Ed Sibley: Brexit - where to next?

Speech by Mr Ed Sibley, Deputy Governor (Prudential Regulation) of the Central Bank of Ireland, to the DCU Brexit Institute, Dublin, 12 April 2018.

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With thanks to Cormac Staunton, Ellen Ryan, Gina Fitzgerald, Martin Moloney and Cian Murphy. Dedicated to Colm Curley and his abiding interest in this topic.

Introduction

I would like to start by thanking the DCU Brexit Institute for inviting me to speak here today, and to Arthur Cox for hosting the event.

The impact of Brexit is such that we need venues and fora where academics, policy-makers, industry, advisors and the media can interact and find solutions to the challenges we face. Since its foundation, it is clear that the Institute is doing just that. I commend DCU for having the foresight to set up the Institute, and all those who contribute to its on-going success. Indeed, the very existence of a “Brexit Institute” at one of our leading universities shows the importance of this topic, not just for the UK, but for the rest of Europe and particularly for Ireland.

When it comes to the financial sector, Brexit will have broad, fundamental impacts, and will substantively alter the functioning of the UK, Irish, and European financial systems. However, there is still considerable uncertainty around Brexit. We, at the Central Bank, while hoping for the best, are continuing to prepare for plausible worst-case scenarios, including a ‘hard Brexit’. This involves ensuring that existing Irish firms understand and are planning for the impact that Brexit will have on their businesses; and engaging with those firms that are executing plans to move to Ireland, or firms changing their business models in Ireland.

In my remarks today, I will:

- Start with a brief overview of the topic.
- Cover some of the potential impacts of Brexit on the Irish economy with a particular focus on the financial services system.
- Address the impact of Brexit on financial services firms, both those currently supervised by the Central Bank of Ireland and those seeking to relocate business here.
- Give an overview of the impact of Brexit on the future regulatory framework in Europe.

Overview

Brexit could be one of the most significant events to affect the Irish economy and Irish financial services firms in a generation. The full significance is almost impossible to predict at this stage, not least given the high degree of uncertainty surrounding both the short-term arrangements and the longer-term relationship between the UK and the EU.

It is noteworthy that there are many asymmetries associated with Brexit. For example, there are asymmetries in the relative importance of Brexit to the current members of the EU, with the UK, obviously, and Ireland the most affected. There are, consequently, asymmetries in the incentives that those affected by Brexit have, and consequently the decisions that they are making.

The recent announcement on transitional arrangements is welcome, but is undoubtedly affected by these asymmetries. The arrangements are still, ultimately, dependent on a political agreement on the terms of the UK’s withdrawal from the EU; and as the saying goes: ‘nothing is agreed until everything is agreed’. The different incentives and backstops in place in the UK compared to the

EU27, should the transitional arrangements not be ratified, result in the UK and EU27 regulatory authorities having to take somewhat different approaches. Therefore, while we will continue to take a pragmatic approach, which I will outline in a moment, our approach has to recognise that it is still plausible that there will be a "hard Brexit" less than year from now.

This approach is shared by our colleagues across Europe. As Dr Andreas Dombret of the Bundesbank recently remarked in a speech here in Dublin, there is "no alternative to timely preparation, and to preparing for the worst-case scenario of a hard Brexit"[1].

It may be helpful if I begin by laying out some of the fundamentals that we as the Central Bank use when approaching an issue as large and complex as Brexit.

The Central Bank's vision for the Irish financial system is that it is well-managed, well-regulated, and sustainably serves the needs of the economy and consumers over the long term. Given the international nature of financial markets and the increasingly international aspects of the Irish financial services sector, we also have a responsibility to consider the broader impacts of the financial system in co-operation with our European peers[2]. Being part of this complex European financial services ecosystem, the Central Bank plays an active role in the European framework of regulation and supervision. Within that framework, we operate a robust and effective approach to supervision. All of which is relevant to the approach we are taking to Brexit.

Whilst many conversations about Brexit and the Irish financial services system to date have focused on which firms may (or may not) be coming here, what is more important is what Brexit means for the Irish financial system as a whole – and what such a shock can mean for the functioning of the wider European financial ecosystem. We also should be mindful that not all sectors of the financial system will be affected in the same way.

Brexit presents both short-term risks – where a hard or chaotic Brexit may have detrimental "cliff effects" for the Irish economy and the financial services system that serves it – and longer-term risks for the post-Brexit Irish, European and global system.

Financial services firms, both those that are operating in Ireland already and those that are thinking of operating in Ireland in the future, need to understand these risks, need to understand what the Central Bank expects from them, and need to be mitigating these risks.

Finally, Brexit will have a significant effect on financial services regulation in Europe, both in terms of how policy is developed, but also on how we oversee the financial services sector in a new reality where the UK is likely to be outside of the European system but still a very important player in global financial markets.

Indeed, this is a key point. London is a truly global financial services centre operating within, and serving a very material amount of the financial services needs of, the EU. While undoubtedly the role of London and its interconnections with the EU will change post Brexit, it is critically important for the EU economy and all its citizens that it continues to have a financial services system that delivers within the EU, but also has deep global connectivity beyond it, including with London.

Brexit and the Irish economy

Since joining the European Community in 1973, the Irish economy has become more open and has traded more extensively with a wider range of countries than ever before. However, the UK remains one of our most important trading partners, with 13 per cent of goods and 16 per cent of services exported from Ireland going to the UK[3].

The importance of the UK market for the Irish economy is increased further by the nature of these goods and services, which predominantly come from sectors which are of vital importance from a regional employment perspective and comprise a large share of Ireland’s small and medium enterprises, such as tourism and agriculture.

The ultimate impact of Brexit on the Irish economy remains uncertain and highly dependent on the terms of the UK’s future relationship with the EU. Nonetheless, it is clear that the close relationship between the Irish and UK economies makes Ireland the most exposed to Brexit of all of the EU’s remaining Member States, for a number of reasons, including:

First and foremost, the UK’s departure from the EU will most likely reduce Irish exporters’ access to UK markets and Irish consumers’ access to products sourced from the UK. This may take the form of the imposition of tariffs on goods sold into the UK. In what could be considered a worst-case scenario, the UK may revert to trading with Ireland on the basis of world trade organisation rules. Work by the ESRI shows that under these rules some of the highest tariffs would be applied to products from Ireland’s most exposed and most employment intensive exporting sectors, with numerous agri-food products possibly facing rates in excess of 30 per cent[4].

In a less extreme scenario, whereby an extensive free trade agreement is reached between the UK and EU, the reduction in market access should be less severe. If we look at existing free trade agreements between the EU and non-EU countries for example, many of these eliminate tariffs on virtually all goods. However, exceptions are applied and again are particularly prevalent in sectors of most importance to Irish exports such as agri-food.

Furthermore, it must be remembered that tariffs are not the only barriers to trade outside of the Single Market. Non-tariff barriers such as increased administrative and customs’ requirements or costs associated with setting up new logistics and trade-processing systems also pose substantial costs to importers and exporters[5]. Many of these existing, extensive free trade agreements between the EU and its trading partners, often referred to as “New Generation” free trade agreements, have also targeted these additional barriers to trade.

Ultimately, when compared with current trading arrangements and the achievements of the Single Market, any Free Trade Agreement could still represent a substantial loss of market access. This would suggest that following Brexit, Irish exporters seeking to continue to trade with their UK clients will face considerable challenges and increased import costs, which could both reduce the range and increase the price of imported goods available to Irish consumers[6].

One very tangible risk posed to the Irish economy is the potential disruption of the land-bridge to continental Europe that the UK physically provides to Irish trade with the rest of the EU. Currently, exports consigned in Ireland and bound for the continent can travel overland through the UK with minimal administrative burden. Post-Brexit, new documentation or customs procedures threaten to add time and financial cost associated with the use of this route. ESRI research suggests a very significant share of Ireland’s non-UK international trade as measured by weight currently uses the land-bridge: 4,253 tonnes outbound and 2,505 tonnes inbound. This represents 53 per cent of exports to and 11 per cent of imports from the rest of the world excluding the UK, and indicates the magnitude of the economic activity exposed to land-bridge disruption[7].

The implications of reduced access to the UK market would be further aggravated by any negative economic shock to the UK economy associated with Brexit. A reduction in the incomes of UK households or the profits of UK firms will lead to a reduction in their demand for the goods sold by Irish exporters. Further depreciation in sterling may also make Irish goods less affordable for UK consumers and, relative to goods produced within the UK, less competitive[8].

Taking these factors into account, our estimates suggest that in the event of no post-Brexit trade agreement being reached, GDP in Ireland might be around three per cent lower after ten years than under a no-Brexit scenario. This figure could be expected to translate into roughly 40,000 fewer jobs, which may occur largely in particular regions and sectors[9].

These considerations, while central to understanding risks facing Irish exporters and households, are also important for our financial system and the stability of our financial institutions. The customers of Irish financial services firms, including banks, insurance firms and asset managers will be impacted by Brexit. For example, Irish exporting firms, particularly small and medium enterprises (SMEs), are predominantly funded by banks[10].

This creates a direct link between Irish financial services firms and any disruptions to trade with the UK and an indirect link to the performance of the UK economy.

Risks to the Irish financial services system

The Irish financial services system is closely intertwined with the UK system. This means that a 'hard Brexit' will lead to significant disruptions, in particular for the Irish financial system.

At the Central Bank we have been engaged, both internally and through the European authorities, to analyse the "cliff effects" that will occur in the event of a hard Brexit, in order to understand the impact a hard Brexit will have on firms and the economy, and how we can mitigate these risks.

Before discussing these cliff effects in the banking, insurance and funds areas, I first want to lay out how the European passport currently works in the financial services area.

The single market 'passport' enables a financial services firm authorised in its 'Home' Member State to exercise its right under the relevant single market Directive to provide services in another ('Host') Member State either by establishing a branch (known as freedom of establishment) or providing such services on a cross-border basis (known as freedom of services), without the need for separate authorisation in the host Member State. In a Brexit context, UK firms may no longer be able to avail of the financial services passport to offer their services into Ireland (and the EEA) and similarly, Irish firms may no longer be able to passport their business into the UK on a freedom of services or establishment basis.

The concept of 'passporting' financial services within the EU has different meanings and significance depending on the sector and legislation concerned. In some sectors, it is a source of substantial cross-border business, whereas in others, whether due to limits on passporting in the governing legislation or to industry specificities, passporting is much less prevalent. An inability to passport between the UK and the rest of the EU post Brexit will be particularly impactful in the Insurance and Funds spheres given the level of business conducted on this basis between Ireland and UK currently.

The likely loss of passporting rights between the UK and the EU27 therefore presents a material risk for Irish firms that depend on a European passport for the cross border provision of financial services into the UK, and may affect competition and product availability for sectors in Ireland, with inevitable knock-on implications for consumers.

Banks

For the Irish banking sector, the potential implications include, amongst others, negative impacts on profitability and asset quality from the expected slowdown in UK and Irish economic growth. In addition, direct credit exposures from lending to the UK retail market are vulnerable to a UK slowdown. The impact of sterling weakness and declining economic growth may also impact the repayment ability of Irish Corporates and SME exporters.

From a structural perspective, the loss of the passport is relatively less concerning from an Irish retail banking perspective vis-à-vis other sectors, as the largest Irish retail banks tend to access the UK market via subsidiaries, which they can continue to do post Brexit and the provision of banking services through passporting to the Irish economy and citizens is relatively small.

However, new businesses entering Ireland as a response to Brexit will mean a significant transformation of the Irish banking landscape, with a material growth in its size and complexity.

Insurance

The Irish insurance sector has significant international linkages. At the end-2015[11], over €3 billion of non-life business and over €2.6 billion of life business was written through international channels, either through branches or on a freedom of service basis.

Most of this is written by UK and Gibraltar-based insurance firms. This is perhaps unsurprising given the similarities in legal frameworks and the absence of a language barrier between both jurisdictions. Firms from the UK and Gibraltar accounted for €1.8bn of non-life and €2.5bn of life insurance business.

These interactions between the insurance industry in Ireland and the UK include the sale of insurance products, financial arrangements such as cross border reinsurance, and the use of outsourced service providers.

This cross-border business has been an important channel in improving the provision of insurance to Irish businesses and consumers, some of it quite specialist in nature. The cross-border model works well, in both directions, when provided by firms that are financially resilient, well managed, with a solid business strategy and are knowledgeable about the Irish insurance market.

The potential loss of EU authorisation will affect the ability of UK and Gibraltar-based insurance undertakings to continue performing certain obligations for EU policyholders (and vice versa) and will impact the service continuity of contracts concluded before the UK leaves the EU. Without action, there are risks that UK and Gibraltar-based insurers passporting into Ireland will lose their ability to continue to provide insurance cover, including collecting premiums, making mid-term alterations and negotiating and settling claims on any outstanding insurance contracts – ranging from long-term life insurance policies to annual motor insurance contracts – taken out prior to the UK's departure from the EU.

The €1.8 billion value of business written inwards by UK and Gibraltar-based firms for non-life lines of business is significant. Approximately, €17 billion of non-life business is written domestically and internationally by firms regulated by the Central Bank[12]. The larger firms typically have activated plans to obtain licences in the EU27. However, there are some providers, often offering relatively niche products or serving niche markets, where the cost of setting up and running a new EU subsidiary may be prohibitive. In addition to the contract continuity risk, there are clear risks of reduced competition and a reduction in customer choice.

Markets

In fund management, UK fund managers could lose the right to manage Irish authorised funds under the passporting regime. Such funds could also lose the power to delegate investment management and risk management functions to UK authorised entities.

Brexit is also going to impact on how financial institutions interact with each other. New regulations brought in since the crisis have sought to increase transparency and reduce risks in the securities and derivatives markets. The effect of this is that more firms are required to clear and settle their securities and derivatives with Central Counterparties (CCPs) and Central Securities Depositories (CSDs).

However, much of this essential financial market infrastructure, including as it relates to Ireland, is currently located in the UK. For example, the London Clearing House (LCH) is one of the world's largest CCPs. LCH dominates the clearing of over-the-counter interest rate swaps, with over 95 per cent of the market[13], and regularly clears in excess of $1 trillion notional per day.

If UK CCPs are not recognised under EU regulations after Brexit, firms engaging in, for example, interest-rate swap transactions would be unable to clear them in the UK. This issue is compounded by the lack of sufficient substitute capacity elsewhere. This will affect any EU firm that is using interest-rate swaps to mitigate the risk of interest-rate changes, elevating financial stability risks and, again, potentially reducing consumer choices.

A similar risk of loss of market access arises in relation to the settlement of equity securities traded on the Irish Stock Exchange. These are currently settled in the UK's Central Securities Depository. After Brexit, the UK CSD may lose its right to passport its services into Ireland, with a direct impact on the settlement of Irish equity securities.

Brexit impact on financial services firms

These are the system-wide impacts. I now want to talk about the impact at the firm level. I will differentiate here between firms already operating in Ireland and how they might be impacted by Brexit, and new firms that are looking to move into Ireland – including where a new business line is being transferred into an existing firm.

Existing firms

For existing firms, we consider Brexit as part of our ongoing supervisory approach. As I have described already, my vision for the Irish financial services sector is that it is well managed, well regulated and sustainably serves the needs of the economy and its consumers over the long term. In this context, when the Central Bank assesses the firms we regulate, we are essentially looking at four objectives from a prudential supervision perspective. Regulated firms should:

1. Have sufficient financial resources, including under a plausible but severe stress.
2. Have sustainable business models.
3. Be well governed, with appropriate cultures, effective risk management and control arrangements in place.
4. Be able to recover if they get into difficulty, and if they cannot, they should be resolvable in an orderly manner without significant externalities or taxpayer costs.

Brexit has the potential to affect each of these, and all financial services firms should be evaluating the impact of Brexit on these aspects of their business. From a regulatory and supervisory perspective, a primary concern is to ensure that regulated firms that have business models with direct or indirect exposures to the UK economy address and plan appropriately for the potential negative impacts of Brexit.

Therefore, we expect regulated firms across all sectors to consider, plan and adapt to the potential implications for their business models and revenue streams. It is the responsibility of firms' boards to assess the potential impact of Brexit on their firm and to plan accordingly. This should include early engagement with the Central Bank and relevant UK authorities as appropriate.

New or materially changing entities

In terms of new entities or business lines, we have been working for some time with a range of firms who have recognised that they need to relocate some of their activities in order to continue to access the EU market after Brexit.

Once again there are asymmetries here. Brexit is an imposed and undesired cost for businesses. There is the potential cost of setting up a new business in a different location, seeking authorisation, finding premises, relocating staff and so on. Perhaps more importantly for some firms there are ongoing costs and frictions associated with reorganising business lines, funding flows, booking models, and so on. It is understandable that firms want to minimise these costs and frictions.

But our gatekeeping role is hugely important in mitigating financial stability risks and protecting market integrity and customers in Ireland and across Europe. So, it is imperative that any new business authorised here as a result of Brexit meets the high standards that are expected of any such firm authorised in the EU – consistent with them effectively being, in many cases, an EU head office responsible for business undertaken in multiple jurisdictions. They need to organise themselves so that when they are up and running their business will truly be run from here, be clearly governed by EU norms and standards, and be set up to meet our robust, analytical, intensive and outcomes-focused supervisory expectations.

Good practices have involved firms who have looked very carefully at the legislative and business constraints, identified a credible new working model and put in place a strong team to deliver that. The process is typically more effective and efficient when we are dealing with the CEO and the Board of the entity that will be running the new business, rather than a project team from a global group.

Our approach

The Central Bank of Ireland has been working on Brexit-related issues since before the 2016 referendum. We have been conducting our own analysis of the impacts, and engaging with firms on a continual basis to ensure that they are preparing appropriately. In short, it is one of our highest priorities and involves teams working across every area of the Central Bank.

In terms of new authorisations, there is considerable challenge for us in terms of the large volume of applications being processed over a relatively short period of time. Consistent with the challenges outlined by the UK authorities as recently as this week[14], the unprecedented level of authorisation activity is necessitating the Central Bank to make hard choices. We have increased headcount, recruited heavily and re-allocated senior and experienced resources from other important tasks to ensure that we deliver effectively, efficiently, predictably and in a timely fashion. We are also having to now de-prioritise and defer other less critical work to accommodate our work on Brexit.

We are also active internationally to ensure that the risk of divergence between EU jurisdictions in how they handle relocations from the UK is mitigated. In order to address the concern of regulatory divergences and the risk of regulator arbitrage between EU member States, we have long been engaging closely with the European Central Bank, across the Single Supervisory Mechanism (SSM) and the European Supervisory Authorities to agree European-wide approaches to the key policy and supervisory issues, stances and decisions that have arisen from Brexit. For example, we worked very closely and very actively as part of the SSM to develop a set of guidelines[15] on this matter.

The ECB’s stance is reflected in comments by Sabine Lautenschläger of the ECB’s Executive Board when she stated that “the euro entity should not be an empty shell where the credit risk stays in the euro area, and all of the market risks are booked and governed and managed outside of the euro area[16]”

The result is that much of the heat is now gone out of the regulatory arbitrage issue, although we will continue to work hard to maintain consistent approaches as new issues arise and the work on key issues develops and deepens[17].

Brexit transition

As I mentioned at the start, all of this work takes place in a period of uncertainty, and it can appear that the sands are continually shifting beneath us. This is reflected by the announcement in March of an agreed transition period. On the one hand, the knowledge of a 'transition period' does provide a measure of comfort to both regulators and market participants.

On the other hand, as the transition phase only comes into effect if there is a withdrawal agreement, and the EU27 does not have the same legislative backstop as the UK[18]. Therefore, we still must know what we are going to do in the event of a hard Brexit in March 2019. We still expect firms to continue to prepare for all plausible contingencies, including the eventuality that the transition period is not finally agreed on account of the overall uncertainty of the negotiations. Taking a conservative, prudential approach, we cannot exclude such a scenario – even as we welcome the progress on a political level.

Existing firms who are doing their contingency planning well for Brexit have already clearly defined a realistic worst-case scenario. They have worked out what they will do in such a worst-case scenario and they have figured out what the trigger events are for their worst-case scenario contingency plan to be put into operation. They already know who within their firm will have the lead in implementing that plan. Their boards have already seen and approved those plans.

Not every firm is in that situation. We are saying to boards and chief executives – you need to mandate your staff to think through the plausible scenario of a hard Brexit. You need to be costing it and you need to be putting timelines on it now. You need to encourage your risk managers to be realistic about that worst-case scenario and not make optimistic assumptions about what Governments and legislators might do to solve your problems for you.

That said, we recognise the realities and complexities of the situation. It is also important (as I outlined earlier) that Ireland and the EU continues to have an outward facing financial system, which facilitates global financial flows and retains connectivity with the UK. So, when I talk about pragmatism in this context what do I mean?

A fundamental principle of authorisation and supervision is that a regulated entity must have the governance and control arrangements in place that are commensurate with the nature, scale and complexity of its business from the point of authorisation. It must also have the necessary resources (human, operational and financial) to support the business on, what could be referred to, as Day 1 of authorisation. This is not negotiable.

However, many Brexit-related changes and applications involve transfers of existing business lines, new licences and growth plans. So Day 1 may not be the destination, it may be a staging post on the path towards the time – let's refer to this as Day 2 – when the full post-Brexit business arrangements of the firm are operational.

In the event that the proposed transitional arrangements are ratified, this transfer and growth may take place over an extended period. So, we are open to understanding, on a case-by-case basis, both existing and applicant firms' plans for navigating the paths between their Day 1 and Day 2 arrangements. Importantly, these plans need to be clearly articulated, credible and reflect the uncertainty associated with Brexit. In other words, we may hope that we have time post-March 2019, but firms need to be able to credibly demonstrate they can accelerate their journey from Day 1 to Day 2 should the transitional arrangements not be ratified.

And again, there are asymmetries here. What may be appropriate for a firm passporting into the UK may not work for a firm passporting from the UK into the EU, simply because of the different backstops that are in place.

The impact of Brexit on the regulatory framework

Finally, it is important to emphasise that Brexit will change the European regulatory landscape, and that divergence in financial regulation remains a key risk in the wider process.

Much media and political commentary in the UK in recent weeks and months has focussed on using Brexit as an opportunity to diverge from EU rules and regulations, particularly in the area of financial services, although I note the CBI report published this week which suggests that this is not a UK business ambition[19].

In the short-term, the UK Government is working to integrate the current body of EU financial services law into domestic UK law. In the medium-to-longer-term, however, the position is less certain. As I said at the outset, we do not yet have a final withdrawal agreement, despite the latest progress announced on 19 March; nor is the future trading relationship known.

As such, a risk of material divergence between the EU and UK regulatory frameworks is one which must occupy some time as part of wider Brexit preparations. Divergence in the future might be problematic for the following reasons.

Firstly, access to EU markets for financial services is based on the concept of equivalence, or the idea that the firms seeking access to the Single Market from outside the EU have broadly comparable regulatory requirements as those present in the EU. This seeks to ensure a level playing field for EU and non-EU firms; maintain high prudential standards and investor protection outcomes; and ensure financial stability aims are met by applying stringent standards to the riskiest firms operating in the EU, regardless of where their home country is.

A materially divergent future UK regime would place any relationship based on equivalence in doubt, especially as equivalence assessments require an update periodically and there is no guarantee of the outcome of future assessments. This is clearly less than ideal in terms of building a long-term, mutually-beneficial framework of access between UK and EU financial markets. It also heightens political risk as a focus for the regulatory community given the potential disruption that a sudden withdrawal of equivalence could generate.

From regulatory perspective it is desirable, given the size and role of London as a financial centre, that some form of sustainable link between the EU and the UK is found. Indeed, it is important that the EU continues to play an active and engaged role in international financial markets and does not seek to introduce barriers to well-functioning markets where key risks can be managed appropriately.

Secondly, on a more practical level, following the UK's departure from the EU there will be a loss of experience and expertise when UK regulators are no longer sitting at the table. Whilst this might sound like a relatively minor issue given the other challenges Brexit presents, as a regulator I believe it is something that we need to be mindful of, particularly in Ireland. Whether it is because or despite of the long history between Ireland and the UK, our regulatory philosophies, approaches and thinking are usually aligned.

London's role as the pre-eminent financial centre in Europe results in more than a hub for trading and finance, but also a hub for the regulation of those activities. The loss of this voice is to be mourned. It is important that the EU27 tries to fill any gaps in regulatory expertise where possible.

At the Central Bank we understand that the UK's departure will require increased engagement on our part in the relevant EU and international fora, to convey our viewpoint and add our own expertise to the mix. We have consistently and successfully been making a substantial effort in this regard since the crisis, including trying to bring the very painful lessons learned from the crisis here to a wider audience and in an attempt to prevent such an event from happening again. We will continue to prioritise our largely invisible work in this regard.

Conclusions

I will conclude by emphasising some of my key messages:

Firstly, the decision by the UK to leave the European Union is one that will have knock-on effects for years, even decades, to come. For Ireland these effects are largely going to be negative and deeply profound, notwithstanding that there will be significant growth in the size, scale and complexity of the Irish financial system.

Secondly, regardless of the outcome of the political discussions, there will be significant changes to the financial services system, and the regulatory and supervisory frameworks, in both Europe and in Ireland. It is important that the EU financial system continues to embrace integration with the broader global financial system, even as the UK departs it.

Thirdly, as regulators, we see enormous challenges ahead, both for ourselves and for the firms that we supervise. What is concerning to me is that this view does not appear to be shared by everyone. We recently wrote to all the insurance companies that we supervise to ask them about their Brexit preparations. Of the 197 responses we received, 38 companies deemed that Brexit would have a high impact on their business model and 12 a medium impact. The remaining 147 – almost three quarters – think Brexit will have little or no impact on them. Given the level of uncertainty and the range of challenges we have heard about today, this is an astounding number.

Even in a best case scenario, there is likely to be some major disruption ahead. And it appears that we are still very far away from being able to anticipate a best case scenario.

Finally, the Central Bank is doing its part – continuing to resource our teams, engaging with new businesses, working with our existing firms and actively participating in Europe. We will adapt and change as necessary and respond to the developments as they arise. We will continue to monitor the risks from Brexit as we see them, continue to communicate them publicly and with our firms, and actively engage in constructive fora such as this.

With that in mind, I will finish by saying that I anticipate that the work of the DCU Brexit Institute will not end when the UK leaves the EU. In fact, that is probably when your work will really begin.

Thank you for your attention

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1 Keynote speech by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at the AIMA Global Policy and Regulatory Forum, Dublin, 20 March 2018. www.bis.org/review/r180322b.htm

2 See www.centralbank.ie/news/article/DGsibley17October2017 for perspectives on the European Regulatory Framework.

3 Office of the Revenue Commissioners and IGEES, July 2017: “Ireland and the UK – Tax and Customs Links”, igees.gov.ie/wp-content/uploads/2017/12/ireland-uk-tax-and-customs-links.pdf

4 Lawless, M. and Morgenroth, E., “The Product and Sector Level Impact of a Hard Brexit across the EU”, ESRI Working Paper No 550, November 2016 www.esri.ie/pubs/WP550.pdf

5 In October, the Central Bank hosted a roundtable on potential supply chain disruptions arising from Brexit as part of ongoing work to quantify non-tariff barriers. For details see: www.centralbank.ie/docs/default-source/tns/events/brexit-and-supply-chain-disruption-in-the-import-channel.pdf?sfvrsn=2

6 Lawless, M. and Morgenroth, E., “Brexit and Irish Consumers”, ESRI QEC Special Article, March 2018 for discussion of costs to Irish consumers www.esri.ie/publications/brexit-and-irish-consumers/

7 Lawless, M. and Morgenroth, E. “Ireland’s international trade and transport connections", ESRI Working Paper No. 573, October 2016. www.esri.ie/pubs/WP573.pdf

[8] Research by the Central Bank published in today's Quarterly Bulletin focuses on the channels through which a sterling deprecation impacts on the domestic economy. This finds that a 10 per cent fall in sterling translates into a loss in Irish GDP of just under 0.2 per cent. This work builds on previous published Central Bank research that highlighted the pass through from sterling exchange rate movements to Irish consumer prices (seeReddan and Rice (2017), "Exchange Rate Pass-Through to Domestic Prices". Economic Letter no. 8. Central Bank of Ireland.

[9] Opening Statement by Gabriel Fagan at Seanad Committee on Brexit, 4 May 2017 www.centralbank.ie/news/article/opening-statement-by-gabriel-fagan-at-the-seanad-committee-on-brexit

[10] Central Bank of Ireland Systemic Risk Pack: February 2018. www.centralbank.ie/docs/default-source/publications/systemic-risk-pack-systemic-risk-pack-february-2018.pdf

[11] Consolidated figures based on regulatory returns submitted to the Central Bank of Ireland.

[12] Consolidated figures based on regulatory returns submitted to the Central Bank of Ireland for the period ended 31 December 2015.

[13] www.lch.com/services/swapclear/volumes

[14] See www.fca.org.uk/news/press-releases/fca-publishes-its-business-plan-2018–19

[15] See www.bankingsupervision.europa.eu/banking/relocating/html/index.en.html

[16] Ms Sabine Lautenschläger, Member of the Executive Board of the European Central Bank and Vice-Chair of the Supervisory Board of the European Central Bank, interview with the Financial Times, July 2017 www.bis.org/review/r170728h.pdf

[17] www.centralbank.ie/news/article/integration-interconnection-innovation-in-financial-regulation-gerry-cross

[18] The UK "Government has committed to bring forward legislation, if necessary, to create a temporary permissions regime to allow relevant firms to continue their activities in the UK for a limited period after withdrawal. In the unlikely event that the Withdrawal Agreement is not ratified, this provides confidence that a back-stop will be available" see www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2018/firms-preparations-for-the-uk-withdrawal-from-the-eu-update-march-2018.pdf?la=en&hash=FD310274EDB28E2A0440228F3DD928E4BB725457

[19] www.ft.com/content/35133a4e-3ca4-11e8-b9f9-de94fa33a81e