation and update you accordingly.

## **THE BIG PICTURE**

### **Future access to EU markets**

How UK-based businesses will continue to access the EU market is a key question, and the answer will depend on future treaty agreements reached between the UK and EU. Central to these will be the rules governing “passporting” – the ability to deliver products and services across borders without requiring an individual license for each country.

Northern Trust has developed contingency plans based on the adoption of different models and the possible effects on our business and our clients.

### **Regulatory change arising from Brexit**

We believe Brexit is unlikely to result in wholesale long-term changes for financial services in the UK, as the City of London will likely need to maintain “equivalence” with EU legislation to continue taking advantage of the European Single Market.

Northern Trust will continue to evolve its regulatory programme to meet upcoming EU regulatory change, and develop solutions to help clients meet and benefit from a shifting regulatory landscape.

### **Provision of regulated financial services between the UK and EU**

Providing and delegating services between the UK to the EU will become more complicated unless a UK-EU agreement on market access can be reached.

Northern Trust is currently evaluating functions delegated across our operations within the UK and the EU. We are putting plans in place to ensure we continue to support our clients across the region.

### **Implications for data privacy between the UK and EU**

From 2018, a firm with its lead entity in the UK may need to consider relocating it to an alternative EU location, as the UK Information Commissioner’s Office may not be able to act as an EU lead data protection authority under the EU’s General Data Protection Regulation (GDPR).

Northern Trust was already evaluating data privacy requirements and is implementing a plan to ensure we are compliant with GDPR when it comes into effect in 2018.

## **OPERATIONAL IMPACTS ON OUR ASSET SERVICING CLIENTS**

### **Implications for post-trade operations**

European Markets Infrastructure Regulation (EMIR) will continue to apply to EU-based counterparties, and other mandatory clearing deadlines will take effect prior to the UK departure from the EU. As a result, companies should continue their preparations to be compliant. If UK market infrastructure does not attain EMIR-qualified status, UK-based clearing providers may need to look for alternative locations for their EU operations.

Northern Trust will maintain relationships with all active clearing houses in Europe. In the event some firms relocate their UK clearing operations, we will work to ensure our connections remain in place so we continue facilitating the clearing of transactions in a clearing-partner-agnostic manner.

### **Managing and marketing UK funds**

A number of possible implications from Brexit could affect the UK's fund servicing sector and impact its ability to provide asset servicing solutions to UK fund managers. For example, if the UK leaves the EU without any agreement for future relationships, any UK-based/managed Undertakings for Collective Investments in Transferable Securities (UCITS) and alternative investment funds (AIFMs) would be affected.

Northern Trust will continue supporting clients with their fund ranges and working with them as their strategies evolve. Our European fund servicing centres will assist clients proactively as they consider their strategies and seek to take advantage of UCITS and other alternatives.

## **IMPACT ON NORTHERN TRUST ASSET MANAGEMENT'S INSTITUTIONAL INVESTORS**

Unlike UK-domiciled UCITS or AIFMs, Brexit should have very little impact on Northern Trust's UCITS funds, which are based in the EU via a management company domiciled in Ireland. We do not anticipate any issues for UK-based investors choosing to invest in our funds.

Brexit will not affect Northern Trust's ability to deliver investment management expertise to clients. As the impact of the exit becomes clearer, we will make any necessary changes to serve all of our clients, regardless of their locations.

## THE FUTURE OF NORTHERN TRUST'S BANKING MODEL

We have formulated plans to establish a full subsidiary in the EU and will enact these as appropriate to ensure we meet client and business needs in a post-Brexit environment. In the interim, we do not anticipate any changes to the services we provide, our banking model or how we work with clients.

Northern Trust will continue to monitor the situation closely and adjust our plans to whatever requirements and timeframes are imposed following exit negotiations. If it becomes necessary to provide services from other locations or legal entities in the future, we will work closely with clients to achieve this in a smooth and seamless manner.

## LEARN MORE

As the terms of Brexit take shape, we will continue to assess the potential implications for Northern Trust and our clients and keep you fully informed on any developments. For more information, please contact us or access our latest views and analysis at [northerntrust.com/brexit](http://northerntrust.com/brexit).

[northerntrust.com](http://northerntrust.com)

© 2016 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A. Incorporated with limited liability in the U.S. Products and services provided by subsidiaries of Northern Trust Corporation may vary in different markets and are offered in accordance with local regulation. This material is directed to professional clients only and is not intended for retail clients. For Asia-Pacific markets, it is directed to expert, institutional, professional and wholesale investors only and should not be relied upon by retail clients or investors. **For legal and regulatory information about our offices and legal entities, visit [northerntrust.com/disclosures](http://northerntrust.com/disclosures).** The following information is provided to comply with local disclosure requirements: The Northern Trust Company, London Branch; Northern Trust Global Services Limited; Northern Trust Global Investments Limited; Northern Trust Securities LLP. The following information is provided to comply with Article 9(a) of The Central Bank of the UAE's Board of Directors Resolution No 57/3/1996 Regarding the Regulation for Representative Offices: Northern Trust Global Services Limited, Abu Dhabi Representative Office. The Northern Trust Company of Saudi Arabia - a Saudi closed joint stock company - Capital SAR 52 million. Licensed by the Capital Market Authority -License No. 12163-26 - C.R: 1010366439. Northern Trust Global Services Limited Luxembourg Branch, 6 rue Lou Hemmer, L-1748 Senningerberg, Grand-Duché de Luxembourg, *Succursale d'une société de droit étranger* RCS B129936. Northern Trust Luxembourg Management Company S.A., 6 rue Lou Hemmer, L-1748 Senningerberg, Grand-Duché de Luxembourg, *Société anonyme* RCS B99167. Northern Trust (Guernsey) Limited (2651)/Northern Trust Fiduciary Services (Guernsey) Limited (29806)/Northern Trust International Fund Administration Services (Guernsey) Limited (15532) Registered Office: Trafalgar Court Les Banques, St Peter Port, Guernsey GY1 3DA. Northern Trust Asset Management is composed of Northern Trust Investments, Inc., Northern Trust Global Investments Limited, Northern Trust Global Investments Japan, K.K., NT Global Advisors, Inc., 50 South Capital Advisors, LLC, and personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company. Issued in the United Kingdom by Northern Trust Global Investments Limited.