Assessing the impact of Brexit on your business

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The people of the UK have voted to leave the EU. What happens next and the implications for businesses operating in the UK or EU markets are unclear.

In the face of volatility and uncertainty, it is important to stay calm, review contingency plans and assess the possible implications for your organisation and the risks and opportunities this creates. But it may be that too much is unknown for you to make the biggest decisions.

What is generally accepted is that nothing will happen immediately. The UK remains part of the EU until such time that the UK's exit terms are ratified.

Once the formal process is triggered, there will be a period of up to two years for the exit terms to be agreed with the EU's remaining 27 member states. Article 50 relates solely to exit plans so negotiations on Britain's future trading relationship with the EU will likely run in parallel.

In light of this and the general market volatility resulting from the decision, financial services organisations should now calmly map and assess the specific implications for their business against this changing landscape, detailing the relevant risks and opportunities it presents. At Grant Thornton, we believe initial work should focus on two broad areas:

- regulatory impact (principally 'passporting')
- impact on the macro economy of the UK and the remaining EU 27 member states.

Our international advisers are well placed to help you navigate this uncertainty and meet these challenges head on. This viewpoint details what we do know to date and outlines the areas of consideration for the assessment of the risks and implications. We will also continue to share insights and implications for the financial services industry over the coming months as the uncertainties start to crystallise.

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Assessing the impact

The events of the 23 June had, as expected, an immediate impact on financial markets and caused a leap in volatility.

As the dust settles, a policy of 'wait and see' is not sufficient given the potentially significant impacts on the long-term business environment. Most organisations should start to substantiate their existing contingency plans by fully understanding their exposures across all relevant regulatory, legal and economic considerations.

There is no single approach for financial services firms and each will need to be determined on a case by case basis.

Regulatory impact

The current UK legislative framework for regulating financial services is closely tied to EU regulations, both through implemented directives, as well as reliance on regulations. A large proportion of EU legislation implements international obligations or guidelines. While it is too early to assess the wider impact of Brexit on EU regulation, any new UK replacement regulations are likely to be just as stringent and broadly similar.

Passporting into the EU

One of the key enablers within the EU is the passports for regulated companies. These passports currently allow ease of movement for business activities within the EU. The loss of the passport facility (without extension/replacement for example through third country status and on assessment of equivalence) could mean the financial institutions established outside the UK would find it harder to provide services to clients in the EU from within the UK and vice-versa. In any event firms must be MIFID II / MIFIR compliant by January 2018, which could be before the UK formally leaves the EU.

Many of the big banks including HSBC, JP Morgan Chase and Goldman Sachs are tentatively looking at shifting certain operations to their other financial hubs within the EU. This may or may not be related to Brexit. Non-EU financial services institutions currently using the UK as a gateway to the EU, will also need to monitor the situation closely and consider relocating customer facing or (particularly for Euro denominated business) clearing and back office operations to other EU member states.

As with many things related to Brexit, all depends on the exit terms and future trading relationship between the EU and the UK. For example, the Norway model would likely enable passporting.

Macro-economic impact on the UK and the remaining 27 EU member states

For those firms whose activities are confined to the UK market, the first order effects are likely to be minimal. For those trading with the EU, our advice would be to seek to build a clear view of the level of exposure and potential impacts:

- How exposed are you to medium term market, sterling and Euro volatility?
- How exposed is your business model to the EU, for example, commercial and pricing, legal contracts and mandates, geographical footprint, people, skills, data transmission and retention?
- What protective measures do you need to put in place and how will you manage your customer communication?

Strategic planning and operational assessment

One of the first things you need to consider is why you are based in London. Many of those drivers will be unchanged. London remains one of the biggest financial services hubs in the world. It is a thriving financial services hub and will, in all likelihood, continue to be so for the foreseeable future.

However, there are infrastructure and skill challenges facing some of those viable alternatives; the financial services industry in London employs around 400,000 people when you include professional advisers and other ancillary services. There is currently no other city in Europe with that depth of FS skilled resource.

London is business friendly, operates under English law, has a reasonable tax regime, is an attractive place to live, has good infrastructure, knowledgeable investors, a large customer base and a strong supportive network for financial services.

The first step you'll typically need to think about is how to establish or use an existing presence elsewhere in the EU to maintain access to EU customers, if needed. When to execute any actions will depend on the lead time required. For bigger organisations the point at which a 'plan b' needs to be commenced has already passed, but mostly these firms have one or more existing footprints outside London. Without an existing presence in an EU financial centre, the challenge may be significant. For smaller organisations, a two year window is achievable, but a strategic assessment should be undertaken as soon as possible.

We can help you by assessing the overall environment, the regulatory environment, manpower reductions in the UK and transfers to other locations, relocation and infrastructure assessments and related tax planning. Your entity's core operations, particularly if there is a high concentration in the UK, will also need to be reviewed along with existing legal agreements and management agreements.

Considerations

To keep moving forward in the post-Brexit environment, while it may be too early to make the big decisions, companies must anticipate the changes it will bring and adapt to meet them. In looking at the threats and opportunities that Brexit poses for your business, and in planning how you can create and protect value, you should consider:

People and talent

Short term:
- Consider what to communicate to them and what reassurance you can give
- Assess the impact of exchange rate fluctuation on global talent.

Medium term:
- Review employment contracts and take steps to protect your non-UK talent working in your UK operations
- Assess impact on any outsourcing or teams in other EU jurisdictions.

Long term:
- Consider your current location. Where is the best place to operate from?

Strategic ambitions

Short term:
- Consider what to communicate to stakeholders
- Review existing strategy and immediate impacts.

Medium term:
- Review M&A transactions and due diligence
- Identify transitional market and customer opportunities.

Long term:
- Identify new markets and commercial opportunities
- Assess opportunities for organic growth, joint ventures and acquisitions.

Finance growth

Short term:
- Consider what to communicate to investors
- Assess the impact on any immediate refinancing.

Medium term:
- Review the impact on sources of capital
- Assess the opportunities and risks around re-financing.

Long term:
- Review the funding requirements for future strategy
- Identify future capital markets and investors.

Manage risk

Short term:
- Consider which customer or suppliers might be affected by short-term volatility
- Review risks and opportunities across the organisation.

Medium term:
- Assess the impact on business risks including issues such as working capital management and financial reporting

  Legal:
  - Assess the impact on existing legal contracts and mandates, and cross border data management and residency
  - Identify what documentation will need to be changed.

Long term:
- Assess the long-term plans for business risks including tax structure and pension structures
- Review your strategies for mitigating fraud, bribery and corruption risks.

Optimise operations

Short term:
- Consider what to communicate to customers and suppliers
- Identify your current and future exposure to interest rate and foreign currency exchange rate fluctuation.
- Identify which regulations critically impact your business.

Medium term:
- Assess the impact on processes and control
- Future regulatory compliance
  - Consider the likely timescale for any change in these business-critical regulations.

Long term:
- Review your operational effectiveness and efficiency including back office and manufacturing/cost base
- After assessing your needs related to customers; suppliers; talent; infrastructure; investors; business friendly environment; tax etc: do you have operations in the right locations?
- Identify opportunities for developing supply chain value in different trading relationships.

Contact us

As you face a more uncertain environment we can help you work through the implications and support you to develop the best action plans for your business.

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