Brexit and Corporate Treasury

State of Play March 2019

Ralf Lierow Siemens Treasury

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Agenda

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Summary from Brussels: „It is like the Titanic voting for the iceberg to get out of the way“

1	Treasury Problem #1: Counterparties
2	Treasury Problem #2: Legacy Business

Treasury Problem #1: Counterparties

- Banks with UK seat will lose their “EU Passport” for financial services and cannot longer offer most banking services to corporate and retail clients. Payment services/cash pools are not affected.
- Investment services for institutional clients and use of UK exchanges/clearing services are possible under MiFID 3rd country rules, but require EU permission (“Equivalence”). Note: revocable!
- UK-based banks can only apply for licenses in individual member states, which however would not be valid for the whole EU. EU-wide services require subsidiaries with seat in the EU.
- Main examples of services concerned for corporates:
  - Lending business
  - New and existing derivative transactions
  - Clearing and settlement services (e.g. futures traded on UK exchanges)

Counterparties: Where You're From?

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Disclaimer: the following information is from our bank counterparties, not Siemens!

- Banks with **UK seat** will be discontinued as Siemens trading partners, and be exchanged against new subsidiaries set up in EU 27 countries (process under way). We prefer including legacy transactions (single bank line, netting effects).
- Banks from **Switzerland** seem able to continue serving German corporates via a UK Full Branch (note: not a separate legal entity!) due to existing agreements with EU and/or DE.
- Banks from **Canada**: existing agreements with EU and/or DE enabling to continue serving German corporates with FX and derivatives via a UK Full Branch (note: not a separate legal entity). Other services however seem to require an EU subsidiary. Comparable situation seems to exist for **Australia**.
- Banks from **Japan** seem to be able to use an equivalence ruling established with the EU, again acting through EU 27 branches. Note: this construct might be revocable.

Treasury Problem #2: Legacy Business

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Disclaimer: the following is not advice from Siemens, only our current assessment!

- Industry opinion is existing derivative books do not become void by Brexit, and normal payment flows from existing derivatives do not require specific licenses (*"deals on autopilot"*).
- Plain vanilla derivatives should (!) not necessarily require novation to EU-based entities.
- Derivatives with service features ("Life Cycle Events") may require EU license. Examples:
  - Changes in size, tenor, payment dates => n.a. if standard is "terminate old, trade new"
  - Clearing and settlement services => license required, e.g. UK exchanges, futures
- Derivatives reporting (EMIR, MiFID) => license required, e.g. DTCC in UK
- Lending business: license required => new deals not possible cross-border from the UK, existing ones with no service elements (e.g. no Revolver) may continue to pay down.
- Other problems: UK bank regulation limits to transfers; open impact on hedge accounting (IFRS).

Contact Details

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Annex

Siemens Treasury Overview

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On behalf of Siemens, we act as a center of expertise for all aspects of financial risk management, Company financing and payment transactions.

We concentrate Company-wide liquidity on a daily basis, effect global internal and external payment transactions, optimize financial risks and manage the treasury-related processes and activities of Siemens.

- Global management of Group liquidity and financing for Siemens
- Bank-relationship management to limit the increasing counterpart risk from bank exposure
- Bank-account management
- Centralized management of interest rate, currency, liquidity and credit risk
- Accounting for all financial processes, including fully automated posting of all transactions
- Management of short-term liquidity to ensure the ability to pay all liabilities

Siemens Company-wide Preparations

A complex and uncertain process like Brexit creates challenges for a complex and high profile business like Siemens

- Our approach has been to avoid ‘running commentary’ on negotiations, but have urged two sides to find agreement quickly, including a transitional period
- Engaged with UK Government and EU institutions on practical concerns
- Undertaken rigorous impact assessments (internal and supported by PWC)
- Taking steps to mitigate impact of ‘No Deal’ scenario to minimise impact on operations and disruptions to customers, including:
  - Improving customs systems and ability to ramp up resource if required. Also involving customers and our supplier base.
  - Support for affected Siemens employees in UK and EU
- As global company we already supply goods and services to customers around the world and will adapt as necessary but Brexit still presents challenges and need for potential adjustments