



# Brexit

## Impact on Compliance with Financial Market Legislation

ComRisk 2019 Conference  
*London, 21 May 2019*

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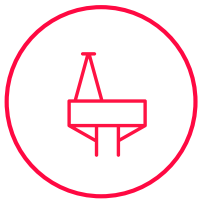
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*“Politics is more dangerous than war, for in war you are only killed once.”* W. Churchill



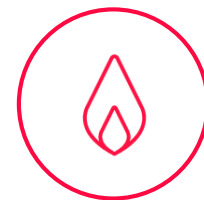
# Who is Equinor

- Equinor is a Norwegian broad energy company developing oil, gas, wind and solar energy in more than 30 countries
- Among the world's largest net sellers of crude oil and condensate with substantial processing and refining operations
- Second largest provider of natural gas to Europe
- Innovators in offshore wind. Ambition to grow profitably and potentially expand into other sources of renewable energy



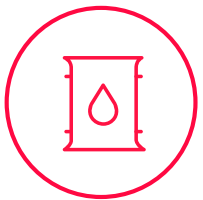
## Crude Oil

- Equinor ranks among the **world's largest net seller of crude oil** with more than two million barrels of crude and condensate (light oil) traded every day
- We are present in more than 30 countries around the world, including several of the world's most important oil provinces: Europe, North and South America, Africa, Asia and Oceania



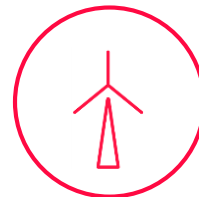
## Natural Gas and LNG

- Equinor is the **largest gas producer on the Norwegian continental shelf** and the **second-largest gas supplier in Europe**
- The combined gas volumes marketed by Equinor (Equinor and Norwegian state's volumes) constitute more than 20% of the gas market in Europe
- Equinor also sells Liquid Natural Gas (LNG) from the Snøhvit field in the Barents Sea



## Oil Products

- Equinor owns **refineries, processing plants and terminals** which transform crude oil into everyday commodities such as petrol, diesel and heating oil
- Most of our products are exported to continental Europe, but we also export to North America and Asia

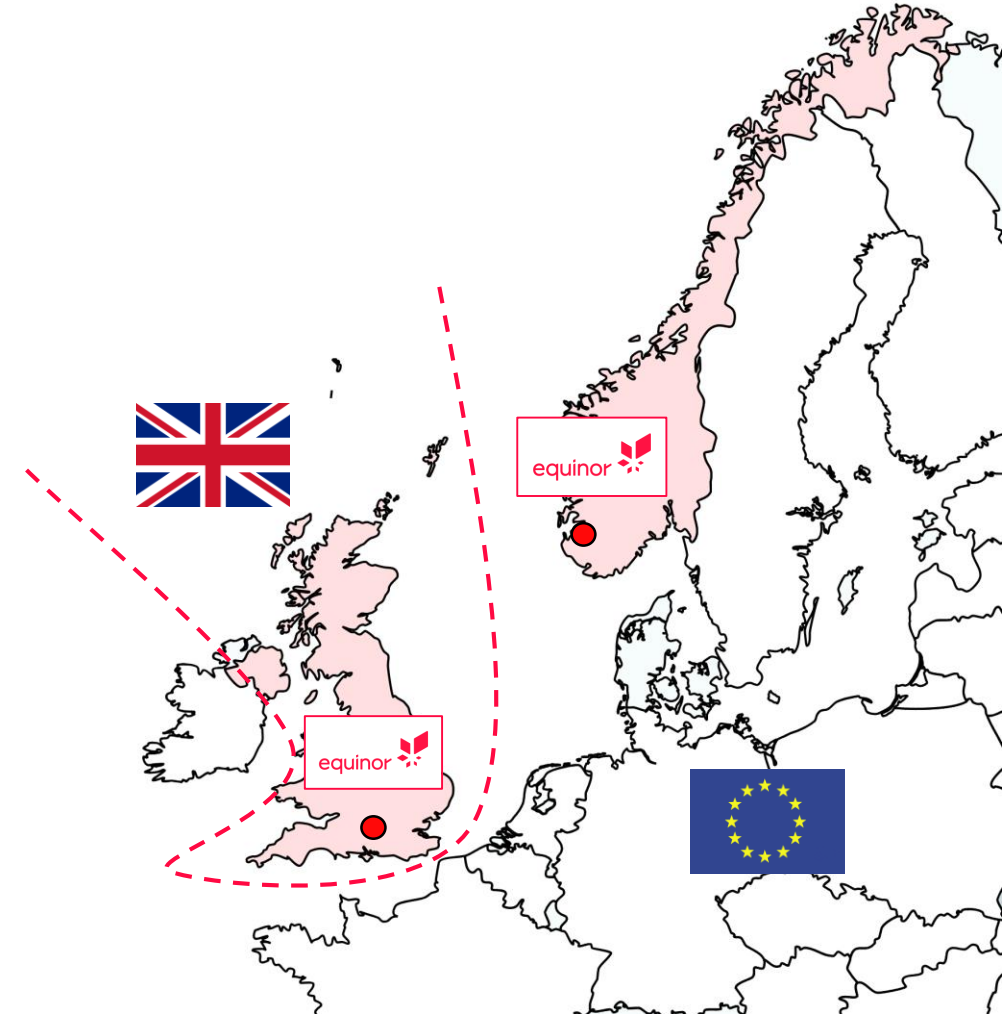


## Power

- Equinor **operates** three **wind farms** off the coast of the UK, and is engaged in further large-scale wind projects offshore the UK, Germany and the US
- We are also **pioneering innovation in offshore wind solutions for deeper waters** (Hywind)

# Presentation Overview

- Focus of this presentation is only a very limited part of the potential impact of a Brexit no-deal scenario
- Major impact of Brexit from a European trading perspective:
  - Equinor ASA, parent company based in Stavanger (Norway – EEA)
  - Equinor UK, subsidiary based in London (UK)
- This presentation covers the key risks from a financial market legislation perspective identified for the specific firm:
  - Brexit project scope
  - Financial legislation high level overview
  - Impact on trading from a financial legislation perspective
  - UK/London after Brexit



# Broader than a regulatory change project

- Broader involvement of internal resources
- Potential need to restructure business (e.g. firms with presence only in either the EU or UK may have to establish new legal entities)
- Uncertainty
- Equinor key priorities in a Brexit context:
  - Continue to provide energy resources (gas, oil and oil products, power) to customers
  - Ability to continue managing risk



# Brexit 'no-deal' impact on financial market legislation

Overview of the areas covered by the main European financial market legislation relevant to commodity traders who are not a MiFID investment firm and a list of the main requirements

| <b>Key Objective</b><br><i>relevant to commodity trading firms</i>     | <b>Financial Instrument and Investment Firm Definitions</b><br><i>What is a financial instrument</i><br><i>What is an investment firm and when a commodity trading firm can be considered an investment firm</i>  | <b>Counterparty Risk</b><br><i>Counterparty risk posed by the firm to the market and mitigation arrangements</i>   | <b>Market Abuse</b><br><i>Rules to avoid that market participants attempt or commit market abuse</i>  |  |
|--|---|--|---|--|
| <b>Main requirements</b><br><i>relevant to commodity trading firms</i> | <b>MiFID II/MiFIR</b><br>Very broad scope, including: <ul style="list-style-type: none"> <li>• Financial instruments definition</li> <li>• Ancillary exemption thresholds defining when a commodity trading firm can be considered an investment firm</li> <li>• Position limits and position reporting (<i>market abuse prevention – reporting only indirectly applicable to commodity traders non inv. firms</i>)</li> <li>• Other areas, including regulatory framework for algorithm trading, DMA, pre/post trade transparency</li> </ul> | <b>EMIR</b> <ul style="list-style-type: none"> <li>• Assessment of the EMIR status for the firm (<i>defining risk management arrangements to be established – following point</i>)</li> <li>• Risk management (e.g. clearing, risk mitigation arrangements)</li> <li>• Reporting (transactions)</li> </ul> | <b>REMIT</b><br><i>for gas and power only</i> <ul style="list-style-type: none"> <li>• Reporting (transactions/orders)</li> <li>• Prohibitions to attempt or commit market manipulation and insider dealing</li> <li>• Disclose inside information</li> <li>• Register with National Competent Authority</li> </ul> | <b>MAR</b> <ul style="list-style-type: none"> <li>• Prohibitions to attempt or commit market manipulation and insider dealing</li> <li>• Disclose inside information</li> <li>• Monitor, detect and report suspicious transactions and orders</li> </ul> |



# Impact on compliance with financial market legislation

Overview of main issues arising from a Brexit 'no-deal' which are expected to impact compliance with financial market legislation



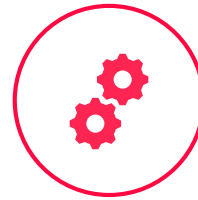
Execution

## A. EXECUTING BROKERS

UK based brokers for gas and power will **not be considered OTF** and the physical contracts traded on their platform are likely to become financial contracts

## B. EXCHANGES

UK based exchanges **not being classified as 'recognised third-country' exchanges**: positions on these venue to be treated as OTC from an EU regulation perspective



Clearing

## C. CLEARING BROKER

UK based clearing broker may not be able to provide **clearing services** to EU based counterparties



Reporting

## D. REPORTING

**1. EMIR** – UK to establish EMIR equivalent rules after Brexit which would require UK based firms to **report to a UK recognised repository** instead of an EU based one. EU entities to ensure that an EU trade repository is used

**2. REMIT** – Ofgem may not be able to **access data** for UK gas and power, currently reported to the European supervisory authority ACER

## E. REMIT REGISTRATION

Entities **registered in UK for REMIT purposes** would not be considered as having a valid registration and have to register in an EU country



# A. Execution – Executing Brokers

## Regulatory Background

- Gas and power physically settled derivatives traded on an OTF in the EU are physical contracts (specific exemption, so called 'REMIT carve-out') and are not treated as financial instruments from a regulatory perspective
- This also means that volumes relating to these instruments are not included in the MiFID II ancillary exemption test



### Present

- Gas and power physically settled<sup>1</sup> derivatives traded on UK OTF<sup>2</sup> are classified as physical contracts under MiFID II



### Brexit no-deal main issues

- Gas and power physically settled<sup>1</sup> derivatives traded on UK OTF would not be classified as physical contracts under MiFID II and would most likely become financial instruments

## B. Execution – Exchanges

### Regulatory Background

- Under EMIR and the new EMIR Refit, a group holding a position in OTC derivatives in a specific asset class (e.g. commodity derivatives) which is higher than the EMIR clearing threshold has to comply with additional requirements (including additional clearing)
- The volume which has to be considered for the EMIR clearing threshold calculations is the average of the daily OTC position in a specific asset class over a specific period of time



### Present

- EU based firms trade significant volumes on UK based exchanges where liquidity is for certain products<sup>1</sup>
- These volumes are considered Exchange Traded Derivatives as they **are traded** on a EU exchange
- Therefore they **do not have** to be taken into account for the EMIR clearing threshold calculation



### Brexit no-deal main issues

- Firms are likely to continue to trade relevant volumes on UK based exchanges
- These volumes could be considered Over The Counter ('off-exchange') as they **are not traded on an EU** or recognised third country exchange<sup>2</sup>
- Therefore they **do have** to be taken into account for the EMIR clearing threshold calculation

## C. Clearing – Brokers

### Regulatory Background

- Firms providing investment services (including execution of trades; clearing services) have to be authorised in one of the EU countries
- Brokers based and authorised in an EU country can provide services in all EU countries



### Present

- **UK brokers can provide investment services to clients based in EU** (including UK) by using their passporting rights



### Brexit no-deal main issues

- It **should be assessed** on a case-by-case basis **whether UK brokers<sup>1</sup> can provide financial services to EU based firms** (consider, for example, temporary legislation established by individual countries; reverse solicitation)

## D. EMIR and REMIT Reporting

### Regulatory Background

- a) Under EMIR (all financial derivatives, including commodity), EU based firms have to report trades in financial derivatives to an EU authorised trade repository
- b) Under REMIT (gas and power only, both physical and financial contracts), firms have to report orders and trades for EU physical and financial contracts to ACER, the European supervisory authority



### Present

#### a) EMIR

EU (and UK) firms to report to a **trade repository** which is based in an EU country (including UK)

#### b) REMIT

Firms report under REMIT to ACER. This covers EU (including UK) gas and power orders and trades. **Ofgem can access data reported to ACER**



### Brexit no-deal main issues

#### a) EMIR

EU firms to report to a **trade repository** which is based in an EU country.

UK firms to report to a UK recognised repository

#### b) REMIT

Firms report under REMIT to ACER. This covers EU (excluding UK) gas and power orders and trades. **Ofgem would not receive UK gas and power data directly from market participants** (*Ofgem expected to launch a consultation*)

# E. REMIT Registration

## Regulatory Background

REMIT requires market participants who trade gas and power contracts to be registered in the EU Member State in which they are based or, if they are not based in the Union, in a Member State in which they are active



### Present

- Entities based<sup>1</sup> in UK are registered with Ofgem
- The **UK registration** allows these entities to **comply with REMIT** when trading gas and power in the EU (including UK)
- The **UK ACER code can be used** to trade and report EU gas and power



### Brexit no-deal main issues

- Entities based<sup>1</sup> in UK are registered with Ofgem
- The **UK registration** would allow these entities to comply **with any UK REMIT equivalent rules** and **not with REMIT**<sup>2</sup>
- The **UK ACER code cannot be used** to trade and report EU gas and power

# Is there life after Brexit?

*Questions to the audience*

*“The pessimist sees difficulty in every opportunity.  
The optimist sees the opportunity in every difficulty.”*

W. Churchill



