Brexit – a supervisory outlook
how to mitigate risks

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Brexit – potential cliff effects
(non-exhaustive enumeration)

- **Financial Market Infrastructure**
  (Securities settlement systems; Central counterparties (CCP))

- **Contract continuity**
  derivative contracts ... insurance contracts

- **Equivalence**
  ...financial regulation ... data protection
  ...risk weighting ... cover funds for mortgage Pfandbriefe ...

- **Market access**
  insurer, mutual funds, payment services, banks
3 key questions...

- How can we avoid arbitrage?
- How can banks/competent authority achieve finalization of approval processes in time?
- What are the operating models / governance arrangements we want to be in place in which time?
Authorisation is an SSM common procedure

Quasi-licensing if change of business model / scope

BaFin: dedicated teams

cooperation with Deutsche Bundesbank and ECB case handler

Pre-application phase

Draft application

Official approval process

ECB involvement depending on SI/LSI status
Operating model

Frequent issues of discussion

No letterbox
- Adequate management & control functions
- Staffing

Booking model
- Remote booking
- Intragroup back-to-back hedging
- Split hedging

Dual hatting
- Cross border
- Domestic

3rd country branch in UK
- Passporting back to EU 27?
- Providing service functions
Internal Models: Timing the Approval Process to the Brexit

2017

Governance
Defining Operating Model
Filing Model Application
Model Use for Risk Mgmt
Commenting on Decision
Risk mitigation project
Remediation of Findings
Overall Improvements

Processes
Design phase
Processes go live
Internal Audit
KPI Reporting Standards
Performance Analysis
Remediation of Findings
Process Optimization

Stochastic Model
Risk engine ramp up
Start of Prototype
Backtesting Time Series
Model Validation
Go-live for Production
Remediation of Findings
Model Change Application

Competent Authority
First Talks
Pre-Visits Inspection Plan
Expectation Mgmt
Decision
Tentative Approval
Monitoring
Return to normal

Model Investigation
... Docs Request
On-site Inspection
Assessment Report
... Off-site Analyses
Follow-up Inspection

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The greatest challenge to any thinker is stating the problem in a way that will allow a solution.

(Bertrand Russell 1872-1970)