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BREXIT TASK FORCE: MARCH 2018 UPDATE

Brexit Task Force

BREXIT TASK FORCE: MARCH 2018 UPDATE

Introduction

The quarterly reports of the Brexit Task Force (BTF) provide updates on political, economic and financial market developments since the referendum, risks arising for firms supervised by the Bank and issues arising for the Bank itself in particular pertaining to authorisations. Within this report, the BTF aims to provide updated information on these topics alongside more in-depth analysis of issues and policy questions arising from Brexit. An executive summary is provided overleaf, followed by a glossary and the report in full is provided in an accompanying document.

The Commission is requested to note the overview and update of the Brexit Task Force: March 2018 Report.

Executive Summary

- Three distinct but interrelated areas of work are now underway under Phase 2 of the Article 50 negotiations, relating to: (i) the withdrawal agreement; (ii) transitional arrangements; and (iii) the framework on the future relationship.
- The UK has outlined its intention to leave the Single Market, and to leave the EU Customs Union so that it can pursue trade deals with third countries outside of the EU. The UK has also set out the objective of securing a bold and ambitious Free Trade Agreement with the EU covering both goods and services.
- [Omitted due to confidentiality.] The EU (Withdrawal) Bill, which aims to repeal the EU Communities Act 1972 and convert EU law into UK law, is continuing to progress through the UK Houses of Parliament. The House of Lords Committee stage commenced on 21 February 2018 with a number of amendments being proposed. Additionally, of note is a proposed amendment to the Trade Bill calling for the UK to remain in a Customs Union. Furthermore, the recent intervention from Labour Party leader Jeremy Corbyn outlining support for the UK staying in a customs union has generated a lot of media discussion.
- UK economic growth picked up during the second half of 2017, supported by strong global growth and the sterling depreciation. The latter has though adversely affected household consumption due to its impact on real incomes. Reduced slack in the economy is expected to add to inflationary pressures and the possibility of interest rates rising at a steeper pace than previously thought has been signalled by the Bank of England.
- Since the December Task Force report, sterling has declined modestly against the euro, by 0.4 per cent, but has gained almost 5 per cent against the US dollar.
- For Ireland, the main Brexit effects continue to centre on the exchange rate and specifically the pass through to consumer prices. A marked fall off in new car sales appears to reflect exchange rate movements and the relative price competitiveness of used cars from the UK.
- The trade performance of many of the indigenous sectors, including agri-food, has been strong and overall exports to the UK were up by 8 per cent in 2017; imports from the UK were up 10 per cent over the same period.
- In February 2018, Copenhagen Economics published a study on the impact of Brexit on Ireland using a Computable General Equilibrium model. The losses under all scenarios are

more severe than Bank / ESRI estimates, reflecting different assumptions and modelling approaches.

- Analytical work currently underway in the Bank on macroeconomic issues includes new macro modelling estimates of the effects of a hard Brexit and research to quantify the effects of non-tariff barriers on trade within the EU and Ireland.

- Section 3.4 of the Report outlines some findings from recent surveys carried out by EY and Financial Times Research regarding the relocation plans of leading financial services firms post-Brexit.

- Banking Supervision Division (BSD) has developed a framework to facilitate a coordinated approach within BSD to understand, analyse, address and mitigate Brexit related risks. The framework and its output will inform on-going supervisory engagement with the banks. A core team has been created – the Brexit Co-Ordination Group - to oversee and partake in the day-to-day work, with assistance of a project manager. It will report to a BSD Brexit Steering Committee, composed of BSD management.

- For the Irish banking sector, Brexit effects have been benign with no material impact reported on funding/liquidity or credit quality. Supervision teams are beginning to see developments as Irish banks seek to ensure business continuity post-Brexit. Specifically, banks are starting the process of seeking necessary authorisations to maintain existing structures – and the details are provided in the Report.

- The methodology for the EBA stress test was announced on 31 January [Omitted due to confidentiality]. The adverse scenario encompasses a wide range of macroeconomic risks that could be associated with Brexit.

- [Omitted due to confidentiality.]

- AMS has issued letters to all existing firms seeking an update on both the impact of and preparation for Brexit. The letter is particularly relevant for firms that have established a branch in the UK or who offer their products/services there via Freedom of Services. Supervisors are currently analysing the responses received to date and following up with entities that have yet to respond.

- [Omitted due to confidentiality.]

- A collation of Divisional information on authorisation activity is presented in section 5. It indicates […] Brexit-related authorisations and […] applications in progress overall as at 20 February. An overview of Central Bank engagement on Brexit issues at European level is presented in section 6.

- The ***first special topic*** provides an update of the work underway across the Bank on potential cliff effects of a hard Brexit (no deal and no transition). The key risks that have emerged from the preliminary analysis are: (i) lack of service continuity for insurance contracts; (ii) loss of market access in relation to Central Counterparties (CCPs) and Central Securities Depositories (CSDs); (iii) loss of passporting, particularly in the case of fund management; and (iv) lack of equivalence across all sectors but particularly in the context of data protection.

- [Omitted due to confidentiality.]

- The ***second special topic*** looks at existing Free Trade Agreements (FTAs) between the EU and non-European countries which provide insight into potential future relations between the UK and EU. In New Generation FTAs (e.g. with Canada, Singapore, South Korea and Japan), tariffs on virtually all goods are eliminated. However, exceptions prevail and can be asymmetrical, especially in the agricultural sector. Zero tariffs do not imply zero transaction costs.

- For trade in services, EU FTAs generally provide market access based on the General Agreement on Trade in Services (GATS) and in some cases beyond that. Financial services are in general subject to a prudential carve out and long lists of reservations by virtually all EU countries. Overall, even if new generation FTAs indicate a desire to go beyond the standard tariff elimination to tackle non-tariff barriers, these agreements are still far away from the achievement of passporting and Single Market regimes.

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1. Introduction[1]

Following the Brexit referendum, the Bank's Financial Stability Committee (FSC) requested that a Task Force on Brexit implications be established on a permanent basis to monitor and assess developments in this area. The Brexit Task Force (BTF) provides updated information regarding political, economic and financial market developments, risks arising for firms supervised by the central Bank and issues arising for the Bank itself, in particular with respect to authorisations. Furthermore, each report selects a number of issues or policy questions related to Brexit and provides an in-depth examination of these areas.

This seventh BTF Report follows the seventh meeting of the Task Force on 12 February 2018. The layout of the Report is as follows. Section two provides an update on political developments, the performance of the UK economy and property market and financial market movements over the past three months. Section three discusses the changes to the outlook for the Irish economy and property market in the context of Brexit. Section four provides an overview of latest developments in relation to banks, insurance and asset management firms, payments institutions and market infrastructures. In Section five, information relating to queries received by the Bank in relation to potential applications for authorisations is presented. Presented in section six is an overview of the work conducted by the various European Supervisory Authorities, the ECB and the SSM in relation to Brexit, including an overview of the participation of Bank staff in this work. Sections seven and eight provide in-depth analysis on a number of special topics. The first discusses a recently conducted sector wide analysis of the potential cliff effects of a hard Brexit (no deal, no transition) with a view to prioritising the risks which should be a key focus for firms and for supervisors. The second examines recent Free Trade Agreements (FTAs) between the EU and non-European countries with a view to understanding what a future relation between the European Union (EU) and the United Kingdom (UK) could look like.

[1] The following Divisions and Directorates are represented on the Brexit Task Force: AMSD, AMAI, BSSD, CPD, FMD, FRG, FSD, GSD, IEA, IR, SMSD, INSA, MPD, ORD, Risk, SRD, PSSD, RES, RCU. The report has also benefited from discussions with the Department of Finance. The Chair is the Director of Economics and Statistics and the Secretariat (Ellen Ryan, Shane Byrne and Sofia Velasco) is provided by FSD.

2. Political and Market Developments

2.1. Political UK developments

Article 50 negotiations state of play

At the December European Council (Article 50 format meeting i.e. without the UK) EU leaders adopted Guidelines which ratified the recommendation of Chief Negotiator Barnier that "sufficient progress" has been reached on Phase 1 of the negotiations. This recommendation was made on the basis of a joint EU-UK progress report (8 Dec.), which set out agreement on the main Phase 1 issues (Financial Settlement, Citizens Rights, and Ireland), and enables progress to Phase 2. As outlined in the joint report, Irish specific issues will continue to be taken forward in a distinct strand of the negotiations in Phase two.

In terms of taking forward Phase 2, there are three distinct but interrelated areas of work:

1. *The Withdrawal Agreement:* As set out in the December European Guidelines (Article 50), 'negotiations in the second phase can only progress as long as commitments undertaken during the first phase are respected in full and translated faithfully into legal terms'. In that regard the Commission Task Force has prepared draft text for the Withdrawal Agreement, which seeks to translate the commitments made by the UK in phase one on the exit issues of the financial settlement, citizens' rights, and the Irish specific issues into legal terms. The draft EU Withdrawal Agreement, was published by the Commission on 28 February and will now be considered by the EU27 ahead of the Task Force's negotiations with the UK.

2. *Transitional Arrangements:* The December Guidelines also set out agreement to 'negotiate a transition period covering the whole of the EU acquis'. Additional negotiating directives on transitional arrangements were adopted by the General Affairs Council (Art.50) on 29 January 2018, following internal EU negotiations. The adopted directives give a mandate to the Commission to begin negotiations with the UK on this issue. The intention is that the transitional arrangements will form an integral part of the Withdrawal Agreement and seeks to ensure that the status quo will apply for the entire UK until the end of the transition period.

3. *Framework on the Future Relationship:* In the December Guidelines, the European Council also invited 'the Council together with the Union negotiator to continue internal preparatory discussions, including the scope of the framework for the future relationship'. This is with a view to agreeing additional Guidelines at the European Council on 22-23 March 2018, in particular as regards the framework for the future relationship. This was also to provide time for the UK to clarify its position on the future relationship, upon which the EU will 'calibrate' its approach. If agreed by the European Council on 22-23 March, these guidelines will need to be translated into negotiating directives which could be adopted by the General Affairs Council (Article 50) on 17 April.

UK developments

As regards the UK's approach to the future relationship, the UK has outlined its intention to leave the Single Market, and to leave the EU Customs Union so that it can pursue trade deals with third countries outside of the EU. The UK has also set out the objective of securing a bold and ambitious Free Trade Agreement with the EU covering both goods and services.

[Omitted due to confidentiality.] PM May outlined in her Florence speech (22 September 2017) that a bespoke arrangement would be required.

[Omitted due to confidentiality.]

[Omitted due to confidentiality.] The EU (Withdrawal) Bill, which aims to repeal the EU Communities Act 1972 and convert EU law into UK law, is continuing to progress through the UK Houses of Parliament. The House of Lords Committee stage commenced on 21 February with a number of amendments being proposed. Additionally, of note is a proposed amendment to the Trade Bill calling for the UK to remain in a Customs Union. Furthermore, the recent intervention from Labour Party leader Jeremy Corbyn outlining support for the UK staying in a customs union has generated a lot of media discussion.

Irish Position

The Irish Government remains clear on Ireland's headline priorities, which are: protect the peace process, no hard border, maintenance of the Common Travel Area, an effective transitional arrangement leading to the closest possible relationship between the EU and the UK, and to work for the future of the European Union with Ireland at its heart.

The Government welcomes the progress achieved in Phase 1 of the negotiations. With regard to Irish issues, the Government is satisfied that it attained the goals that it set out to achieve - securing concrete commitments on the maintenance of the Common Travel Area, the protection of the Good Friday Agreement in all its parts, and with regard to securing clear and strong commitments on avoiding a hard border and on how this will be achieved.

The Irish Government has always been clear that its preference is to avoid a hard border through a wider future relationship agreement between the EU and the UK, a view shared with the British government. At the same time, and should it prove necessary, there is now the necessary legal provision to implement the backstop of maintaining full alignment in Northern Ireland with those rules of the Single Market and Customs Union necessary to protect North South cooperation and to avoid a hard border.

Similarly, with regard to transitional arrangements, the Government welcomes that the EU has proposed that the whole of the EU acquis will apply during the transition, with the aim of avoiding any gaps or cliff edge effects between the UK leaving the EU and when a future relationship agreement enters into force.

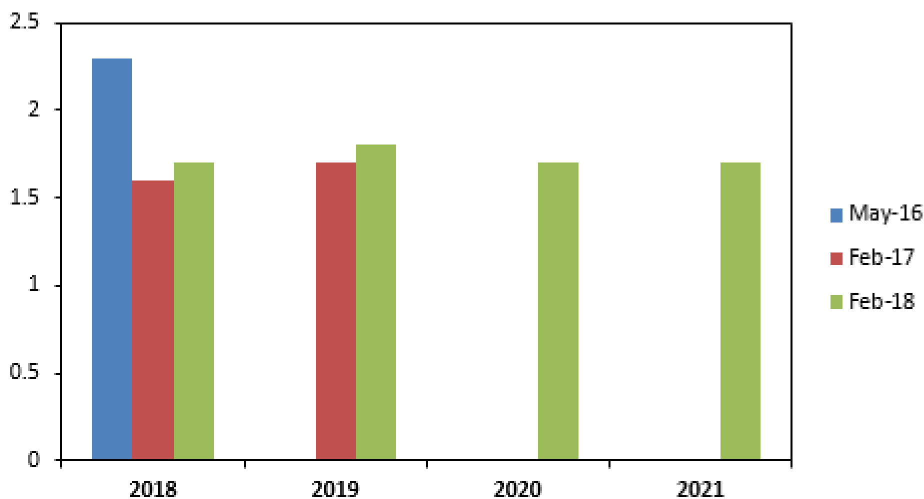
2.2. UK economic and property market developments

2.2.1. Macroeconomy

UK GDP growth picked up over the second half of 2017 and growth of 0.5 per cent in 2017 Q4 exceeded projections in the Bank of England's November Inflation Report by 0.1 per cent. Strong global growth and sterling depreciation has supported net trade and business investment, although the latter is still held back by Brexit-related uncertainty. This was further offset by weak consumption growth, as households continue to be affected by reduction in real incomes following the post-referendum sterling depreciation.

Chart 2.2.1 compares growth forecasts laid out in the February 2018 inflation report with those from the February 2017 report and the last report prior to the Brexit referendum (May 2016). While the broad-based strengthening of global demand over the past year has led to some upward revisions to forecasts, they remain much lower than those laid out prior to the referendum.

Chart 2.2.1: Bank of England GDP growth forecasts (%) vs. previous year and since pre-referendum Inflation Report



The Bank of England's February Inflation Report also lays out a number of developments on the supply side of the economy which may lead to reduction in potential output (the level at which the economy can operate without increasing inflationary pressures), following the Monetary Policy Committee's (MPC) annual assessment of supply-side conditions. This assessment considers both the degree of slack in the economy (distance from potential) and developments in potential output variables themselves.

Strong employment growth throughout 2017 has resulted in a further decrease of slack in the labour market as measured by a range of metrics. For example, survey measures of recruitment difficulties are above their past averages and most picked up further in 2017 Q4. The unemployment rate fell to 4.3% in the three months to November 2017 and the Bank of England expects it to remain at that level in coming months.

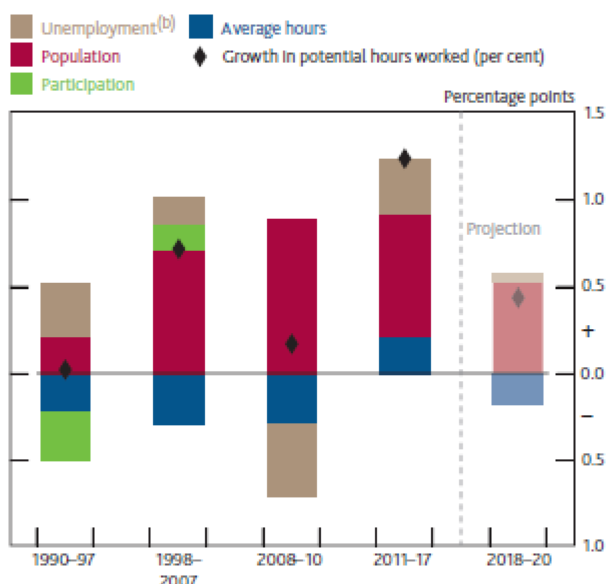
Based on a range of evidence, the MPC judges that the long-term equilibrium (potential) unemployment rate is around 4.25 per cent. This is slightly below the rate considered a year ago and broadly in line with current unemployment rates. A key input into estimating this equilibrium rate is forecasted population growth, which is assumed to evolve in line with the ONS's principal projection. The most recent projection published in October 2017 assumes slower growth in the working age population due to lower net migration (Chart 2.2.2). The participation rate is expected to remain broadly unchanged, while hours worked are expected to fall slightly due to the increasing proportion of the population in older age groups.

Within companies on the other hand there is considered to be scope for an expansion of output through more intensive use of existing labour. For example, according to the Labour Force Survey, the share of part-time workers who would prefer a full-time job is falling but above pre-crisis levels. However, while some slack remains, weak productivity growth since the financial crisis has had a detrimental impact on potential output (Chart 2.2.3). The Bank of England expects the outlook for productivity growth to be further affected by changes in trading arrangements arising from Brexit. These could include disruption to trade and supply change

and the impact of uncertainty on business investment in capital stock. Based on these factors the MPC judges that very little slack remains in the economy and the rate of potential growth is projected to be subdued and approximately 1.5 per cent.

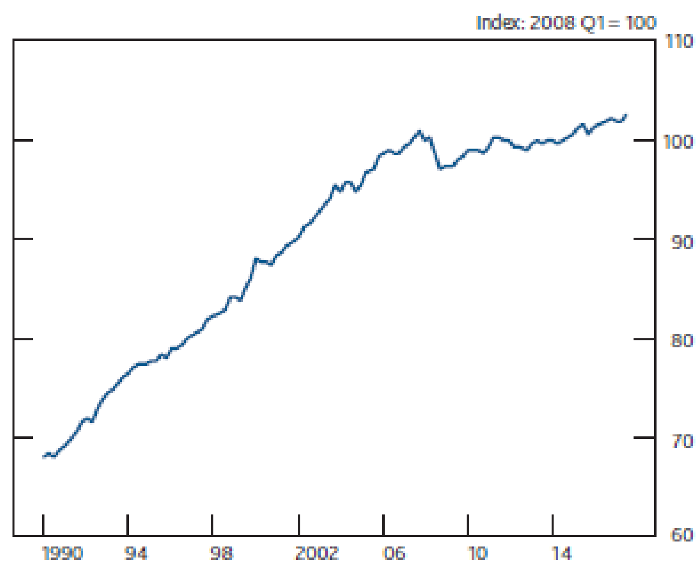
Taking these factors into consideration, the MPC chose to maintain the official Bank Rate at 0.5 per cent at its February meeting. While the recent increase in inflationary pressure is attributed to the sterling depreciation, reduced slack in the economy is expected to create inflationary pressure over time. As such, the possibility of further rate hikes to bring inflation back in line with 2 per cent target (from its current level of 3 per cent) has been signalled by Governor Carney.

Chart 2.2.2: Contributions to annual growth in estimated potential hours worked



Source: Bank of England.
(a) Annual averages. Faded diamond and bars are projections.
(b) Positive bars indicate that a fall in the short-run equilibrium unemployment rate has
increased potential labour supply.

Chart 2.2.3: Whole-economy hourly labour productivity(a)



Source: Bank of England.
(a) Output per hour based on the backcast for the final estimate of GDP.

2.2.2. Property market

UK commercial real estate (CRE)

The UK commercial property market performed relatively robustly throughout 2017. Quarterly returns of 2.9 per cent were realised by UK CRE investors in the final three months of 2017, the highest since 2015Q4 Chart 2.2.4. Annualised total returns have also been rising steadily in recent quarters, reaching 10.2 per cent at the end of last year. Appreciating capital values have been a key driver of returns. Commercial property capital values in the UK, posted an increase of 1.7 per cent in the final quarter of 2017, leaving them 5.2 per cent higher for the year and 3.6 per cent above the level recorded in the immediate aftermath of the Brexit referendum. Similarly, the commercial property rental index is 3.1 per cent higher than its June 2016 mark, following a quarterly rise of 0.7per cent in 2017Q4. [2]

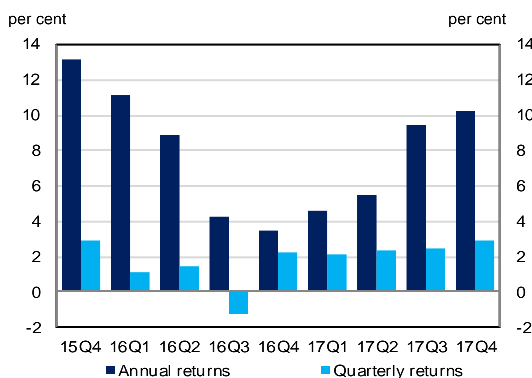
[2] Annual rental values increased by 2.2 per cent in 2017.

Behind the aggregate figures, however, there are signs that the UK CRE market is becoming increasingly polarised, with significant gains occurring in some sectors, while others struggle to recover to mid-2016 levels. The industrial/logistics sector has performed strongly on the back of a particularly buoyant London market, where year-on-year capital and rental value growth reached 20.3 per cent and 8.4 per cent respectively for 2017 Chart 2.2.5.[3] At 8.3 per cent and 2.8 per cent respectively, annual capital and rental value growth for industrial properties across the rest of the UK (RUK), was also quite substantial.

In contrast, conditions in the broader office and retail markets were a little more subdued. Annual capital values in these markets increased by 3.6 and 1.7 per cent respectively. Respective rental values were up 1.5 and 1.1 per cent year-on-year. While the London retail market continues to outperform RUK and capital gains in the London office market have remained relatively stable, there are emerging signs of weakness in these key markets. According to Goodbody stockbrokers[4], offices in London's West End have experienced a decline in market rental values for the first time since 2008, prompting leaseholders to seek greater flexibility. In addition, shopping centre market rents across the UK have been anaemic for some time now. The erosion of occupier sentiment, coupled with an increase in incentives offered by property owners, serve to reduce income streams and increase income risk in portfolios.

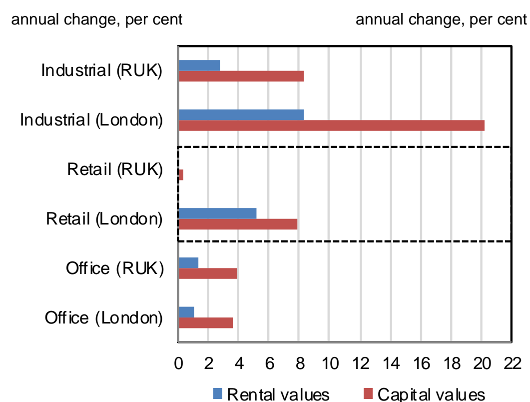
Elsewhere, survey evidence from RICS[5] shows the retail sector continuing to significantly lag behind its counterparts in terms of capital value and growth expectations, especially so outside of London. A sizeable cohort of participants are also of the view that there is an absence of value in the London market at present, as 63 per cent of respondents consider the London CRE market to be overpriced. In fact, having dropped to 42 per cent at the end of 2016, this proportion has been steadily on the rise throughout the course of 2017.

Chart 2.2.4: Total returns on UK commercial property



Source: MSCI/IPD and Central Bank of Ireland calculations.

Chart 2.2.5: UK CRE capital and rental value growth by sector and location - 2017



Source: MSCI/IPD and central Bank of Ireland calculations.

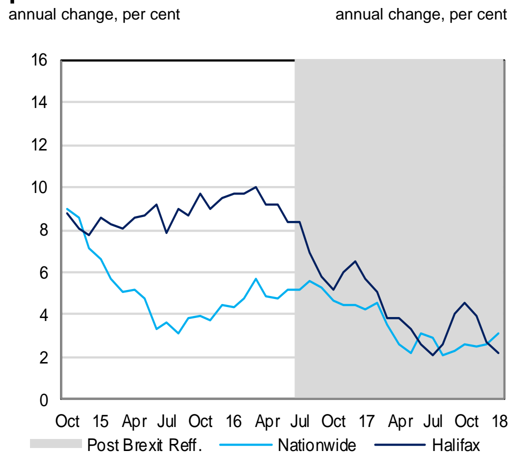
UK residential real estate (RRE)

Activity in the UK residential mortgage market picked up in the closing months of 2017. According to data from Finance UK, the 77,600 mortgages written in November represented a monthly increase of nearly 7 per cent on the October figure and was 14 per cent higher than the number of drawdowns in November 2016. Should the number of new mortgages in December

[3] The overall UK industrial/logistics property market registered annual capital growth of 13.9 per cent and annual rental value growth of 5.3 per cent in 2017.
[4] See "UK commercial property: income growth prospects evaporating in key investment segments", Goodbody stockbrokers, January 2018.
[5] See [RICS Q4 2017, UK commercial property market survey](#).

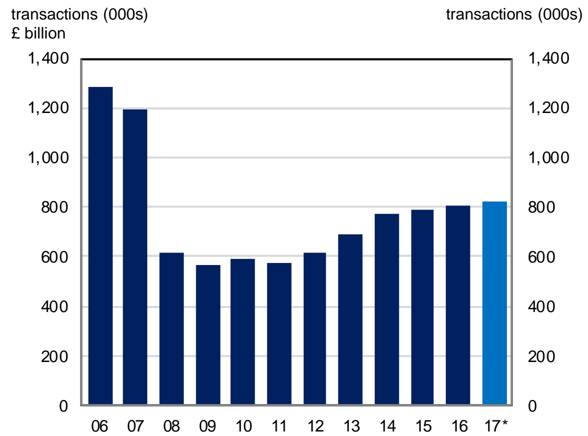
2017 be similar to the quantity originated in December 2016, total annual mortgage transactions for 2017 (at approximately 820,000), would be the highest since 2007, though still some 30 per cent below that level Chart 2.2.7.

Chart 2.2.6: Annual growth in UK house prices



Source: Halifax and Nationwide HPIs (via datastream).

Chart 2.2.7: UK residential mortgage drawdowns



Source: UK Finance
Note: December 2017 data not available at time of writing – 2017 total represents the sum of the 12-month total ending November 2017.
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The RICS "UK Residential Market Survey" can be a useful source of information for what may lie ahead for the UK housing market. The main findings of the January 2018 edition point to a sluggish start to 2018. The majority of participants expect buyer enquiries, seller instructions and sales completions to fall in the months ahead. Headline house prices are expected to remain flat over the near term (3 months), however, over a longer time horizon (1 year), a greater number of participants expect house prices to increase in eleven of the twelve regions surveyed – with London proving the exception.

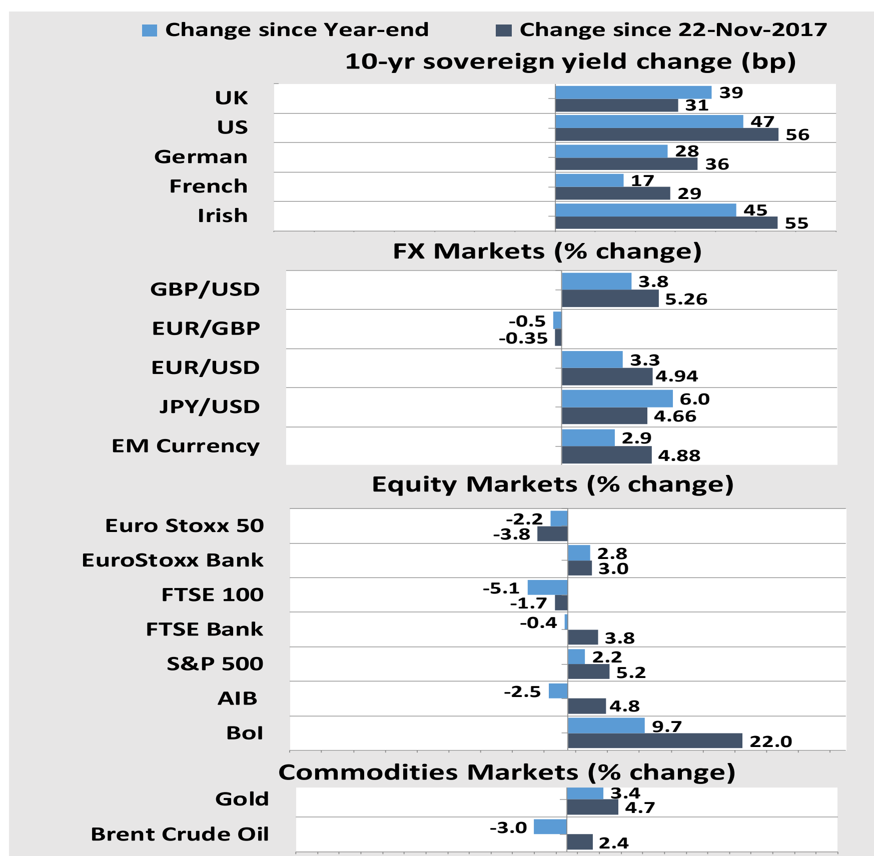
[Omitted due to confidentiality.] In the opening month of this year house prices grew at an annual rate of 3.1 per cent according to Nationwide, down from 4.2 per cent in January 2017. The equivalent figures from Halifax are 2.2 per cent and 5.7 per cent respectively. There is a divergence between the series in terms of house price developments in the closing months of 2017. Whereas the annual rate of house price growth as calculated by Nationwide remained relatively stable at about 2.5 per cent in the final three months of the year, as per Halifax the rate slowed notably from 4.5 per cent in October 2017.

2.3. Financial market developments

The following section provides an update on the main financial market developments, covering the period since the last update to the Financial Stability Committee (FSC). Section 2.3.1 provides an update on primary market themes over this period, and section 2.3.2 discusses the ongoing market impact of the Brexit process. In summary, global bond yields moved higher amidst rising inflation expectations and tighter monetary policy from global central banks. The US dollar was weaker over the period, while global equity markets were generally lower. Chart 2.3.1 below summarises the main market moves from 22 November 2017 to 16 February 2018.

2.3.1. Key market themes

Chart 2.3.1: Main market moves (22 Nov. 2017 – 16 Feb. 2018)



The key markets themes in more detail, as presented in Chart 2.3.1 included:

- Euro area government bond yields have moved higher since the last FSC meeting in December. The release of the minutes from the December Governing Council meeting, which were perceived as hawkish by the market, led to an acceleration of the increase in bond yields, as the 10-year German sovereign yield reached its highest level since September 2015 (currently trading at 74 basis points (bps), representing an increase of 36bps over the period). Euro area spreads to Germany also tightened amid positive economic data and despite a large amount of non-core government bond supply.
- US 2-year and 10-year Treasury yields also increased since the last FSC meeting, rising by 33 and 41 bps respectively. Market analysts are attributing this steepening of the yield curve to the anticipated increase in net US Treasury supply, following the approval of the US tax bill and the Bipartisan Budget Act. As investors expect a widening US deficit to increase Treasury issuance, bond prices came under pressure, with demand also expected to diminish as the Fed continues to shrink its balance sheet. Market participants also priced in a more severe hiking cycle from the Federal Reserve (Fed) over the period.
- The US dollar has continued to decline, weakening by 3.3 per cent against both the euro (currently $1.2356) and on a trade weighted basis since the beginning of the year. This weakness has persisted despite strong economic releases from the US and expectations of further rate hikes from the Fed this year. Certain market participants are attributing this weakness in the currency to the rising US fiscal and current account deficits, with

investors also turning towards other regions where economic recoveries are less developed and assets are less expensive.

- Global stock markets experienced a dramatic sell-off early in February as investors became concerned that markets had under-priced the likelihood of higher central bank policy rates to keep inflation under control. As investors priced in the effect of higher interest rates on profitability for companies already trading at elevated valuations, a sharp correction in global equities and a significant increase in stock market volatility was observed. A further contributor was the overcrowded "short volatility trade" and the proliferation of index tracking investment strategies. Market participants believed that as equity prices fell, the dramatic increase in volatility prompted certain strategies to automatically sell stocks to reduce overall risk, leading to a further decline in prices.
- Brent crude prices followed equity markets lower in early February before recovering somewhat to trade at $65 per barrel. Gold has generally moved higher (by 4 per cent to $1,337) over the period as expectations for increased inflation have risen.

2.3.2. Update on Brexit process and related market moves

Sterling has declined marginally against the euro since the last FSC meeting (down 0.4 per cent), but has gained almost 5 per cent against the US dollar (see Chart 2.3.2). Having moved as low as $1.20 in January 2017, sterling is now trading at $1.40 – just 5.9 per cent below pre-Brexit referendum levels. As described above, the US dollar has been on a downward trend against its peers generally since early 2017, with this trend accelerating since the beginning of this year. Markets do not seem to be pricing in significant sterling weakness during the next phase of Brexit negotiations. This view can be seen in risk reversals (i.e. the difference between the price of call and put options on sterling), which illustrates the difference in option premia against significant appreciation (calls) versus significant depreciation (puts) of EURGBP. The put option premium (against a weakening of sterling) is only marginally higher than the equivalent premium for a sterling call option over the next two to six months.

As laid out in Section 2.2, the Bank of England (BOE) maintained the official Bank Rate at 0.5% at its monetary policy committee meeting on 7 February. However, Governor Mark Carney said that UK rates may need to rise at a steeper pace than previously thought to prevent the UK economy from overheating. CPI inflation in the UK fell from 3.1 per cent in November to 3 per cent in December (remaining at this level in January) and is expected to remain at around 3 per cent in the short term. The BOE want to return inflation to the 2 per cent target over "a more conventional horizon", in a sign that policy makers are attempting to tackle price growth over two years rather than three. The comments boosted market expectations of a UK rate hike with investors now pricing in a 66 per cent likelihood of such a move in June 2018, up from 52 per cent before the February MPC meeting.

UK government bond yields have taken their lead from global bonds and the aforementioned comments from Governor Carney, having increased across the curve over the review period (Chart 2.3.3 below). The 10 year Gilt yield is are at the highest level since April 2016, and is also up by 38 bps year to date (to 1.58 per cent).

Chart 2.3.2: Selected sterling exchange rates

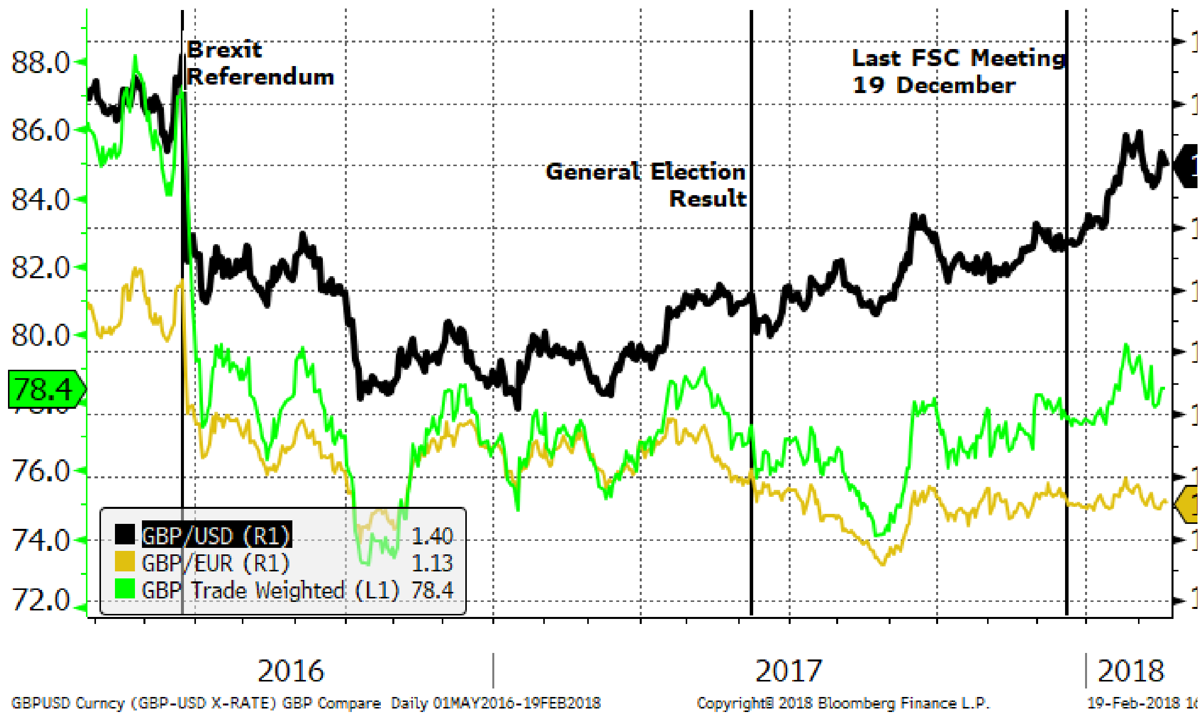


Chart 2.3.3: UK 2 and 10-year yields

3. Impact on Irish Economy

3.1. Latest Economic Developments

The economy is continuing to perform well and the outlook is robust with average annual GDP growth of just over 4% expected this year and next. Close to full employment conditions are expected by the end of 2019 with the unemployment rate set to decline to close to the key 5% threshold. The main Brexit effects continue to centre on the inflation rate and specifically the pass through from movements in the sterling/euro exchange rate to consumer prices. Over the past year, the weaker sterling exchange rate has exerted a strong downward impulse to Irish consumer prices reflecting the heavy weighting of UK goods in the Irish consumer basket. Ireland's (HICP) inflation rate averaged just 0.3% last year – the lowest in the euro area (1.5%). A pick-up in inflation over the short-term is expected although any further weakening in sterling will put renewed downward pressure on Irish consumer goods prices.

Output and trade – signs are mixed. The (merchandise) trade returns for some of the indigenous sectors have been robust – agri-food exports for example have outperformed the economy wide average, with exports in the food and animals sector up 12.5% last year, although the annual rate of increase slowed in the latter part of 2017 following robust gains in the second and third quarters. Overall, exports to Great Britain ended 2017 up 8% year-on-year (to €14.5bn billion) due in large part to chemicals (+22%) and food and live animal exports (+8%). Over the same period, imports from Great Britain increased by 10% (to €17.3bn) due to large increases in chemicals and mineral fuel imports.

On the output side the monthly industrial production index pointed to a weak year for the indigenous sector in 2017 – output fell by 0.3% (down 1.5% in the food sector). However, these monthly production data are volatile. Of perhaps more relevance were the latest labour market data (LFS 2017 Q3). While economy-wide employment continues to rise (for a 20th consecutive quarter), employment fell for a 5th consecutive quarter in agriculture. This could well reflect Brexit related concerns coupled with the pull from a fast growing construction sector.

Consumption – remains robust. Aside from the boost to real purchasing power following the decline in sterling, a notable development has been the marked fall-off in new car sales. This appears to reflect exchange rate movements and the relative price competitiveness of used cars from the UK. Over the course of 2017, motor trades exerted significant downward pressure on retail sales in Ireland. The volume of motor trades declined in 2017 by over 2%, something that is at odds with robust domestic expenditures. The motor industry reported a surge in used car imports (+30%) in 2017 with a 10% decline in new car registrations with Brexit cited as having a substantial impact. Aside from the impacts on the motor industry, there are potentially significant tax implications arising from the switch to imported vehicles. The Society of the Irish Motor Industry (SIMI) reported that Exchequer receipts from new cars fell by 7.7% in 2017 (to €1.2bn) with used cars receipts up 34.2% (to €0.3bn).

Sentiment - remains largely upbeat. On the consumer side, the ESRI/KBC Bank Consumer Sentiment Index has been strong in recent months, reaching a 17-year high in January with Brexit related fears easing. The headline PMI indicators for manufacturing and services continue to show expansion helped by robust new exports orders.

Tourism - visits up. While the number of overseas visits to Ireland was up 3% last year, visitor numbers from Great Britain (GB) fell by over 5%. This can be attributed to the weaker sterling exchange rate. Given that the GB accounts for over a third of all visits to Ireland, this is a significant risk for small businesses and the overall tourist sector.

3.2. New and Ongoing Economic Research

3.2.1. Domestic

A range of initiatives are currently underway focusing on Brexit related issues.

Macro modelling – staff within the Bank are working on estimating the effects of a Brexit related shock on the Irish economy. This involves modelling the impact of a WTO scenario in which the UK no longer has a free trade agreement for goods or services with the EU. This research uses the Bank's macroeconomic model – COSMO and also the UK's National Institute of Economic and Social Research's (NIESR) model - NiGEM. The shocks include:

- a decline in UK export market share to the EU
- an increase in tariffs on UK trade with the EU
- a fall in foreign direct investment into the UK (from the EU) and
- budget savings to the UK arising from reduced EU budget contributions.

In the first stage, the impact of these shocks on the UK economy is modelled using NiGEM, before then estimating the impacts on Ireland using COSMO. Preliminary results indicate a similar output loss for Ireland relative to previous Bank related Brexit research and ESRI modelling of a WTO scenario – i.e. losses in output of around 3% of GDP. In a related exercise, four Brexit scenarios for Ireland will need to be quantified for ECB related work later in the spring. The scenarios range from a hard Brexit (no transition) scenario to an EU type free trade regime. Finally, following on from the work last year in IEA on exchange rate pass through (from sterling to consumer prices); a detailed exchange rate simulation (sterling depreciation) is currently being modelled using COSMO.

Following on from the Bank's roundtable discussion on Brexit and supply chains, research is ongoing on quantifying the effects of non-tariff barriers on trade within the EU and Ireland. There are plans to publish some of this research as well as the findings from the roundtable discussions later in the year.

3.2.2. International

In February, Copenhagen Economics published a study on the impact of Brexit on Ireland for the Department of Business, Enterprise and Innovation.[6] The study examined four Brexit scenarios using a Computable General Equilibrium (CGE) model, tailored for Irish sectors, although detail on the model is limited in the report. Potential Brexit related costs arising from higher tariffs, customs costs, regulatory issues and service trade restrictions on Irish sectors were quantified and aggregated.

This can be considered to be more of a "bottom up" modelling approach relative to the Bank's "top down" estimates. As a result, it is difficult to compare results. Copenhagen Economics' scenarios range from an EEA regime (least severe) to WTO (most severe) covering the period to 2030. The scenarios are measured relative to a no-Brexit baseline and all have severe negative implications for Ireland (see Table below). Losses are highest under a WTO scenario – 7% drop in GDP, equivalent to about €18bn (in 2015 prices). The lowest losses occur under the EEA regime – 3% of GDP. The authors also assess short-term scenarios relative to a 2020 baseline, with exports down by 0.5% and 3.7% under soft and hard Brexit scenarios, respectively.

[6] The study can be found on the Copenhagen Economics website or can be provided by the Bank on request.

Table 3.2.1: Table: Effects of Brexit on Ireland by 2030, Copenhagen Economics

	EEA	Customs Union	FTA	WTO
GDP Impact	-2.8%	-4.3%	-4.3%	-7.0%
Exports	-3.3%	-4.4%	-4.5%	-7.7%
Imports	-3.5%	-4.7%	-4.8%	-8.2%

The modelling results for Ireland are at the upper end of Brexit related estimates. The divergences between the results in this report relative to other studies – for example ESRI (2016a[7]) estimated losses in output ranging from 2.3% to 3.8% after 10 years (similar to our own internal estimates) - is likely to reflect differing assumptions and modelling approaches. In terms of the former, the key assumptions relate to trade costs and non-tariff barriers/customs/regulatory procedures. The study makes no assumptions on potential FDI effects arising from Brexit. In contrast, another ESRI (2016b[8]) study models the potential gains to Ireland arising from FDI and Brexit.

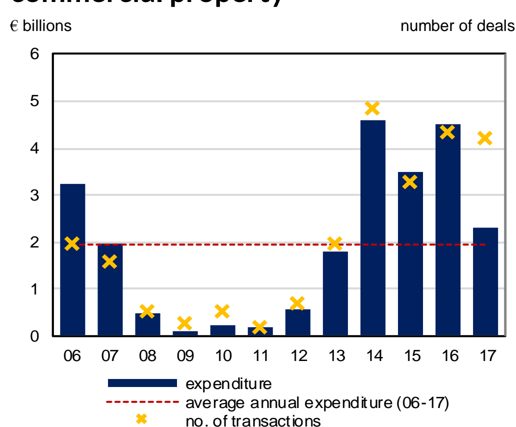
The Copenhagen study highlights five sectors that are particularly exposed to Brexit. These are the agri-food, pharmaceuticals-chemicals, electric machinery, retail-wholesale and air transport. Under the WTO scenario, the pharma sector accounts for just over a third of the fall in GDP, with agri-food accounting for over a quarter. It could be argued that key sectors in Ireland will be better able to diversify away from UK markets over an extended period.

3.3. Property sector

3.3.1. Commercial property

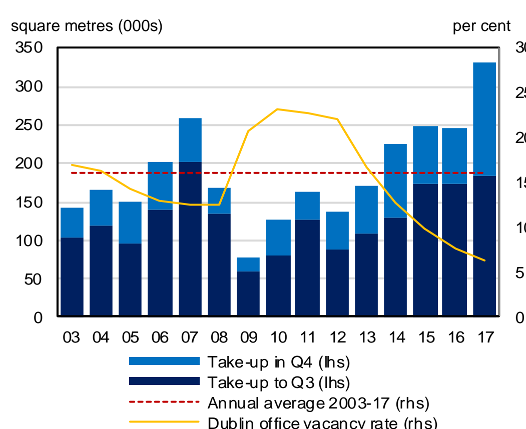
The final quarter of 2017 was the strongest in terms of the volume of expenditure on Irish commercial property. Approximately €970m was invested in the Irish market in 2017Q4, up from €531m in Q3, taking the total for the year to €2.3bn Chart 3.3.1. While down substantially on what was an exceptionally strong 2016, the level of 2017 expenditure is roughly in line with the average over the past decade or so. The decline in investment is partly explained by a fall in the number of "big ticket items" such as large shopping centres for sale in comparison to previous years, though the number of CRE transactions remained relatively stable Chart 3.3.2.

Chart 3.3.1: Expenditure on Irish commercial property



Source: CBRE, JLL and Central Bank of Ireland calculations
Note: Investment spending relates to individual transactions worth at least €1 million. .

Chart 3.3.2: Dublin office market activity



Source: CBRE and Central Bank of Ireland calculations
Note: Dublin office vacancy refers to the average of the available end-quarter data from the year in which they relate.

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[7] http://www.esri.ie/publications/modelling-the-medium-to-long-term-potential-macroeconomic-impact-of-brexit-on-ireland/

[8] http://www.esri.ie/publications/irelands-economic-outlook-perspectives-and-policy-challenges/

According to JLL[9], the office sector attracted the largest share of commercial property expenditure in 2017, accounting for 37 per cent of investment volumes. Spending on retail CRE assets, which took just over 30 per cent of total, was the next largest category. Home to over 80 per cent of properties traded last year, Dublin continues to be the focus of investor activity. The number of transactions outside the capital is growing however, with 70 non-Dublin transactions occurring.

A record 150,000m^2 of Dublin office space transacted during the last three months of 2017, resulting in a total take-up of over 330,000m^2 during 2017, the highest ever recorded by CBRE (Chart 3.3.2). [10] The signing of several large-sized lettings in developments nearing completion as well as numerous small and medium-sized deals boosted activity. While business growth and domestic economic expansion are currently the main drivers take-up, Brexit-related firm relocations have the potential to increase the demand for Dublin office space further. Indeed, CBRE suggest the annual volume of lettings to UK tenants doubled year-on-year. The volume of leasing in recent years has seen the Dublin office vacancy rate fall to 6.4 per cent Chart 3.3.2, lower than the average of 8 percent seen across a selection of major European cities. In terms of outlook, many Irish real-estate agents expect the nature of Brexit-related engagement to solidify throughout 2018, with occupiers who have been considering options, now committing to specific buildings.

3.3.2. Residential property

House price growth accelerated once more in 2017, while residential rents are about 20 per cent higher than their previous peak of early 2008. A lack of new and second-hand units for sale and a low turnover rate are features of the market. While leading indicators of residential construction point to a steady increase in housing output over the medium term, supply is likely to remain below demand for some time to come.

As a consequence, the main issue as regards housing surrounding Brexit, concerns supply and the ability of the market here to cope with a surge in demand for accommodation should there be a widespread relocation of UK based firms/workers here. Aside from the strain this would place on existing infrastructure, it is likely that house prices and residential rents, would also come under further upward pressure, at a time when there is a severe shortage of units for sale or rent.

In addition, according to a recent S&P report,[11] in the event of the UK leaving the EU without a trade deal, Irish trade with the UK would likely suffer, including residential investment in Ireland, originating from the UK.

3.4. Job/Firm Relocations[12]

The following section presents findings from recent surveys examining the relocation plans of leading financial services firms post-Brexit. The first, EY's Financial Services Brexit Tracker, was released on 11 December 2017, days after the announcement of agreement on progress during phase 1 of the UK's orderly withdrawal from the EU.[13]

The EY study found that since the June 2016 referendum 68 of the 222 companies asked (31 per cent), have said they are considering or have confirmed they are moving some of their

[9] See JLL "Ireland investment market report" 2017Q4.
[10] See CBRE "2018 Ireland real estate market outlook".
[11] Report not available, but widely reported in the media, for instance see "'House prices to fall here if UK fails to get Brexit deal", 9 February 2018, Irish Independent.
[12] Sources: EY Brexit Tracker and FT Research.
[13] See "Joint report from the negotiators of the European Union and the United Kingdom Government on progress during phase 1 of negotiations under Article 50 TEU on the United Kingdom's orderly withdrawal from the European Union".

operations and/or staff out of the UK. Of these, 26 are universal banks, investment banks or brokerages, 17 are asset managers, 13 are insurance companies, and 12 are FinTechs, retail banks and private equity houses

Of the 68 firms mentioned above, 42 companies have confirmed at least one relocation destination in Europe, with Dublin and Frankfurt as the frontrunners, attracting 14 and 12 companies respectively. Luxembourg is the next most popular destination, attracting eight companies, followed by Paris, attracting six.

More than twice as many companies have publicly announced job relocation plans and estimates in 2017 compared to 2016, but the overall estimate of positions to be relocated is lower. The current estimate is for 10,500 UK financial services jobs at these firms, including many front office roles, to relocate to the continent in time for Day One of Brexit. This compares to an estimate of approximately 12,500 relocations in 2016.

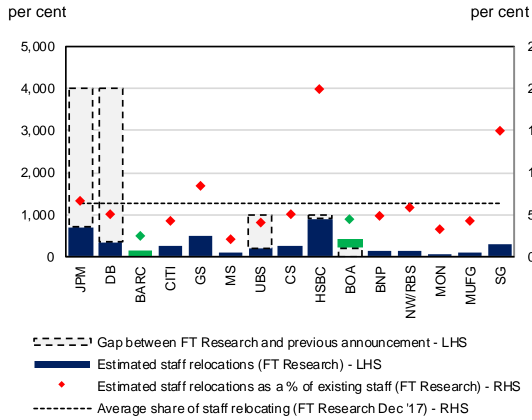
The Financial Times research[14], which was based on public statements and interviews with bank executives from 15 of the UK's biggest international institutions about Brexit planning, was released a couple of days after the EY's survey, on 13 December 2017.

In contrast to EY's findings, the FT analysis concludes that much fewer jobs, perhaps 4,600 or approximately 6 per cent of the existing London based workforce of these companies, are set to move from London in the run-up to Brexit Chart 3.4.1. Ultimately, the number of jobs transfers remains uncertain, with a number of banks still to make a final decision on relocations, as they await further progress on the negotiations between EU and UK on an orderly exit. Others believe relatively few people will move in the immediate aftermath of Brexit because it will take time for their EU operations to build up and that it will not be until three or five years out that the real effects will be seen.

Of the 15 relocation decisions announced publically to date, the FT estimate that seven plan to move their post-Brexit headquarters to Frankfurt, three to Paris, two each to Dublin and Amsterdam and one to Luxembourg. In terms of the estimated number of positions potentially linked with these announcements, 1,475 departures are associated with the firms that have announced a move to Frankfurt, while 1,350, 700, 550, 240 positions are tied up with firms relocating to Paris, Luxembourg, Dublin and Amsterdam respectively (Chart 3.4.2). The search for premises and staff accommodation is likely to have an inflationary impact on commercial and residential property prices and rents in unprepared destination cities that attract a significant in-take firms and workers.

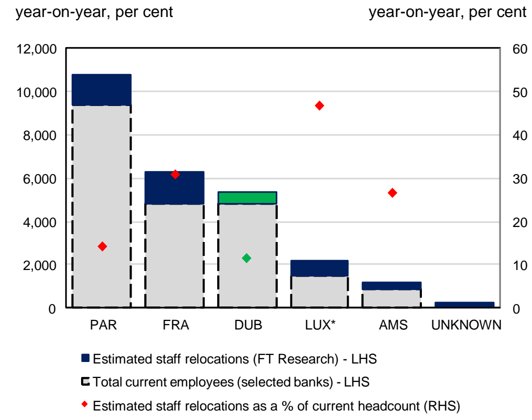
[14] See "Banks set to move fewer than 4,600 City jobs over Brexit", 13 December 2017, Financial Times.

Chart 3.4.1: Estimated post-Brexit staff relocations (selected banks) – FT Research



Source: Financial Times and Central Bank of Ireland calculations

Chart 3.4.2: European financial centres' existing headcount and estimated post-Brexit staff relocations – FT Research



Source: Financial Times and Central Bank of Ireland calculations

4. Sectoral Developments

4.1. Banking

As previously noted, Brexit impacts on the Irish banks (both those with domestic focus and those with large direct exposures to the UK) have been benign with no material impact reported on funding/liquidity or credit quality. However, supervision teams are beginning to see developments as Irish banks seek to ensure business continuity post Brexit. Specifically, banks are starting the process of seeking necessary authorisations to continue to maintain existing structures. As previously noted, supervision teams have moved from a specific 'Brexit engagement' approach to one whereby Brexit is embedded into the day-to-day engagement with banks across all risk areas. At a divisional level, BSD has also adopted an additional a holistic approach, outlined below.

4.1.1. BSD Brexit framework

BSD has developed a framework to ensure that all known issues related to Brexit are identified, prioritised and assigned owners. It is intended to facilitate a coordinated approach within BSD to understand, analyse, address and mitigate Brexit related risks and builds on the recent 'Brexit Cliff Edge' work. The framework and its output will inform on-going supervisory engagement with the banks. A core team has been created – the Brexit Co-Ordination Group - to oversee and partake in the day-to-day work, with assistance of a project manager. It will report to a BSD Brexit Steering Committee, composed of BSD management. Due to the cross-sector nature of many of the Brexit risks, the co-ordination group will seek to engage with Brexit topic experts across the Bank in the coming weeks.

[Omitted due to confidentiality.]

4.1.2. Significant Institutions

[Omitted due to confidentiality.]

EBA Stress Test

The methodology for the EBA stress test was announced on 31 Jan 2018 [Omitted due to confidentiality]. As per the accompanying FAQ documentation , 'the adverse scenario of the stress encompasses a wide range of macroeconomic risks that could be associated with Brexit. Elements of the baseline scenario already reflect the average of a range of possible outcomes from the United Kingdom's trading relationship with the European Union'.

4.1.3. Less Significant Institutions

[Omitted due to confidentiality.]

4.1.4. Authorisations

[Omitted due to confidentiality.]

4.2. Insurance

4.2.1. Authorisations

[Omitted due to confidentiality.]

4.2.2. Update on the impact on and preparedness of entities

In September 2017 the Insurance directorate wrote to all insurance companies supervised by the Bank. The letter highlighted that there are a range of potential outcomes that may result from the Brexit negotiations and that all companies should be planning for this uncertainty. It was requested that companies share these plans by the end of October. These plans have been reviewed at a high level to determine:

- The overall level of preparedness;
- Common themes and approaches,
- Unexpected approaches that may require further research or legal advice; and
- Expected resourcing requirements within the directorate for approvals and changes to business plans.

[Omitted due to confidentiality.]

The majority of plans are based on setting up a third country branch in the UK. However many plans lack sufficient detail with very few concrete decision dates. There is a lot of reliance on monitoring how the Brexit negotiations are progressing at the political level, particularly for the companies with lower PRISM impacts.

Firms are also assuming that passporting rights may be maintained or that there will be grandfathering or a transitional arrangement in place. Such firms have not considered alternative plans if this is not an option to service existing UK business.

Some companies are outlining that Brexit will not impact their business as they are in run-off, however no clear consideration has been given on how long the company will be run-off and how they will service claims post-Brexit.

Individual company supervisors will also review the plans to assess whether they are realistic and appropriate for each particular company.

4.2.3. EIOPA cooperation platform on Brexit

In 2017 EIOPA established a Brexit cooperation platform to consult supervisors from Member States[15] which represent a significant amount of cross-border activity between the UK and the EU. The platform considered options available to companies to ensure service continuity in insurance in the event of a hard Brexit. These options were detailed in the last Brexit task force paper.

The remit and membership of the platform has been widened in 2018 and incorporates all supervisory authorities with any interest in Brexit. The focus of the platform has changed and as well as discussing policy issues it considers the contingency plans of individual UK and EEA companies that will be impacted by Brexit. Initially a survey of all supervisory authorities was conducted on the contingency planning of the companies they supervise to ensure service continuity after Brexit. The results of the survey for undertakings selling direct insurance are:

[Omitted due to confidentiality.]

This sharing of information allows the various supervisory authorities to understand the potential impact on consumers in their jurisdiction where they are not currently responsible for the prudential supervision of the company providing the insurance service. In addition, it provides an opportunity for different supervisory authorities to challenge each other's approach to specific applications, for example in respect of substance and the use of 100% quota share reinsurance.

Unfortunately, the results of the survey did not identify individual companies by name or the EEA countries into which a UK company is selling. Further, only a handful of companies can be discussed in the time available on the weekly platform conference calls. Arrangements are being made to share details of all companies impacted, which would enable the Bank to have a clearer idea of the plans of all UK companies currently selling into Ireland.

4.3. Asset Management

4.3.1. Authorisations[16]

The Asset Management Supervision Directorate (AMS) continues to have engagement with firms regarding Brexit and the authorisation process. [Omitted due to confidentiality.] Preparations to address increased authorisation and supervisory activities related to the UK's decision to leave the EU remain on course.

AMS is currently assessing […] Key Facts Documents (KFDs) and […] formal applications. The breakdown of the applications is as follows:

[Omitted due to confidentiality.]

In addition, there are a further […] individual applications[17] that have been deemed likely to initiate the KFD / authorisation process, the majority of which would be Fund Management Company applications. A further […] firms have indicated that they will seek extensions or otherwise materially change the scale of their business models e.g. re-parenting branches from the UK entity to the Irish entity.

4.3.2. ESMA Engagement

The ESMA Supervisory Co-ordination Network continues to meet on a monthly basis to discuss cases of authorisation requests and issues of supervision/enforcement arising from investment firms, asset managers and trading venues seeking to relocate from the UK. The Director of Asset Management Supervision, Michael Hodson, represents the Bank in the Network. Key issues for ESMA include, inter alia, the risk of letter-box entities, significant outsourcing or delegation that lead to a substantial part of the activities being carried out outside the EU and the risk of significantly different treatment between entities across the EU.

NCAs are invited to present live cases to the Network for discussion and as applications develop NCAs will then provide further updates to keep the Network informed.
[Omitted due to confidentiality.]

4.3.3. Industry Engagement

In January 2018, colleagues from AMS and other directorates across the Bank prepared a communication message for firms seeking authorisation[18] in 2018. The message outlines the

[16] As at 19 February 2018.
[17] SuperManCo applications entail two separate authorisations.
[18] This message is targeted at both Brexit and non-Brexit related firm applications for authorisation.

importance of firms planning for the authorisation process and emphasises the need for early engagement should firms seek authorisation by 31 December 2018. The message has been included in the Bank's Markets Update of 14 February 2018 and the Brexit FAQ[19] page of the Bank's website has also been updated with a reference to this message.

4.3.4. MiFID II

For MiFID investment firms, the current supervisory priority is the implementation of MiFID II which came into force on 3 January 2018. This is a key piece of legislation for the investment firm sector. Supervisors have noted that planning for Brexit has been impacted by resource allocation to MiFID implementation.

4.3.5. Impact of Brexit on existing firms

AMS issued a letter to all medium high and medium low supervised entities[20] in November asking them to provide (i) an overview of the impact Brexit will have on their business; (ii) a summary of the firms' plans under a number of scenarios; and (iii) confirmation that each board has considered and has operationalised or is prepared to operationalise its strategic/contingency Brexit plans. The responses were due in by 28 February. Supervisors are currently analysing the responses received to date and following up with entities that have yet to respond. Once this review is complete, possible next steps under consideration include engaging with entities to obtain more information on the Brexit risks identified and the actions they are taking to mitigate such risks.

Supervisors continue to raise Brexit contingency planning as part of the PRISM minimum engagement meetings with the firms.

4.4. Market Infrastructure

[Omitted due to confidentiality.]

4.5. Funds and Securities Markets

Following on from the letter issued by SMSD in December 2018 in relation to Brexit planning to a sample (approximately 50) of Irish authorised investment funds, to date 48 responses have been received.

While the majority of respondents have a contingency plan in place, thus far they have not implemented any concrete measures in preparation for Brexit. Discussions are taking place at Board Level and with some NCA's concerning possible changes in fund structure, re-domiciliations and the setup of new entities in the EU 27.

Of the respondents, just over 30% have plans to set up entities such as ManCos, AIFMs or Super ManCos in Ireland or the EU as part of their contingency plans. Most are pursuing a 'wait and see approach' and monitoring the developments as they emerge from the negotiations. The vast majority of funds noted that they expect the UK to receive Third Country Equivalence and they will continue to monitor the situation.

Respondents also provided information on areas such as Fund Management, Passporting and Delegation and continue to maintain a watching eye on how these areas would be influenced by either a soft or a hard Brexit

[19] The answer to the question 'What is the Central Bank's approach to authorisation?' has been updated.

[20] A letter was also issued to all low impact supervised entities outlining a number of items these entities should consider as part of their Brexit planning.

4.6. Payment Institutions/Electronic Money Institutions

Consumer Protection Directorate (CPD) is responsible for the authorisation and supervision of Payment Institutions (PI) and Electronic Money Institutions (EMI). As of 15 February 2018, […] formal applications for PI or EMI authorisation have been received that are directly related to Brexit. Since the June 2016 UK referendum, CPD has had […] specific enquiries for the PI/EMI sectors with […] of these leading to pre-application meetings. [Omitted due to confidentiality.]

The purpose of these meetings is to assist firms seeking to understand the Bank's authorisation process, how it works and the service standard timeframes that apply. [Omitted due to confidentiality.]

While these meetings are primarily to provide an overview the authorisation process, the potential applicants also tend to provide a broad overview of their proposed business model. [Omitted due to confidentiality.]

4.7. Retail Intermediaries (RI) Sector

As of 16 February 2018, […] formal applications for RI authorisation have been received that are directly related to Brexit. Since the end of 2016, CPD has had […] specific enquiries for the RI sector with […] of these leading to pre-application meetings, and […] firms subsequently making application submissions.

[Omitted due to confidentiality.]

5. Authorisation Activity

[Omitted due to confidentiality.]

6. Central Bank Engagement on Brexit Issues at a European Level

6.1. European Insurance and Occupational Pensions Authority (EIOPA)

On 21 December 2017, EIOPA published an **Opinion** on service continuity in insurance in light of the withdrawal of the United Kingdom from the European Union. The Opinion was based on the impact assessment work carried out by the EIOPA's Brexit platform. The Opinion is addressed to insurance undertakings and National Supervisory Authorities (NSAs) and encourages preparation and contingency planning so that undertakings can continue to service contracts following the UK's withdrawal from the EU. A number of options are outlined in the Opinion which could facilitate service continuity; such as portfolio transfer from the UK to a subsidiary established in an EU27 Member State, or the creation of an European company (SE) in an EU27 Member State. The Opinion encourages undertakings to have realistic contingency plans that consider all eventualities including no political agreement, while noting that the political negotiations are uncertain and are outside EIOPA's remit.

The Bank continues to engage in EIOPA's Brexit platform, participating in weekly telcos where there are discussions on undertakings' contingency plans. The topic of Brexit also continues to be discussed at EIOPA's Board of Supervisors' meetings.

[Omitted due to confidentiality.]

6.2. European Banking Authority (EBA)

[Omitted due to confidentiality.]

6.3. European Securities and Markets Authority (ESMA)

ESMA have undertaken work to assess potential cliff-edge effects associated with the UK's withdrawal from the EU, relevant risks, possible market mitigations and possible actions that ESMA may consequently undertake. [Omitted due to confidentiality]. The work covers Asset Management, Investor Protection/Intermediaries, Secondary Markets, and CCPs. The work is based on the underlying assumption that, on exit day, no final nor transitional agreements between EU27 and the UK will be in place; no changes in EU27 legislation have been implemented; no cooperation agreements among UK and EU authorities are in place (where relevant); and no EU equivalence decisions have been adopted by the European Commission.

[Omitted due to confidentiality.]

The ESMA Supervisory Co-ordination Network continues to meet on a monthly basis to discuss cases of authorisation requests and issues of supervision/enforcement arising from investment firms, asset managers and trading venues seeking to relocate from the UK. The Director of Asset Management Supervision, Michael Hodson, represents the Bank in the Network. Key issues for ESMA include, inter alia, the risk of letter-box entities, significant outsourcing or delegation that lead to a substantial part of the activities being carried out outside the EU and the risk of significantly different treatment between entities across the EU.

NCAs are invited to present live cases to the Network for discussion and as applications develop NCAs will then provide further updates to keep the Network informed. [Omitted due to confidentiality.]

6.4. ECB

6.4.1. Single Supervisory Mechanism (SSM)

In January, the ECB organised a technical workshop with banks relocating from the UK to the EU27 in order to share the key principles of the SSM's booking models assessment framework and to give banks an opportunity to provide feedback on that framework.

[Omitted due to confidentiality.]

The SSM has updated its FAQs in order to provide clarity on the implications of the political developments and the negotiation of a transition period from a supervisory perspective, including the timelines for the submission of applications for authorisation. They are addressed to both incoming banks that intend to relocate activities to the euro area and existing banks in the SSM.

6.4.2. International Relations Committee (IRC)

[Omitted due to confidentiality.]

7. Special Topic 1: Analysis of Brexit cliff effects[21]

The Bank has conducted a sector wide analysis of the potential cliff effects of a hard Brexit (no deal, no transition) with a view to prioritising the risks which should be a key focus for firms and for supervisors. Relevant supervisory and policy divisions across the Bank populated a template identifying what they considered to be the key risks arising in a Brexit context for their sector, together with any potential mitigants for firms and the Bank.

This extensive stocktake of risks has been categorised on the basis of those:

1. that are likely to pose the most immediate and significant disruption to the Irish market on 1 April 2019;
2. that are likely to require a short to medium term adjustment and
3. that are likely to require a longer term adjustment.

Within each of these categories, the identified risks will range from high to low impact. This analysis suggests where the key focus of the Bank should be over the coming months in terms of our engagement with firms, European authorities and the Department of Finance. While firms contingency planning should mitigate the risks in some instances, there are other risks that may require intervention from policymakers and/or regulators.

7.1. Key risks

Based on discussions with the relevant divisions, the key risks that have emerged in the preliminary analysis as having the potential to cause the most significant disruption on day 1 post Brexit are:

1. Lack of Service Continuity for Insurance contracts;
2. Loss of Market Access- CCPs and CSDs;
3. Loss of passporting- particularly in the case of fund management; and
4. Lack of equivalence- across all sectors but particularly in the context of data protection (particularly GDPR)

This shortlist is based on the potential for these risks to cause the most systemic shocks to the system. There are of course other key risks that have been identified that will cause high levels of disruption but these could be considered to be more in the sphere of business model and profitability impacts (e.g. a firm can no longer conduct a part of their current activity) as opposed to broader system wide impacts.

7.2. Next steps

The initial findings of the cliff effects analysis were presented to the Supervisory Risk Committee (SRC) on 2nd February, with a follow up workshop of the SRC held on 16th February focusing on the related supervisory and consumer implications. [Omitted due to confidentiality.]

[21] [Omitted due to confidentiality.]

Chart 7.2.1 Overview of key risks

Nature/type of risk	Description of the risk	Impact of the risk	Potential firm mitigation	Potential Central Bank Mitigation
Service Continuity **In a hard Brexit scenario, where no specific arrangements between the EU and UK have been made to ensure access to each other's market; UK undertakings will lose their right to conduct business across the EU27 Member States by way of Freedom of Establishment (branch) or Freedom of Services.** **Irish & EEA undertakings also lose their right to write business in the UK from Ireland or EEA.**	Article 14 of the Solvency II Directive requires that the taking up of the business of direct insurance or reinsurance shall be subject to prior authorisation and that authorisation is valid for the entire Community (Art 15). Without the authorisation, the activity is unauthorised insurance activity, which is an offence in Member States. Insurers' contingency plans may not be implemented in line with the hard Brexit timeline.	Insurance contracts (policies) concluded before Brexit would in principle remain valid, however the provision of insurance services such as claims handling, policy amendments etc. would become unauthorised in the host Member State. Policyholder impacts as the UK insurer would not be able to carry out insurance services (for example claims settlement and mid-term alterations). Potentially significant consumer issue- e.g. due to a Brexit 'force majeure event', firms may not pay out on claims.	Progress contingency planning to enable service continuity for insurance contracts. The following options are available: • Portfolio transfer to a EU27 undertaking • Creation of a European Company (SE) in an EU27 state • Establishment of a third country branch[22]. • Run-off – insurers with smaller books of business could consider putting the business into run – off and transfer the portfolio to a third party (run-off still requires an authorisation)	Escalate supervisory engagement on the basis of contingency plans. As part of ongoing engagement with UK insurers seeking authorisation in Ireland, continue to review Brexit contingency plans and business models to determine whether they are realistic and address issues as they arise. [Omitted due to confidentiality.] Continued participation in EIOPA Brexit platform to understand approaches of other impacted Member States and to influence the

[22] The Bank has recently commenced a consultation on authorisation and supervision of branches of third country insurance undertakings. https://www.centralbank.ie/publication/consultation-papers/consultation-paper-detail/cp115-consultation-on-the-authorisation-and-supervision-of-branches-of-third-country-insurance-undertakings-by-the-central-bank-of-ireland

Nature/type of risk	Description of the risk	Impact of the risk	Potential firm mitigation	Potential Central Bank Mitigation
			[Omitted due to confidentiality.]	overall approach and drive supervisory convergence.
Market Access- CCPs	Without the recognition of UK CCPs, EU direct Clearing Members (and indirectly, their clients) cannot clear mandated derivative contracts in UK CCPs, in particular those mostly used to fulfil the clearing obligation for Interest Rate Derivatives (IRD) and Credit Default Swaps. Without a transitional agreement, EU derivative counterparties would be unable to access clearing services provided by UK-based CCPs at affordable prices. This is made more complicated by two facts: - EMIR mandates that certain derivative	EU counterparties currently engaging in interest rate swap transactions would be unable to clear in UK CCPs […] and would have to close out their positions. They would also have to cease undertaking any interest rate swap transactions potentially exposing themselves to interest rate risk. There is also an issue for any other firms, particularly banks and investment firms, which use IRD to hedge their risks not being able to access IRS clearing services. [Omitted due to confidentiality.]	Firms that are currently engaging in interest rate swaps could: • [Omitted due to confidentiality.] • Cease undertaking any interest rate swap transactions (exposing themselves to interest rate risk). • Move to a different service provider based in the EU27. [Omitted due to confidentiality.]	[Omitted due to confidentiality.] ISE use Eurex (part of the Clear stream group) which is a pan European CCP based in Frankfurt. [Omitted due to confidentiality.] Continued engagement by the Central Bank and DoF at EU level […}.

Nature/type of risk	Description of the risk	Impact of the risk	Potential firm mitigation	Potential Central Bank Mitigation
	contracts (including interest swaps) are centrally cleared. [Omitted due to confidentiality.] Legislative ref: SI 375/2017 Regulation 47			
Market Access- CSD	Euro-denominated securities traded on the ISE are settled in the EUI CREST system in the UK. EUI operates as an ancillary system through TARGET2 (T2). The Bank acts as an ancillary central bank providing euro settlement services. In the event of a hard Brexit, EUI would not be permitted to continue to provide these services with respect to Irish securities as they would lose the right to passport their services into the EEA under the Central Securities Depositories Regulation (CSDR).	This issue potentially impacts all Irish issuers. There may be no CSD settlement for Irish equities and some ETFs post Brexit. [Omitted due to confidentiality.] The primary risk is that Irish securities may not be able to settle post Brexit. The scope of the issue does not only relate to settlement in Euros- there are also significant volumes settled in sterling.	[Omitted due to confidentiality.]	The Bank is currently working with a number of stakeholders [Omitted due to confidentiality.] Continued engagement with DoF [...].

Nature/type of risk	Description of the risk	Impact of the risk	Potential firm mitigation	Potential Central Bank Mitigation
	Legal ref: MiFID :Article 16 (5) Directive 2014/65/EC, Part 3 SI 375/2017			
Loss of passporting: fund management	The loss of passporting arises as a risk across all sectors but it seems to be particularly problematic in a fund management context. In a hard Brexit scenario, UK UCITS Management companies/AIFM's become non-EU entities and lose their passporting rights to manage/market Irish authorised Investment Funds. Irish authorised Investment Funds lose their fund manager/AIFM. In addition, Irish authorised Investment Funds/Fund Managers lose their rights/ powers to	Irish authorised Investment Funds lose their Fund Managers / AIFM's[23]. Irish authorised Investment Funds/Fund Managers lose their rights/ powers to delegate investment management/ risk management functions to UK authorised/ domiciled entities.[24]	UK UCITS ManCo's/AIFM's could establish in EU 27 countries. Where a UK AIFM manages an AIF in the EU27, post-Brexit it must: • Seek approval from the relevant NCA to continue to manage the AIF as a non-EU AIFM; or • Arrange for an EEA authorised AIFM to take over the management of the AIF and delegate the investment management and risk management to the UK AIFM; or	Escalate engagement with affected funds in terms of their contingency planning [Omitted due to confidentiality].

[23] [Omitted due to confidentiality.]

[24] This reflects a strict reading of the ESMA sectoral opinion on asset management that stressed that delegation should occur within the boundaries of the UCITS / AIFM Directives - (in the absence of a co-operation agreement with the UK).

Nature/type of risk	Description of the risk	Impact of the risk	Potential firm mitigation	Potential Central Bank Mitigation
	delegate investment management/risk management functions to UK authorised/domiciled entities		• Seek to change the AIF, structure permitting to an internally managed AIF where investment management is delegated to the UK entity. Irish authorised Investment Funds/Fund Managers delegate investment management/risk management to entities located in the EU 27 or to countries where there is a co-operation agreement with the EU 27.	

Nature/type of risk	Description of the risk	Impact of the risk	Potential firm mitigation	Potential Central Bank Mitigation
Lack of equivalence: Cross sectoral risk but may be particularly problematic in the case of data protection/GDPR	Data sharing and protection issues	Risks related to data transfer and the protection of data with a third country could disrupt financial stability and market confidence[25]	In the absence of an adequacy determination by the European Commission, firms should consider: • amending contracts to include clauses permitting cross-border data transfers; • binding corporate rules which apply within a corporate group; • new tools under GDPR for the transfer of personal data (including approved codes of conduct and certification mechanisms)	The Central Bank needs to investigate further how significant an issue this will be for firms and to ensure they are appropriately factoring in this risk to their contingency plans. In the absence of an 'adequacy decision' by the Commission, a transfer may take place on the basis of certain 'derogations' in specific instances [Omitted due to confidentiality.]

[25] EBA, Risk Assessment of the European Banking System, 24 November 2017, p.17

8. Special Topic 2: What do EU Free Trade Agreements imply for Brexit negotiations[26]

8.1. Introduction and Summary

Looking at Free Trade Agreements (FTAs) between the EU and non-European countries could provide a wealth of information **regarding the future relation between the European Union (EU) and the United Kingdom (UK). In particular, we find that:**

- New Generation FTAs (see **Paragraph 8.2), have the advantage of being relatively similar despite the difference in economic structures of the trading partners (e.g.: Canada, Singapore, South Korea, and Japan). This may well reflect the centralising force of the Commission/EU which had (until recently) unique competence in negotiating FTAs, as well as the designation of the Most-Favoured Nation (MFNs) clause.**

- The inclusion of the MFN clause in parts of the new generation FTAs also guarantees that every time a FTA signatory country grants further concessions to a third party, this treatment has to be extended to the respective FTA partners.

- In New-Generation FTAs tariffs on virtually all goods are eliminated. However, exceptions prevail and can be asymmetrical, especially in the agricultural sector. Moreover, zero tariffs do no imply zero transaction costs. Rules of origin provisions imply transaction cost on exporters and vary between FTAs in the amount of foreign value added tolerated before tariffs are applied. This and differences in standards also imply border checks for products from third countries, including within FTAs (especially for agricultural products).

- For trade in services EU FTAs provide market access based on the General Agreement on Trade in Services (GATS) and in some (limited) cases beyond that. Moreover, financial services are, in general, subject to a prudential carve-out and long lists of reservations by virtually all EU countries. Market access is in practice hindered by the fragmentation of internal markets (including in the EU). The Economic Partnership Agreement (EPA) with Japan includes closer cooperation on financial services, including an endeavour to rely on each other's regulatory and supervisory framework, wherever possible.

- Overall, even if New Generation FTAs between the EU and third countries indicate a desire to go beyond the standard tariff elimination to tackle non-tariff barriers, these agreements are still far away from the achievements of passporting and Single Market regimes.

[26] Prepared by Lorenz Emter and Silvia Calo with comments from Valerie Herzberg and Peter McQuade (all IR).

8.2. A New generation of FTAs

The EU has negotiated bilateral FTAs with a range of countries in recent years.[27] The most comprehensive among the agreements that have been completed are the ones with South Korea (EUSKFTA), Singapore (EUSFTA), Canada (CETA), as well as the Economic Partnership Agreement (EPA) with Japan. These FTAs are part of the 'new generation' FTAs. In addition to the classical provisions on the reduction of customs duties and of non-tariff barriers in the field of trade in goods and services, the new FTAs also include provisions on various matters related to trade, such as intellectual property protection, investment, public procurement, competition, sustainable development, as well as the movement of people. Since the Lisbon Treaty, the EU Commission has had unique competence in negotiating these FTAs. The inclusion of the MFN clause in parts of the new generation FTAs also guarantees that every time a country grants further concessions to a third party, this treatment has to be extended to the respective FTA partners.[28] Overall, the FTAs broadly follow a common template and hence display a high level of standardisation.

8.2.1. Goods and Non-financial Services in 'New Generation' FTAs

In general, in new generation FTAs, the elimination of tariffs can be considered the rule (WTO Art. XXIV requirement), applied with some relevant and asymmetric exceptions. For example, in the EUSFTA, Singapore cut 100% of tariffs, while the EU excludes some fisheries and processed agricultural products.[29] In case of CETA, 99% of all EU and Canadian tariff lines were removed, but some agricultural goods were excluded (See Table 8.2.1). While Canada excluded dairy, and some poultry products, the EU flagged beef, pork, canned sweetcorn, as well as some poultry products as sensitive.[30]

Table 8.2.1: CETA Tariff Elimination

CETA tariff eliminations*

	Industrial	Fisheries	Agriculture
EU	100%	100%	93.8%
Canada	100%	100%	91.7%

*All values are final (end of transition)

Even when tariffs are eliminated, non-tariff costs remain, which can take a number of different forms: First, in FTAs rules of origin generally apply. These make it necessary to determine whether a particular good qualifies for preferential access. In this context, even in the absence of tariffs and technical barriers, the good has to be declared as originating from one of the FTA

[27] See here for an overview of trade agreements in place and under (re-)negotiation.

[28] Some exceptions might apply (see WTO MFS clauses). The MFN clauses included in the EU FTAs typically do not apply to the entirety of concessions and commitments granted across the FTA. Rather, they are specified within the FTAs for specific sectors, notably within chapters concerning trade in services and investments. In the EU-South Korea FTA an MFN clause applies to provisions facilitating market access for services suppliers "cross-border" and for those provisions that support establishment.

[29] Note that Singapore already applied zero tariffs to most goods before the EUSFTA on a unilateral basis.

[30] Furthermore, the audio-visual sector has been entirely excluded from any disciplines and any liberalisation commitments. The EUSFTA also excludes national maritime cabotage; air transport; and mining, manufacturing and processing of nuclear materials. In general, "sensitive products", for which tariffs remain in place or are subject to transition periods, are predominantly found in the agricultural sector. They typically include products of animal origin. In case of the Asian partner-countries, rice was excluded from the agreements.

countries. In general, a good may satisfy this criterion if it is either wholly obtained[31] or has been sufficiently processed in one of the countries in the trade agreement. Criteria for sufficient processing do vary between FTAs and generally require a change of tariff heading, specific operations, a value added criterion, or combinations of these different rules. The EUSKFTA allows for foreign value added of up to 45%, while under the CETA and the EUSFTA up to 50% value added outside of Canada and Singapore are tolerated.[32] Controls of the origin declaration can take place in a number of ways including after the importation, at the exporter's premises, by the customs authorities of his country, at their own initiative or on request from the importing Party.

Second, there are costs related to technical barriers to trade (TBT) even if new generation FTAs attempt to tackle these, i.e.: technical measures and regulations such as labelling requirements, standards on technical specifications, and quality standards, as well as measures protecting the environment and health and safety. In the EUSFTA, Singapore has agreed to remove a first batch of consumer electronics products from the list of products for which third party certification has so far been mandatory (TV sets, water heaters, and air conditioners). This move is based on the conviction that what is safe for consumers in Europe should generally also be safe for consumers elsewhere.

Third, sanitary barriers to trade can be high, especially for agricultural products, even if recent FTAs have focussed on improving collaboration in these areas. CETA includes new procedures that will simplify and accelerate the approval process for plants, fruit and vegetables by Canada. CETA will allow Canada to undertake EU-wide assessments and approval procedures for fruit and vegetables, replacing the current country-by-country and product-by-product approach. As regards meats and meat products, the existing EU-Canada veterinary agreement is incorporated into CETA, confirming the successful and mutually beneficial collaboration in the veterinary field. Both sides have agreed to simplify the approval process for exporters. Under the EUSFTA, Singapore will evaluate the national inspection and certification systems, rather than individual establishments (for all agricultural products).

Nevertheless, goods from third countries including from FTAs can always be placed in the 'red customs' channel, implying systematic border checks and testing. Typically, a relatively high proportion of agricultural goods from third countries are in this category. Under CETA, for example, each party should perform documentary and identity checks on all consignments animals and animal products at the border. Physical checks are carried out for all 'Live Animals' and at different proportions for other categories.

For trade in services, national treatment, MFN treatment, and market access as stipulated in the General Agreement on Trade in Services (GATS) (see next section), is also provided for by the FTAs, and in some cases extended beyond that. In practice, however, market access is often hindered by fragmentation of the internal EU market. The OECD Services Trade Restrictiveness Index shows great variation in the level of barriers between individual member states.[33] Under CETA, both Canada and the EU set out all their existing limitations or restrictions to the supply of services, with an unprecedented level of transparency. Under the EUSFTA, the EU committed to the liberalisation of a wide range of services sectors, going beyond WTO commitments (and beyond EUSKFTA commitments) in certain areas, such as on postal services.

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[31] For example, plants, animals born and raised, fish when caught in the territorial waters are considered wholly obtained in a country.

[32] Moreover, the EUSFTA acknowledges the fact that Singapore's economy is well integrated into supply chains across the ASEAN region. The EUSFTA therefore contains a short list of tariff lines for manufactured products for which some degree of cumulation of origin inside the ASEAN region will be allowed.

[33] See Erixon and Georgieva, 2016, "*What is Wrong with the Single Market?*", Five Freedoms Project at ECIPE, Working Paper No 1/2016.

8.2.2. Financial Services in 'New Generation' FTAs

Financial services are, in general, subject to a prudential carve-out and long lists of reservations by virtually all EU countries. Typically, they require a foreign services provider to apply for a local licence and to respect local regulatory requirements. This occurs despite the fact that the WTO framework has sought to liberalise financial services based on the four modes to supply services stipulated under the GATS. These modes are: 1) cross-border supply; 2) consumption abroad, i.e. when consumers from one country make use of a service in another country; 3) commercial presence; and 4) temporary movement of natural persons to provide services. GATS provisions include 'national treatment', meaning that contracting countries cannot discriminate against each other's businesses or treat them less favourably than a third country's firm.

De facto, however, cross-border supply and commercial presence, which together represent 75% of all financial services trade, can be significantly restricted. GATS has a number of important exclusions, including financial stability rules and consumer protection. In particular, the contracting parties are under no obligation to permit foreign financial institutions to conduct or solicit business in their territory. This is far away from the passporting principle and basically means that financial institutions must comply with the rules that apply in the host jurisdiction. In addition, GATS does not include commitments on aspects such as access to payment and clearing systems or any guidelines regarding the application of liberalisation measures to new types of financial services that may emerge in the future.

New Generation FTAs attempt to go beyond the GATS with respect to financial services. While CETA provisions are for the most part aligned with the GATS, they allow, under conditions, for a certain degree of "automaticity" with regards to rules applying to new financial services and provide access to means of payments and clearing. CETA also seeks measures to facilitate dispute settlements (article 13.20). However, beyond these points, market access under CETA remains limited. In a report by the British House of Lords, the authors highlight the fact that, despite containing a financial services chapter, CETA makes it entirely possible for a country to impose terms and conditions and restrict market access such that there is no significant progress relative to the WTO rules.

Under the EUSFTA, Singapore provided specific commitments regarding financial services access. EUSFTA includes specific provisions for financial services and a dispute resolution mechanism. An annex to the agreement includes specific commitments by Singapore to take account of the highly regulated nature of its banking system. The agreement contains provisions equivalent to those of CETA with regards to systems of payments and clearing. According to the Commission, European banks can now expect to be able to expand their branch network in Singapore.

The recently finalized Economic Partnership Agreement (EPA) with Japan also foresees regulatory cooperation, including on financial services regulation. Under the EPA, the EU and Japan agreed to publish information on the scope, objective, and timing of major regulatory reforms and to create a Committee on Regulatory Cooperation and a Joint EU-Japan Financial Regulatory Forum. In general, the agreement foresees that internationally agreed standards for regulation and supervision in the financial services sector should be implemented and applied. For financial services in particular, the agreement spells out guidelines for the reliance on each other's regulatory and supervisory framework based on the equivalence in regulatory outcomes.

The EU TTIP proposal also included discussions regarding the introduction of provisions aimed at more systematic cooperation in the field of financial services regulation, such as: 1) timely adoption of international standards; 2) mutual consultation before adopting new measures; 3) joint examination of existing rules; 4) assessing possibilities for equivalence. However, the

second measure was highly controversial in the negotiations since the US feared that it could potentially slow down the process of domestic regulatory reforms.

8.2.3. Movement of People and other issues

Chapters on entry and stay of natural persons for business purposes in all FTAs have implications for the movement of people. Typically, they foresee unrestricted entry for key personnel, graduate trainees, investors, and business visitors for investment purposes. Intra-corporate transferees can stay up to 3 years and with CETA this includes also spouses and family. However, investment-related migration is quite different from the free movement of people granted within the EU.

All FTAs expand public procurement opportunities to public works concessions and "Built-Operate-Transfer" (BOT) contracts not yet covered by the Government Procurement Agreement (GPA) commitments. For example, under the EUSFTA, coverage of Singaporean procurement entities has increased from about half of relevant entities to about three quarters.[34] CETA establishes full reciprocal access for foreign bidders at all levels of government, except energy utilities and public transport in the Provinces of Ontario and Québec.

Regarding intellectual property rights, the recent EU FTAs typically require (or at least encourage) compliance with international standards and treaties, such as the Patent Law Treaty or the World Intellectual Property Organisation (WIPO) internet treaties. They also include broader measures against counterfeits, agreements on broadcasting rights (royalties), as well as protection of plant varieties. A core issue for the EU typically is geographical indications (GIs)[35] ensuring the protection of GIs beyond the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) provisions. The number of protected GIs varies between FTAs, however, the agreements provide the possibility to include further GIs in the future.

All FTAs include competition rules outlining provisions on anti-trust matters and state aid targeting the most distortive types of subsidies on goods and services. The Parties typically agree to maintain effective competition laws and an appropriately equipped competition authority and commit to bilateral cooperation in these areas. Tax policy is explicitly excluded from FTAs.

8.2.4. State of Play and Conclusion

Out of these FTAs only the one with South Korea is fully in force, so the actual workings cannot be assessed. A complication arose with respect to CETA and EUSFTA because of a Court of Justice of the EU (CJEU) opinion. The CJEU considered the EU does not have exclusive competence in the field of non-direct foreign investment and the regime governing dispute settlement between investors and States. This would suggest that in the case of the UK's Brexit, a comprehensive deal would require the ratification by national and (possibly even regional) parliaments.

What the agreements suggest, however, is that recent New Generation FTAs between the EU and third countries indicate a desire to go beyond the standard tariff elimination to tackle non-tariff barriers, including in agricultural goods. They also aim to facilitate the cross border supply of services, including of finance firms, through increased regulatory cooperation. That said, even

[34] The EU has, for example, for the first time in an FTA, granted access to tendering opportunities in the railway procurement market; similarly, Singapore has included in the EUSFTA, also for the first time, some of its key procuring entities in certain utilities sectors, such as the Public Utility Board.
[35] Typical examples are *Bordeaux* wines, *Parma ham* or *Bayerisches Bier.*

on paper, FTAs do not seem to come close to the current passporting rights that exist within the Single Market.

Glossary

AIFM Alternative Investment Fund Manager

AIFMS Alternative Investor Fund Managers

AMS Asset Management Supervision

AMSD Asset Management Supervision Division

BoE Bank of England

BOT Built-Operate-Transfer

BTF Brexit Task Force

BSSD Banking Supervision: Supervision Division

BSD Banking Supervision Division

CA Competent Authority

CAA Commissariat aux Assurances

The official Luxembourg regulatory authority responsible for the prudential supervision of the insurance sector.

[Omitted due to confidentiality]

CCP Central Counterparty Clearing House

Central counterparty clearing, also referred to as a central counterparty (CCP), is a financial institution that takes on counterparty credit risk between parties to a transaction and provides clearing and settlement services for trades in foreign exchange, securities, options and derivative contracts.

CETA Bilateral Free Trade Agreement between EU and Canada

CGE Computable General Equilibrium model

CJEU Court of Justice of the EU

CPD Consumer Protection Directorate

CRE Commercial Real Estate

CRD Capital Regulations Directives

The Capital Requirements Directives for the financial services industry have introduced a supervisory framework in the European Union which reflects the Basel II and Basel III rules on capital measurement and capital standards.

CPD Consumer Protection Directorate

CPI Consumer Price Index

CPSU Consumer Protection Supervision Division

CREST

CREST is a UK-based central securities depository that holds UK equities and UK gilts, as well as Irish equities and other international securities.

CSD Central Securities Depository

CSDR Central Securities Depositories Regulation

CSDR introduced new measures for the authorisation and supervision of EU CSDs and set out to create a common set of prudential, organisational, and conduct of business standards at a European level.

CSO Central Statistics Office

EBA European Banking Authority

ECB European Central Bank

EEA European Economic Association

The European Economic Area (EEA) is the area in which the Agreement on the EEA provides for the free movement of persons, goods, services and capital within the European Single Market, including the freedom to choose residence in any country within this area. Membership includes 28 EU member states, as well as three of the four member states of the EFTA (Iceland, Liechtenstein and Norway).

EIOPA European Insurance and Occupational Pensions Authority

[Omitted due to confidentiality]

EMI Electronic Money Institutions

EMIR European Market Infrastructure Regulation

The European Market Infrastructure Regulation (EMIR) is a body of European legislation for the regulation of over-the-counter derivatives. The regulations include requirements for reporting of derivative contracts and implementation of risk management standards. It established common rules for central counterparties and trade repositories. The objective of the legislation is to reduce systemic counterparty and operational risk, and help prevent future financial system collapses.

EPA Economic Partnership Agreement

ESMA European Securities and Markets Authority

ESRI Economic and Social Research Institute

[Omitted due to confidentiality]

EUSFTA Bilateral Free Trade Agreement (FTA) between EU and Singapore

EUSKFTA Bilateral Free Trade Agreement (FTA) between EU and South Korea

FCA Financial Conduct Authority

FIRDS Financial Instruments Reference Database (ESMA)

FMD Financial Markets Division

[Omitted due to confidentiality.]

FOE Freedom of Establishment

It is possible for an insurance undertaking authorised in one EU/EEA state to conduct business in another EU/EEA state. This business can be conducted in two ways – if the undertaking establishes a Branch operation and conducts business on a ‘freedom of establishment’ basis or if the undertaking writes business from the Home state to the Host state on a ‘freedom of services’ basis.

[Omitted due to confidentiality.]

FRG Financial Risks and Governance Policy

[Omitted due to confidentiality.]

FSC Financial Stability Committee

The Financial Stability Committee of the Central Bank, which is an advisory group to the Governor on all financial stability issues. The FSC is chaired by the Governor.

FSD Financial Stability Division

FTA Free Trade Agreement

FTSE Financial Times Stock Exchange

[Omitted due to confidentiality.]

GATS General Agreement on Trade in Services

GBP Pound Sterling

GDP Gross Domestic Product

GDPR General Data Protection Regulation

GNP Gross National Product

HICP Harmonised Index of Consumer Prices

HPI House Price Index

[Omitted due to confidentiality.]

IEA Irish Economic Analysis

INSA Insurance Analytics

IR International Relations

IPD Investment Property Databank

IRC International Relations Committee

The International Relations Committee of the ECB. The IRC is responsible for forming policy views and advising the ECB Governing Council or General Council on external issues to the EU (including the IMF). It meets in 28 NCB format.

IRD Interest Rate Derivatives

IORP Institutions for Occupational Retirement Provision

Occupational pension funds or Institutions for Occupational Retirement Provision (IORPs) are financial institutions which manage collective retirement schemes for employers, in order to provide retirement benefits to their employees (the scheme members and beneficiaries).

ISE Irish Stock Exchange

[Omitted due to confidentiality.]

KFD Key Facts Document

LSI Less significant institution

MFN Most-Favoured Nation

MiFID Markets in Financial Instruments Directive

The markets in financial instruments directive (MiFID) aims to increase the transparency across the European Union's financial markets and standardise the regulatory disclosures required for particular markets. MiFID implemented new measures, such as pre- and post-trade transparency requirements, and set out the conduct standards for financial firms. The directive has been in force across the European Union (EU) since 2008. MiFID has a defined scope that primarily focuses on over the counter (OTC) transactions.

MPC Monetary Policy Committee

MPD Markets Policy Division

MS Member States

MSCI Morgan Stanley Capital International

NCA National Competent Authority

NIESR National Institute of Economic and Social Research

ONS Office for National Statistics

ORD Organisational Risk Division

OTC Over the Counter

PI Payment Institution

PLC Public Limited Company

PMI Purchasing Managers Index

[Omitted due to confidentiality.]

PRISM Probability Risk and Impact System

The Probability Risk and Impact System (PRISM) is the Central Bank's risk-based framework for the supervision of regulated firms.

PSSD Payment and Securities Settlement Division

RCU Registry of Credit Unions

RES Resolution Division

RICS Royal Institute of Chartered Surveyors

RRE Residential Real Estate

RUK Rest of United Kingdom

SE Societas Europaea

SI Significant Institutions

SIMI Society of the Irish Motor Industry

SME Small and medium enterprise

SMS Securities Markets Supervision

SMSD Securities Markets Supervision Division

SMSG Securities and Markets Stakeholders Group (ESMA)

SRC Supervisory Risk Committee

SRD Supervisory Risk Division

SSM Single Supervisory Mechanism

TBT Technical barriers to trade

[Omitted due to confidentiality]

TRIPS Trade-Related Aspects of Intellectual Property Rights

TTIP Transatlantic Trade and Investment Partnership

UCITS Undertakings for Collective Investment in Transferable Securities

UCITS are open-ended investment funds and may be established as unit trusts, common contractual funds, variable or fixed capital companies or Irish Collective Asset-management Vehicles (ICAV).

WIPO World Intellectual Property Organisation

WTO World Trade Organization