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SMBC – preparations for Brexit

In preparation for the original Brexit deadline of 31 March 2019, SMBC implemented a major project to plan and execute our Brexit strategy as regards both our banking and securities businesses. We built a new bank and a new investment firm in Frankfurt and transferred the majority of the branches of our UK bank to the new bank there and were ready for business before the deadline.

Like all market participants we now face the uncertainty of the next few weeks and the real possibility of a no-deal Brexit on 31 October. However, in order to ensure that we would be able to maintain service to our clients without disruption through Brexit and beyond, our basic planning assumption from the start was that there would be a no-deal Brexit. This has enabled us to be as well prepared as we can be for Brexit, although we recognise that there is still work to do.

SMBC has carried out an intense programme of customer communications and our major corporate and financial institution customers appear to be well prepared for Brexit. However, it is vital that all of our customers are aware of the implications of Brexit and we have found that some smaller corporates have needed guidance. It is quite possible that further customer communication will be required as 31 October approaches.

A key issue for SMBC has been to assist customers to transition where appropriate from our UK entities to our new German entities. Good progress was made on this, but as 31 March approached the uncertainty relating to Brexit meant that the pace of transitions slowed and of course after Brexit was delayed customers understandably considered that transition had become less urgent. We continue to work on ensuring a smooth transition for customers and this will continue for some time after 31 October.

SMBC must build up the revenues of its new entities in Germany – original assumptions have been revised due to the slower pace of customer transitions. A recent market survey in the City indicates that SMBC is not alone in finding that the delay to Brexit has resulted in a higher expense ratio in its new entities than originally planned. This will need to be carefully managed.

SMBC was able to hire all the staff it needed in Frankfurt in order to be ready to start operations on 31 March and had limited need to move staff from London or elsewhere. However, the uncertainty associated with the delay in Brexit has meant that staff moves are perhaps more challenging than before.

In order to support the operations of its new entities in Germany, SMBC will use its significant middle and back offices in the UK. This will ensure efficiencies of scale and lower potential operational risk. In order to achieve this, a significant overhaul of group service level agreements, policies and procedures has been undertaken. While efforts will be made to reduce the complexity of these arrangements, this greater focus on outsourcing will require maintenance and ongoing work and we will continue to build the necessary governance structures for this.

As regards cross-border business from the UK into the EU 27 certain national regimes have been introduced in the EU 27 and generally they are helpful. However, they are country-specific and relate mainly to investment business. As regards cross-border lending business, marketing from the UK into the EU 27 will become much more difficult - cross-border service provision by third country banks may be tolerated in certain countries for certain products, but it is very difficult to develop a coherent marketing strategy on such a patchwork of regimes. This is of course an area of interest for many firms - we will continue to monitor developments carefully and SMBC's staff in the UK will need to support its new entities in Germany, particularly in structured product areas.

We expect the EU 27 and the UK to remain strategically aligned in respect of major regulatory initiatives, but the UK will not become a passive "taker" of EU regulation given the leading role its authorities have taken in developing new regulations and the importance of financial services to its economy. There is now generally an acceptance that UK regulation will start to diverge from EU regulation, even though lawmakers may seek to achieve the same regulatory outcomes. This will present challenges that firms operating cross-border into the EU 27 will have to manage with care. ●