



A panel-led discussion “The impact of Brexit for the UK, EU and rest of world”

Your panel line-up:

Roger Isaacs, Milsted Langdon LLP (UK)

Francesco Bartolucci, Studio Pragma (Italy)

Peter Leonard, Rickard Luckin Limited (UK)



www.mgiworld.com

studiopragma
Rickard Luckin

**MILSTED
LANGDON**
Chartered Accountants

Joining us today



46

Participants



14

Countries

Quick guide for participants

Register

Watch

Ask questions

Join in the discussion – select your audio

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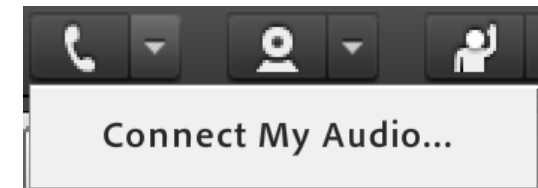
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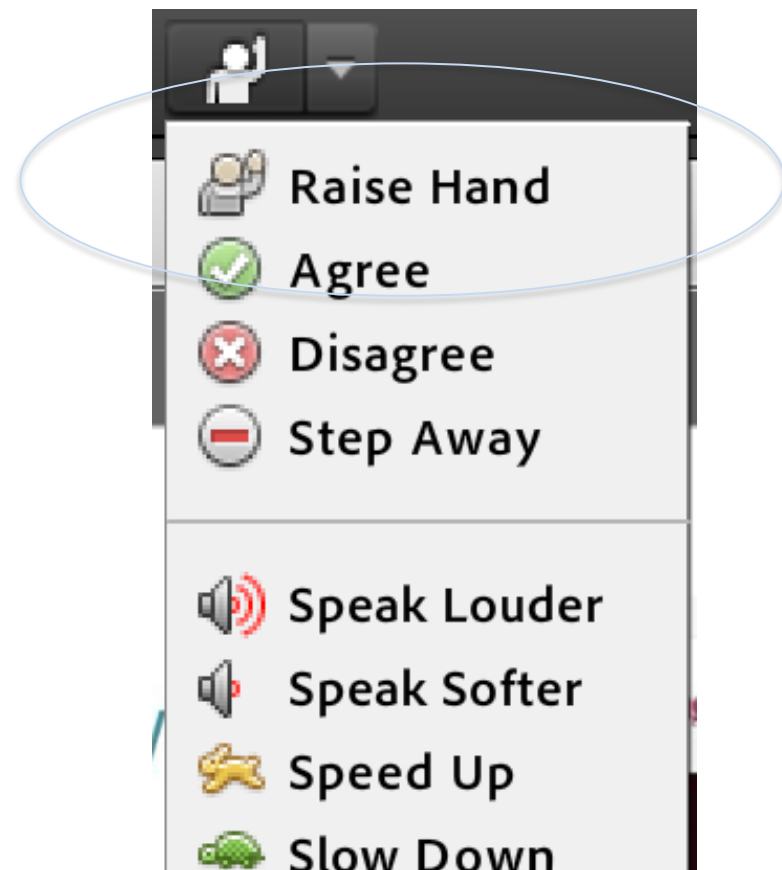
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Join Listen Only

Join in the discussion – raise your hand

3. Raise your hand to let us know that you would like to say something or ask a question



4. Alternatively, you are welcome to post a question to the panel

Post a question to the panel



Introduction



Your MGI Worldwide panel line-up

Roger Isaacs

MGI Worldwide
Deputy Chairman
and Partner at Milsted
Langdon LLP, UK



Francesco Bartolucci

Chairman of the Coordinating
Committee for MGI Europe
and Managing Partner at
Studio Pragma, Italy



Peter Leonard

Director,
Rickard Luckin Limited,
UK



- 33.6 million UK citizens voted
- 17.4 million people (51.9%) voted to leave
- 16.1 million people (48.1%) voted to remain
- 8% more voted to leave than voted to remain





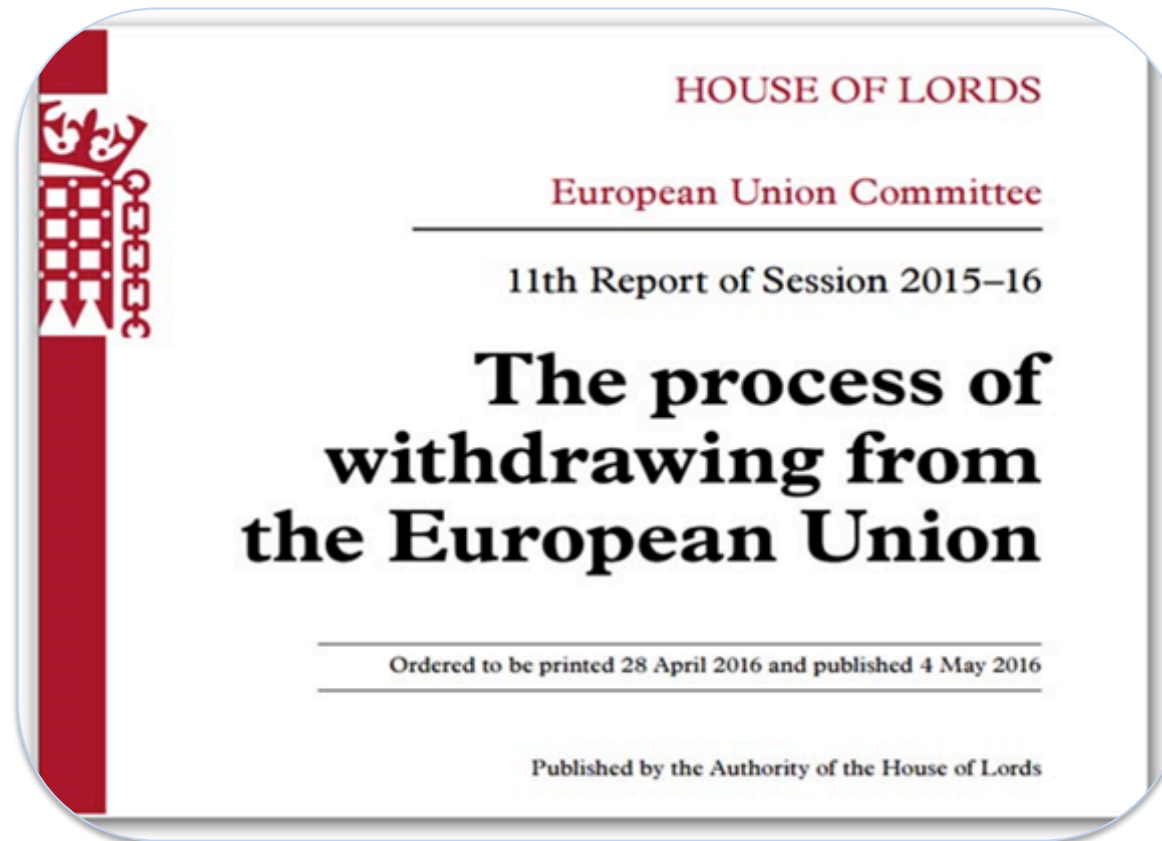
What does
“Brexit Means Brexit”
really mean?

Article 50 of the EU Treaty



WHEN WILL THE UK GOVERNMENT GIVE NOTICE UNDER ARTICLE 50?





When should the UK give notice?



A 2 year time limit



Notice is irrevocable



HOW LONG WILL IT TAKE TO NEGOTIATE THE TERMS OF UK'S EXIT?



Canadian Comprehensive Economic and Trade Agreement



- Agreed in principal seven years ago
- Signed in 2014
- Ratification required by all 28 EU member states and 36 parliaments
- Rejected last month by the Dutch/Walloon Parliament

WHAT HAPPENS IF TIME RUNS OUT?

What happens if time runs out?





WORLD TRADE
ORGANIZATION





IS A “HOLDING PEN” POSSIBLE?

mgiworldwide

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Rickard Luckin

**MILSTED
LANGDON**
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A member of
mgiworldwide

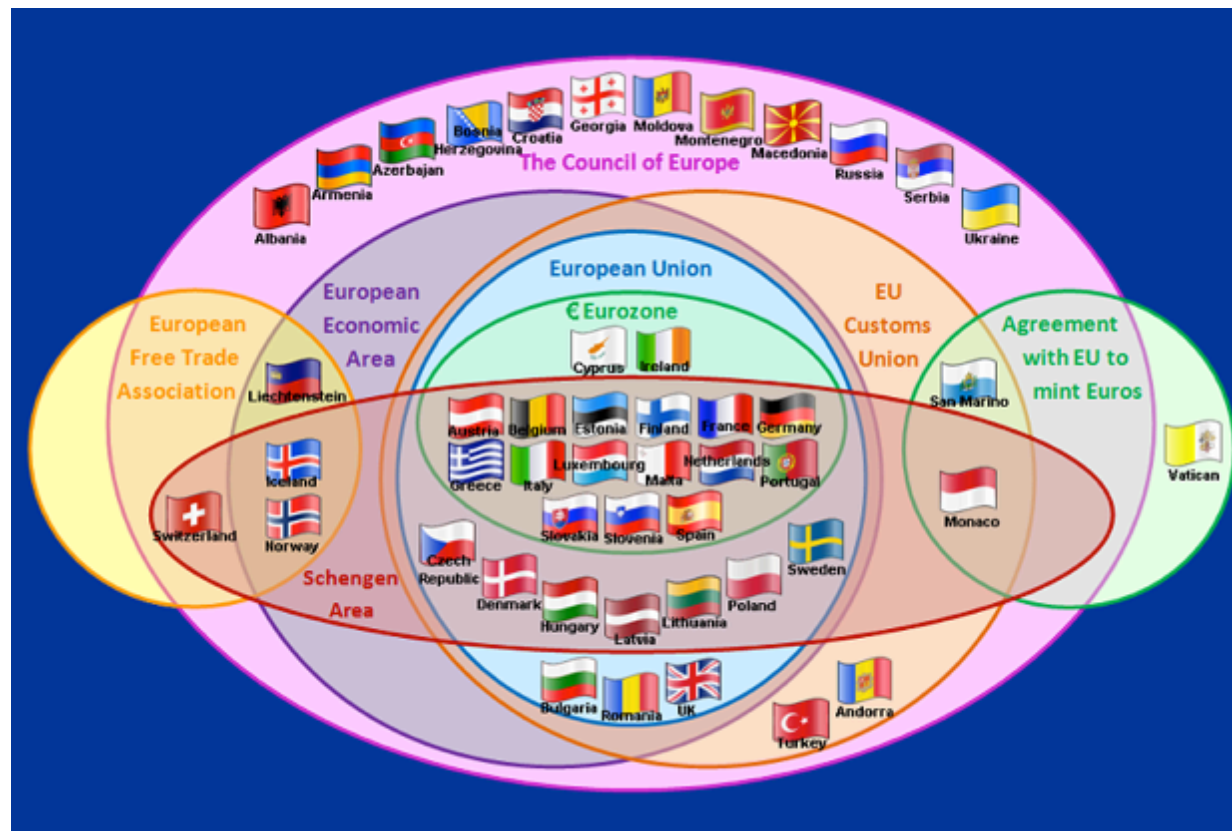
EUROPEAN FREE TRADE ASSOCIATION

Iceland, Liechtenstein, Norway, and Switzerland



EUROPEAN ECONOMIC AREA (“EEA”)

Iceland, Liechtenstein and Norway



A “STANDSTILL” AGREEMENT?



THERE WILL BE A NEED FOR TRANSITIONAL PROVISIONS

Will EU Citizens
living in the UK pre-
Brexit be allowed to
remain post-Brexit?

Will a European
Arrest Warrant
issued pre-Brexit be
enforceable post-
Brexit??

Can a claim be made
in the EU post-Brexit
under a pre-Brexit UK
contract of insurance?

Will UK Citizens
living in the EU pre-
Brexit be allowed to
remain post-Brexit?

SO WHAT STEPS SHOULD INTERNATIONAL BUSINESSES BE TAKING?



MIGHT BREXIT TRIGGER OTHERS TO LEAVE THE EU?



**“Hurray for the British! Now it is our turn.
Time for a Dutch referendum”** Geert Wilders



HOW WILL BREXIT REALLY AFFECT THE FREE MOVEMENT OF LABOUR?

IS IMMIGRATION A UK OR AN EU PROBLEM?



New Scenario

Potential Exit Models

Potential Impact

Conclusion

New Scenario 1/3

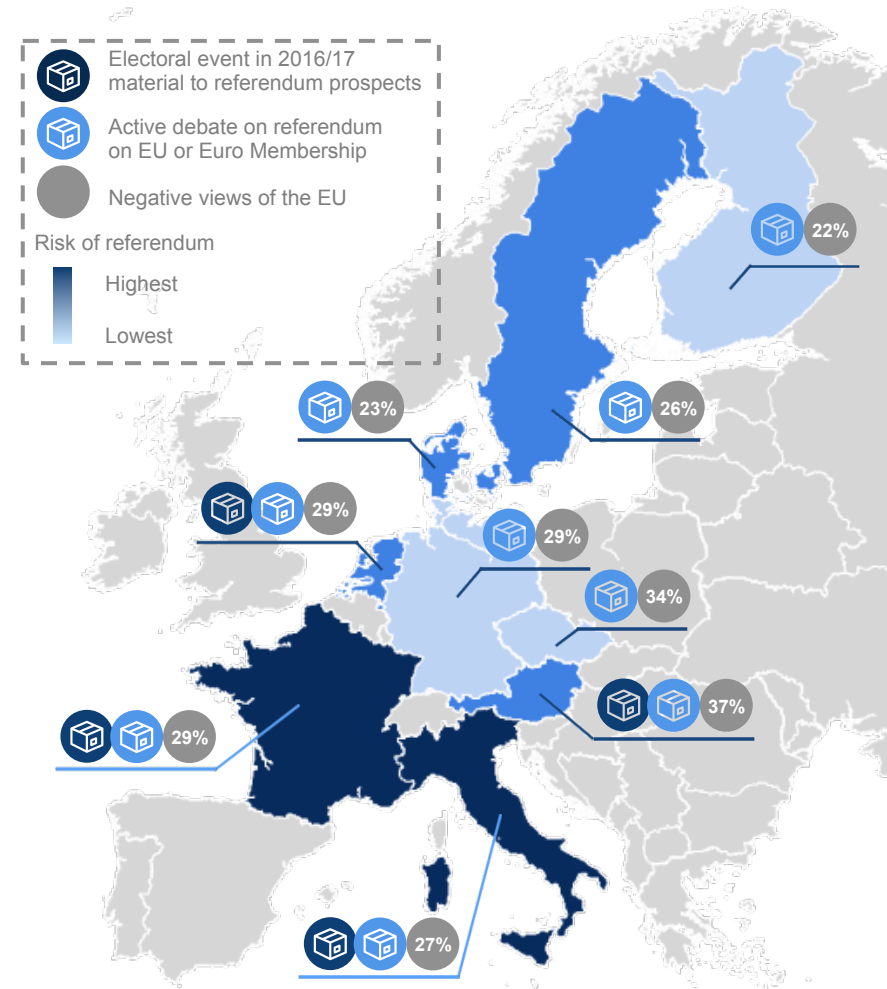
A new political fact: EU has an Exit door

After six decades of integration and ever closer union, it is hard to overstate **the importance of this new political fact**:

- A **unique test case** for life after the EU
- British experiment will be watched by each countries **domestic Eurosceptics**



- **Italian referendum and the French elections in spring 2017** key moments of potential volatility
- Shake-up in **domestic politics** and **demands of Brussels** (migration and demands for policy flexibility)



Sources: GC judgement, Eurobarometer, Forsa, Voxmeter, Taloustutkimus, Demoskop, Sanep, BVA, Gallup, SWG, IPSOS

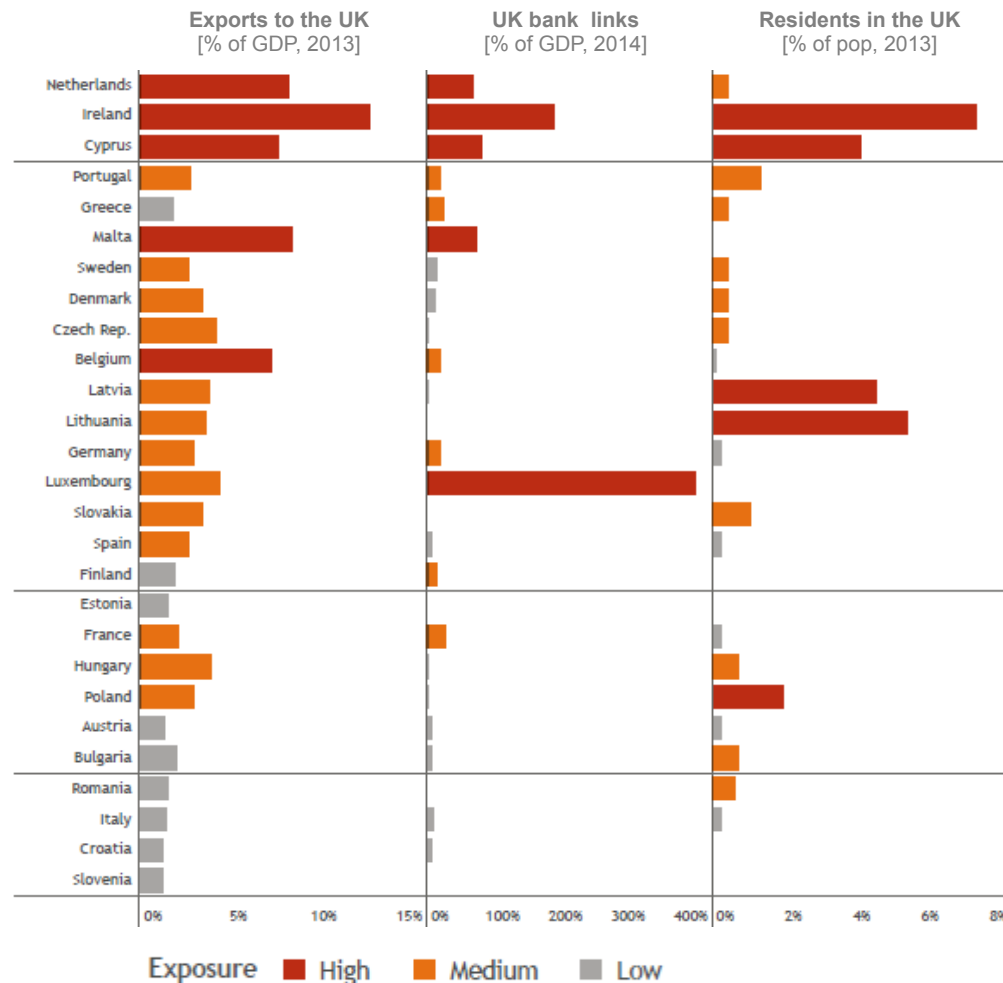
*July 2016

New Scenario 2/3

The biggest economic demerger since WWII

Demerging economies as integrated as those of the EU27 and the UK has **no modern precedent outside of wartime**.

- Established **supply chains** and **distribution networks** in almost all sectors
- Dense **social** and **cultural networks**
- Member states**
- Heavy exporters** and **importers** to and from the UK
- EU companies using London to connect to the **global financial economy**
- EU banks** that ultimately rely on the deep capital markets of London for onward lending to businesses



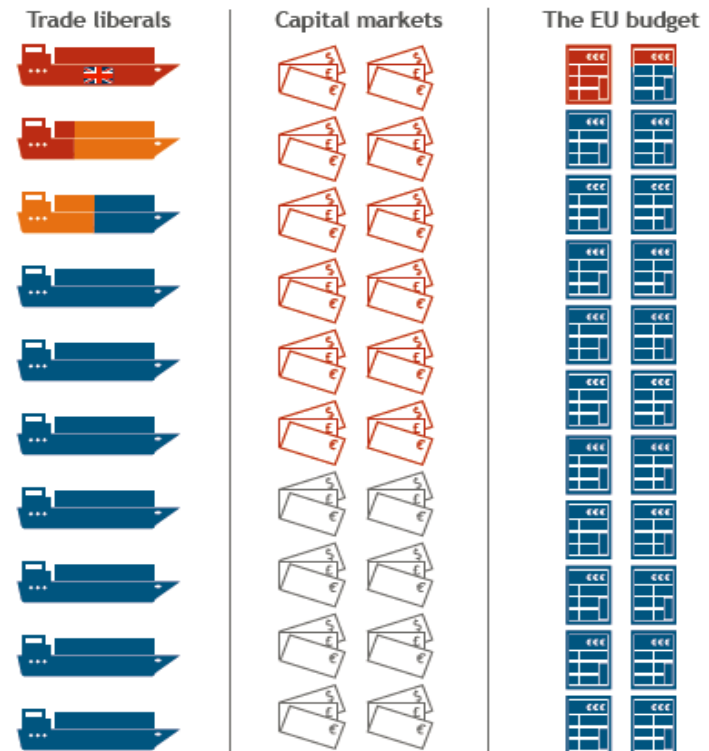
Sources: ONS, Bank of England, IMF, European Commission, CEIC, GC calculations

New Scenario 3/3

The EU without the UK

Britain is a **large state** and **economy** that has become an integral part of the EU single market since its establishment.

- Changing **terms of access for EU businesses** to the **global capital markets** for which the UK is an established hub.
- 60% of EU capital markets** business is conducted through the UK, including hundreds of billions of inter- bank lending
- The UK is also a **major net contributor to the EU budget** and shaper of how it is spent – (€ 11 bn net)
- EU budget will need to be replaced, with politically **sensitive implications for other net contributors** – or cut, with important ramifications for recipients.
- The UK accounts for half of the consistently liberal votes in council on trade issues*



Sources: Global Counsel 2016

* European Commission

New Scenario

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Potential Exit Models

A Grid with Four Possible Brexit Scenarios

How disruptive these impacts are will ultimately depend on the model agreed for the UK's future relationship with the EU.

Final status UK vs EU	Participation in Single Market	EU passport/ Free movement of people	Arguments in favor of this Scenario	Arguments against this Scenario
European Economic Area (EEA) membership (Norway)	Yes	Yes	<ul style="list-style-type: none"> Access to single market maintained EU banking passport maintained 	<ul style="list-style-type: none"> UK still subject to EU regulations UK still contributes to EU budget UK without EU voting rights UK unable to impose immigration restriction
European Free trade Association (EFTA) membership only (Switzerland)	Partially	No	<ul style="list-style-type: none"> Access to single market in specific sector through bilateral accords 	<ul style="list-style-type: none"> Complex negotiations by sector Some EU budget obligations (but less than under EEA) Institutions would have to follow EU regulation in sectors covered
Custom Union (Turkey)	Only free movement of goods	No	<ul style="list-style-type: none"> No EU budget obligations for the UK Free movements of goods Restricted movement of people (desired by Brexit campaign) 	<ul style="list-style-type: none"> Restricted movement of people Not all sectors covered; no free movement of services UK follows EU external tariffs to third markets
World Trade Organization (US)	Only free movement of goods	No	<ul style="list-style-type: none"> UK out of single market No EU budget obligation for UK No need to follow EU regulations Freedom to trade with rest of world Ability to control migration policy 	<ul style="list-style-type: none"> Restricted movement of people, goods, services and capital Subject to EU's common external tariff

Sources: BCG Analysis

New Scenario

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Potential Impact 1/4

Impact on Business Services

Key Brexit Challenges

Existing pressure of **competition and automation** will increase

FX volatility

Reduction in **non core services**

Recruitment freeze or pause

Complex **cross border logistics**

Margin pressure driven by price competition and unprofitable contracts

Exposed to other '**at risk**' sectors

High fixed cost base, more challenging to flex

What this mean for the sector



Business services for M&A still remains significant



Direct impact of any **reduction in activity in the sectors** that it services



Cautious outlook from CFOs could lead to reduced outsourcing or keener negotiation on pricing



Operational efficiency will become increasingly important.



The **pressure on smaller/less stable** businesses



This offers an **opportunity for larger/stable** businesses to acquire, absorb or replace their competitors.

FOCUS: who could benefit



Waste operators: could benefit from any relaxation in EU waste policies which leaves landfill as a viable asset and/or export restrictions which reduce competition for UK waste from EU facilities



BPO: there may be short term opportunities to support in any relocation or operating model adaptation plans



Professional practices: could present an opportunity to support clients and government through Brexit process

Potential Impact 2/4

Impact on Financial Services

Key Brexit Challenges

Potential loss of **passporting rights**

Loss of **access to european markets**

Increase in **regulatory costs**

Foreign exchange exposure

Potential **prohibition of euro clearing** in london

Potential **challenges and restrictions around data movement**

Structural **reform implementation programs**

Significant operational moves to **alternative european financial centres**

What this mean for the sector



Cuts to the UK credit rating will likely increase the risk premium attached to UK lenders



Banks' cost of funds will likely be passed onto corporate borrowers gradually through higher bank loan pricing



Global asset managers may refocus their future capital **deployment activity to higher growth and lower risk markets** (e.g. USA)



European banks and funds remain open for business, however Brexit has **exacerbated stresses**:

- **The NPL problem** has not been solved in Europe
- **Portugal** has resolved two banks
- **CEE banks** are facing significant distress
- The ECB has "**propped up**" **banks with QE**, and is now considering **authorizing State Aid** in the case of Italy.



It appears that one of the main side effects of "Brexit" is to serve as a **reminder that the risk of financial crisis in Europe remains profound.**

Potential Impact 3/4

Impact on Taxes

In the **short term**, few changes are likely to occur. Whilst difficult to predict the **long term impact**, businesses could encounter a variety of issues

VAT

UK will have **more flexibility** on rates of VAT, scope of exemptions, zero-rating, and so forth (zero rating for domestic fuel and power, VAT relief for energy saving products, etc.)

- The **practicalities of cross-border transactions**
- **Invoicing and reporting protocols** could be revised
- The **travel sector** may no longer be required to account for VAT under the **Tour Operators Margin Scheme**
- Suppliers of **B2C e-services** have to consider the impact on VAT accounting under the **EU's Mini One Stop Shop**
- There will be disputes between **taxpayers and HMRC** over transactions (to need to refer questions to the CJEU.)



CUSTOM DUTY

Control and collection of Customs Duty would revert to the UK.

- **New UK legislation** will be needed to replace the EU Directives, Regulations and Council Decisions.
- **UK duty rates** diverging from the EU equivalents
- **Customs and International trade programmes** (e.g. the Authorised Economic Operator programme) are likely to continue unchanged, as are other Customs processes such as temporary importation, duty suspension, and so forth.
- The recognition of trade with EU countries as **imports and exports**.
- The related import and export formalities have the potential to result in some **impediment to trade**.

EXCISE DUTY

- Since Excise Duty rates are not fully harmonised at present this is unlikely to result in changes to rates in the UK market.
- Movement of excise goods between the UK and EU Member States will be subject to different procedures than the current "intra-EU trading" rules.

SYSTEM AND CONTROL

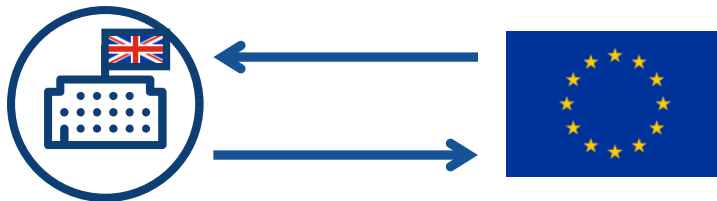
- Considerable planning and resource to implement these **changes within the ERP systems and compliance processes** to account for VAT (tax codes and client reference data, spreadsheets or automated tools, etc.)
- Substantial corporate restructuring may necessitate a wholesale review of the business' **indirect tax operating model**.

Potential Impact 4/4

Impact on Immigration and Higher Education

Higher Education

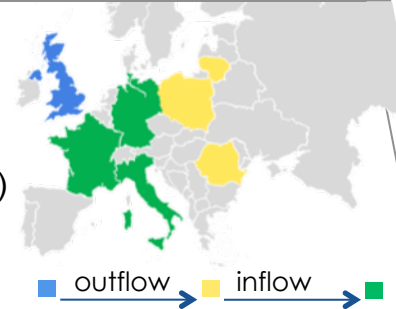
Universities are concerned about the impact of Brexit on **students and research**.



- Detrimental impact on **fee income** for universities and on the **culture and diversity**
- **Charging EU students** higher fees as overseas students
- The UK may lose access to **EU research funding**
- Risk of movement of high **calibre staff and researchers**
- detrimental impact in the **quality of research projects**
- No **student loans or maintenance funding for EU students**
- **Lower numbers of EU students** coming to study in the UK

Migration

If the UK caps migration, **Eastern European countries** will be negatively affected (1.2 million workers in Britain) and **Western European countries** such as Germany could see higher inflow of the EU migrants.



- The UK could be staring at **critical labor shortages** as around 75% of the EU citizens would be ineligible to stay in the country.
- EIU forecast: **UK's unemployment rate** to rise to 6% by 2018 because of 380,000 job losses due to Brexit.
- Change in **immigration norms** between the EU and Britain might increase the demand for skilled workforce from APAC

New Scenario

Potential Exit Models



Potential Impact

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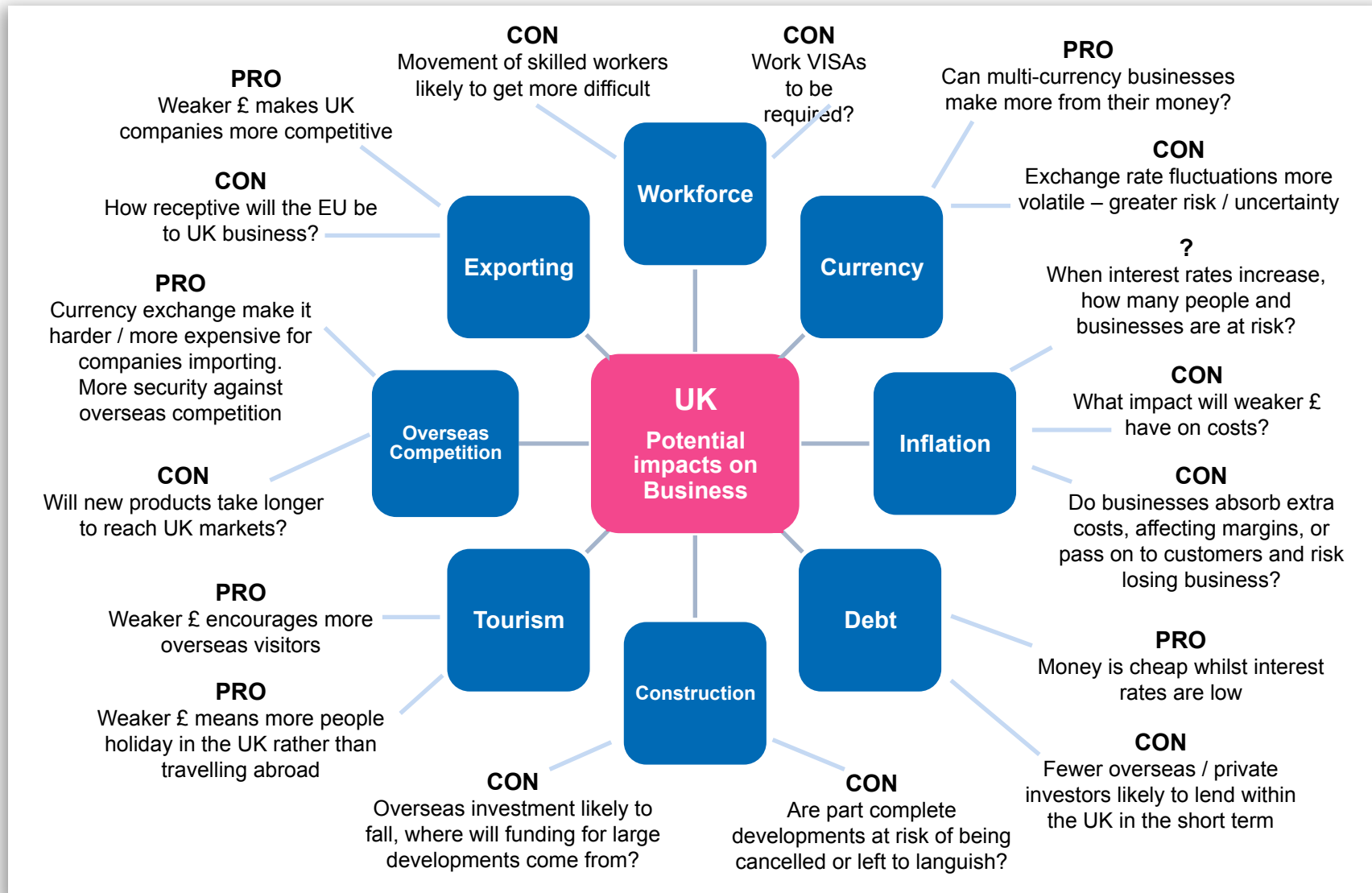
Conclusion

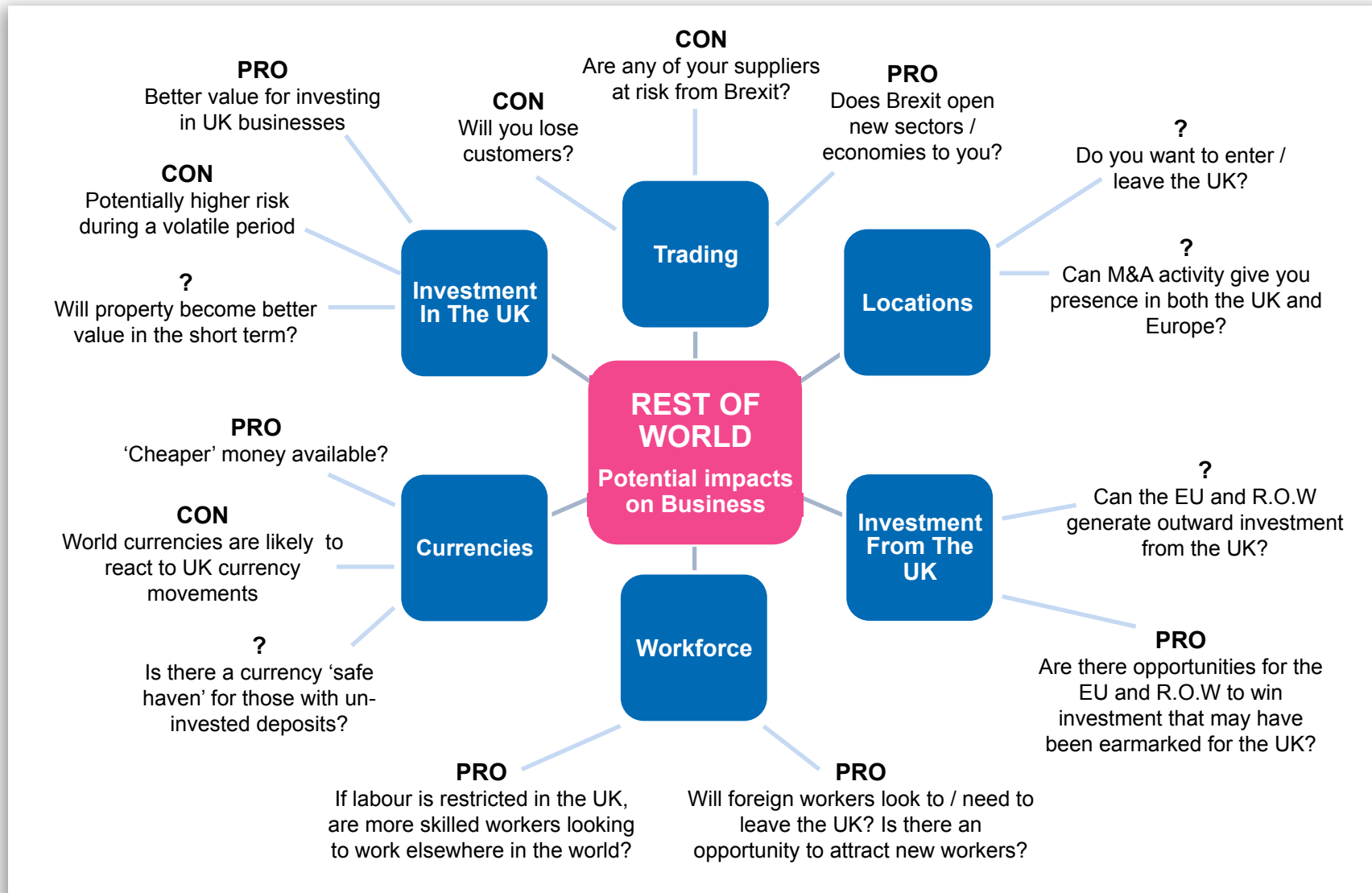
Brexit Uncertainty Map

Creating a set of plausible scenarios based on a combination of these factors using the “uncertainty map” can help business actors to think about the different dimensions of uncertainty and the specific outcomes that may play out.

		 FAVORABLE  UNFAVORABLE			
POLITICAL PROCESS	Domestic	Exit from Brexit	Muddling through	Prolonged power struggle	Constitutional crisis/ UK breakup
	EU	EU renewal – crisis as opportunity	Multispeed and disorderly EU	Further EU breakup	
TRADE REGIMES	EU	Equivalent access to 27 EU markets achievable	Largely favorable, but lengthy negotiations	UK “punishment” and open-ended trade disruption	
	Global	New trade agreements on par with current EU ones	Progress with 25 core non-EU trade partners	Trade under WTO rules; many slow renegotiations	
FINANCIAL ECONOMY	Currency	Sterling recovers from post-Brexit “floor”	Sterling fall contained but structurally lower	Currency crisis leading to government renegotiations	
	Interest rates	Policy rate cut, UK adopts zero- or negative-interest rate policy		Policy rates broadly unchanged; UK borrowing costs remain at current levels	
	Equity prices	Volatility moderates and losses gradually recovered	Structural departure from long-term trend	Crash	
REAL ECONOMY	Investment and spending	Some delays but structurally unchanged	Cancelled investment as uncertainty persists	Structural redirection outside of the UK	
	Labor market	Wages and quality and quality of labor supply only moderately affected		Reduced labor mobility drives up wages and reduces quantity, quality and availability	
	Exports and imports	Small impact, even in medium and long terms	Impact, but net trade position broadly unchanged	Rising import costs outweigh competitiveness gains	
	Growth	Limited and short-term impact on growth	Multiperiod sterling contraction or stagnation	Deep structural recession, lower long-term growth	

Sources: BCG Center for Macroeconomics





What should you be doing?

No one knows what 'Brexit' may create. Uncertainty heightens risk, but opens opportunity.

Review

- **What are your risks?**
- Exposures you can control
- Exposures you might need to mitigate
- How will legal contracts be affected
- Keep up to date with changes as they develop

Plan

- What can you do now / in the future to protect and grow your business?

Implement

- Don't wait and see how Brexit could impact upon you and your business
- Seize every opportunity and mitigate your risks and uncertainties

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Please answer our poll

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A recording of this webinar will be shared soon

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