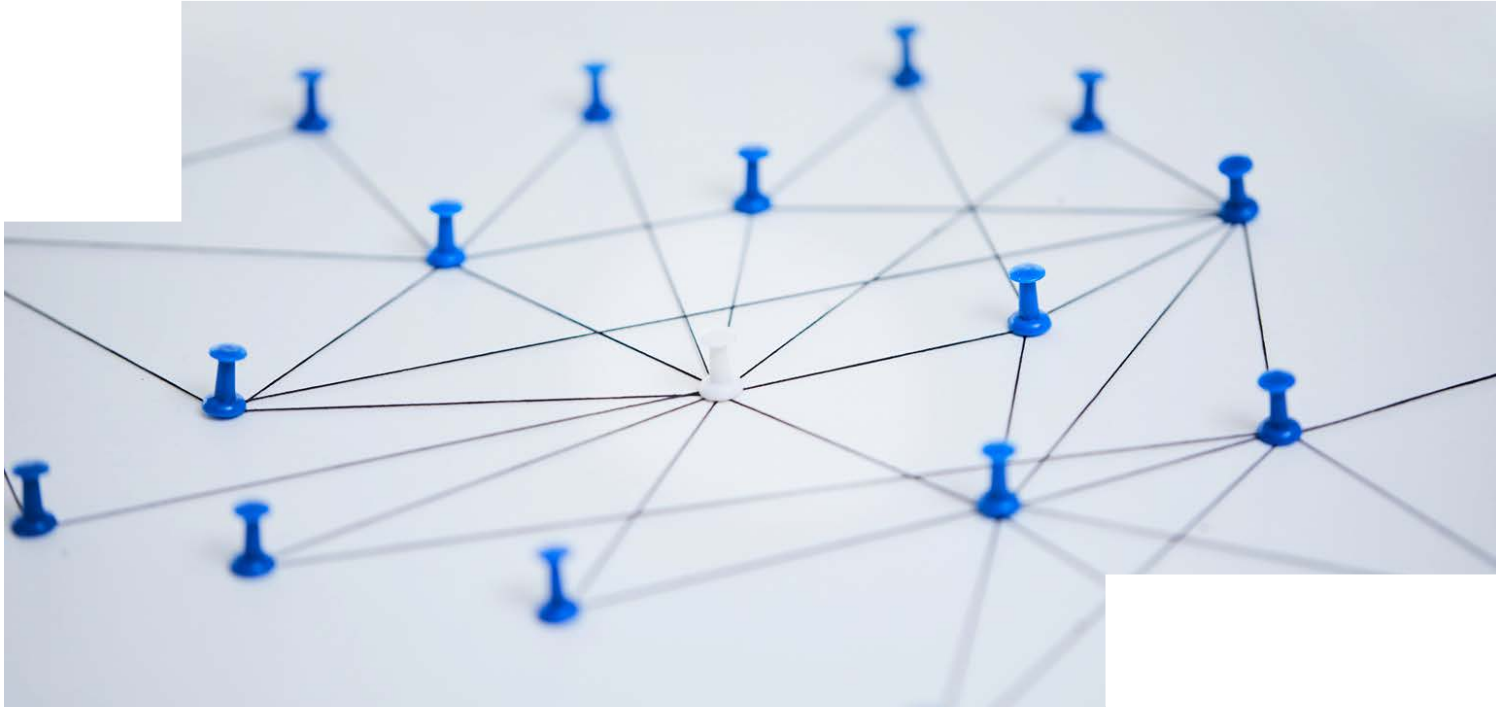
CREDIT SUISSE

# Brexit Planning with Credit Suisse

Global Markets

October 2018



PRELIMINARY | SUBJECT TO FURTHER REVIEW AND EVALUATION

# Background

The UK is currently legally bound to leave the European Union at 11pm GMT on 29th March 2019.  The future status of the UK and EU's relationship following Brexit is uncertain as negotiations on the terms of the divorce and future state are in-flux, but the potential outcomes are commonly described as ranging from "Hard Brexit" (crashing out of the bloc with "no deal" on trade, widgets & gadgets as well as financial services) to "Soft Brexit" (where the UK remains part of the European Single Market with commonly agreed protocols, regulatory equivalence and a transition period to finalise all the details). There is also the "in-between" outcome, which is where the UK exits the single market but remains aligned in certain areas and/or targets a comprehensive free trade deal.

The impact on Financial Services throughout Europe is significant.  Members of the EU share a common regulatory framework, with assumed "passporting" rights that allow member states to provide regulated services to one another, across borders, under a single regulatory regime - for example, MiFID II and EMIR apply throughout the EU to all members.

In a Hard Brexit scenario, the UK will lose unfettered access rights to the single market and no longer be able to passport financial services to EU27 clients.  In this case, a new settlement for financial services will be necessary, which is likely to be based on the concept of equivalence, which is itself under review in light of Brexit.

# Brexit timeline

**18 FEB 16**
Announcement of referendum

**23–24 JUN 16**
EU referendum polling day; Cameron resigns

**17 JAN 17**
May lays out Brexit strategy in Lancaster House speech including 12 Brexit negotiation aims

**29 MAR 17**
Article 50 is triggered. Two year negotiation period begins

**JUN 17**
Phase 1 of formal negotiations begins

**MAR 18**
Phase 2 of negotiations begins and transition period agreed

**30 SEPT–3 OCT 18**
Tory Party conference

**18 OCT 18**
EU council October Summit: EU's proposed Brexit negotiation deadline

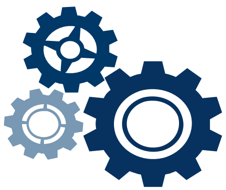
**29 MAR 19**
UK exits the EU

# Executive Summary

- Credit Suisse continues to prepare for a Hard Brexit scenario in order to provide continued services to EU clients and access to EU markets should no agreement be in place by 29th March 2019
- We intend to leverage our existing legal entity network:-
  - Our Spanish legal entity (Credit Suisse Securities Sociedad de Valores S.A. - CSSSV) has a fully approved Investment Firm License for broker-dealer activities
  - Our German legal entity (Credit Suisse Deutschland AG - CSD) will function as our Credit Institution, leveraging our existing Banking License (e.g. to perform lending activities)
- Our solution also involves reconfiguring and expanding existing operations across the EU, including offices in Madrid, Frankfurt, Paris, Milan, Stockholm and Amsterdam
  - We have long established presence in these cities and we will reinforce our teams of seasoned professionals
- Credit Suisse is committed to maintaining a presence in the UK for servicing non-EU clients
- A substantial project team and governance framework is in place across the EU program, consisting of subject matter and delivery experts accountable to the Board of Directors
- We continue to monitor UK/EU political developments, and plans may be adapted in accordance with decisions on key topics such as the Withdrawal Agreement, Transition and Contractual Continuity

# Doing business with Credit Suisse
## Global Markets clients

**What changes**



- Global Markets products in Spain and Germany:
  - Madrid will be the EU hub for broker dealer activities, leveraging our existing Investment Firm License
  - Frankfurt will be the hub for lending business, leveraging our existing Banking License

**What doesn't change**

- We are committed to solutions that minimise disruption to our clients and staff
  - Continued offering of full suite of Global Markets products in all locations
  - We will continue to call on personnel in the UK, the EU, the US and Asia Pacific as required to serve your needs. We are confident that CS will be able to support all of its clients needs, irrespective of their location
  - UK based clients will continue to be covered out of the UK and we will continue to support all of their needs

We will realign our coverage to better reflect the physical location of our clients.
**We want to serve clients wherever they are based, covering all their financial needs.**

# Global Markets Operating Model

| Planned product capability (client view) by CS EU booking entity | | | |
|---|---|---|---|
| **Product** | **Subtype** | **CSD** | **CSSSV** |
| **Lending** | Loan Origination | ✓ | |
| | Loan Sales | ✓ | |
| **Securities** | Equities (inc. Exchange Traded Funds, warrants, short coverage) | | ✓ |
| | Bonds (inc. convertibles, corporate bonds, government bonds, notes) | | ✓ |
| **Secured Financing** | Repo | | ✓ |
| **OTCs** | Bilateral | | ✓ |
| | Cleared | | ✓ |
| **FX** | Spot | | ✓ |
| **Listed Derivatives** | Futures | | ✓ |
| | Listed Options | | ✓ |

CS is operational in 9 countries across the EU today (excluding the UK) and has a significant EU resource footprint
CS's EU resource footprint will increase in response to a Hard Brexit scenario, particularly in Madrid, Frankfurt and Paris
**We will be ready to support our EEA clients whatever 29th March 2019 brings.**

# EU Client Migration

**Phase 1**

TODAY

**Client Outreach**

- An initial email outlining our plans and strategy has been sent
- Your Credit Suisse representative will be available and partner with the Credit Suisse EU Program Team for help with any queries. Alternatively, the EU program can be contacted on eu.program@credit-suisse.com
- Follow-up meetings can be also scheduled with the EU program to discuss more specific details as required

**Phase 2**

Q3 2018 onwards

**Legal Repapering**

- Any master trading documentation (e.g. ISDA, GMRA, GMSLA and Listed Derivative Agreements) and our Terms of Business will need to be repapered with CSSSV and/or CSD
- Master Replication Agreements are being drafted and sent out to clients now

**Phase 3**

Q1 2019 onwards

**Client Migration**

- Client cut over to CSSSV (CSD) will take place from Q1 2019 (assuming a Hard Brexit scenario as of 29th March 2019)
- New EU client trading activity will be conducted with CSSSV (CSD) from the point of cut over

We will continue to service all client needs from the relevant CS legal entity and location.

# What to expect

Due Diligence → Legal Repapering → Account Replication → Schedule Trading Cutover → Client Cutover → BAU on CSSSV

## Due Diligence: Rating

As of October 2018, CSSSV has received a long term rating of A.

We are currently engaged with an Agency to secure a rating for CSD.

Please contact eu.program@credit-suisse.com if you require more information on these entities.

## Legal Repapering

Credit Suisse will request that clients replicate their existing relationships (including commercial terms) to CSSSV / CSD without requesting any amendments or re-negotiation of terms (other than amendments required by local laws or regulations applicable to the new EU entity). The governing law of the new documentation is expected to remain the same as that of the existing relationship. This practical repapering approach will ensure that the transition to the new entity is as smooth, seamless and efficient as possible.

## Contractual Continuity

It is our preference that the ongoing servicing of existing UK-booked trades and lending arrangements should continue in the UK until maturity. This will help to preserve industry-wide financial stability, reduce legal uncertainty, and minimise operational risk and novation costs for both clients and banks. CS is monitoring developments on contractual continuity and actively participates in industry forums on these topics. Assuming contractual continuity, we do not expect to amend CSI & CSSEL trading agreements currently in place with clients, as they will continue to govern existing trades.

## Client Cutover

A dedicated team of client migration specialists have set up a clear and comprehensive governance and processing framework for all Global Market products. This team will guide clients through the process, agreeing cutover dates and ensuring that the migration to CSSSV (and/or CSD) is seamless.

# Frequently Asked Questions

| Category | Question | Credit Suisse Response |
|---|---|---|
| General | How do you define an EU client? | The following logic for in scope EU clients has been defined with advice from external counsel:-<br>• If the person with whom CS are speaking to; or the domicile of the contractual counterparty (i.e. the jurisdiction of incorporation/residence of the client with whom CS are executing the trade) is located within the EU, we need to consider migrating the client to an EU entity.<br>• Luxembourg and Ireland are two jurisdictions that allow most services to be provided on a cross border basis from non-EU countries, and can be excluded from migration plans.<br>• Other exceptions to the general approach will be evaluated on a case-by-case basis: i.e. where the fund is managed on a fully discretionary basis, where CS only ever interacts with the fund manager or a centralised execution desk. |
| | Will the products offered by Credit Suisse change? | • No, the product offering will not change. |
| | Will there be a change in how I engage with Credit Suisse? | • Once you have been migrated to CSSSV/CSD then we expect execution to be carried out from these entities. This means that EU clients will be serviced by sales personnel based in the EU. |
| Legal | Will there be a change in insolvency law when I migrate to CSSSV? | • No, CSI will be appointed as the Process Agent for CSSSV in respect of any proceedings in English courts (CSSSV's documentation will remain subject to English law). |
| | Will there be a change in how my deposits are guaranteed when I migrate to CSSSV? | • CSSSV is a participant in Spain's Spanish Investment Guarantee Fund that entitles certain claimants to compensation in the event of insolvency. |

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| General | What is the tax and accounting impact of migrating to CSSSV/CSD? | • CSSSV requires all clients to provide annual corporate tax certification.<br>• Different jurisdictions may apply different legal, tax and accounting rules, and the application of such rules may depend on individual facts and circumstances.<br>• Credit Suisse does not provide legal, tax or accounting advice and where necessary clients should seek independent professional advice. |
| | Will I need to amend Standard Settlement Instructions (SSI's) if I migrate to CSSSV? | • Yes, CSSSV SSI's will be made available in due course. |
| | What is the CSSSV LEI and BIC Code? | • CSSSV BIC Code: CRESESM2XXX<br>• CSSSV LEI: 959800TMGPWX7NYM4R72 |
| Product-Specific | What will happen to my Loan Agreements? | • The current assumption is that existing loans can remain in place and do not need to be moved to a different legal entity unless a lifecycle event occurs (e.g. amendment, extension, restructuring, refinancing) and one of the borrowers is in a jurisdiction where lending is a regulated activity.<br>• Should this change, we would migrate the existing loan portfolio as appropriate and move the loans to Credit Suisse (Deutschland) Aktiengesellschaft (CSD).<br>In either scenario, we are focused on ensuring that we remain able to service the loans we have extended to our clients. |
| Product-Specific | Will I be able to novate open trades from CSI/CSSEL to CSSSV? | • Credit Suisse will work with clients to ensure that all novation requests are processed. However, repapering and cutover of clients to CSSSV throughout Q1 2019 will remain a priority. |
| | Will you be using the court sanctioned Part VII Transfer to move my positions from CSI/CSSEL to CSSSV? | • No, CSI & CSSEL are not deposit taking institutions so they are not eligible to use this process to transfer trades. |

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| Product-Specific | What about my Listed and OTC Derivatives positions? | • The most significant issue for the derivatives market is the ability for EU27 entities to access UK CCPs post-Brexit. EMIR Mandatory Clearing rules stipulate that in-scope EU banks and end-users must clear their derivatives through an Authorised CCP. In practice this means an EU CCP or a qualifying CCP within a "third-country" that has been deemed equivalent (e.g. CME in the US).<br>• This is particularly problematic because LCH (a UK CCP) clears the vast majority of interest rate swaps globally – by far the largest class of derivatives subject to the clearing rules. Similar issues exist with ICE Clear Europe and LME Clear for their respective product sets.<br>• Without regulatory intervention on the part of the EU, to stay compliant, the bloc's banks and end-users will be required to unwind their positions at the UK CCPs and initiate new swaps to be cleared at authorised CCPs. This fragmentation of liquidity and the sheer number of impacted transactions is causing many to fret about the frictional cost of moving the business and whether it's even possible to get it done in time.<br>• To add further urgency to the situation, several UK CCPs including LCH have announced that they are required to give 90 days' notice to terminate member agreements. This brings forward the crunch-date to December, as UK CCPs would be forced to issue their termination notices in time to hit the March 29th deadline. This particular issue has come into sharp focus over the last few weeks, with the Bank of England and industry bodies calling for urgent intervention to address the uncertainty.<br>• Steven Maijoor's (Chairman of ESMA) comments about a "memorandums of understanding" with the FCA on the issue goes some way to calming the nerves, but the market will need to wait for more formal guidance before breathing a collective sigh of relief.<br>• Please note that all EU exchanges, other trading venues and CCP's will be connected to CSSSV (the Spanish exchange is already accessed from CSSSV today) for our EU clients.<br>• Where possible Credit Suisse Intl. (CSI) will continue to access CCP's from the UK. CS will hold dual memberships where CSSSV and CSI are members of EU CCPs to facilitate EU client activity and internal hedging via the CCPs. |

# Contact us

## Adapt now.
## Thrive tomorrow.

Credit Suisse has a dedicated EU Program Team which can be contacted at eu.program@credit-suisse.com for general enquiries

## IMPORTANT NOTICE – PLEASE READ