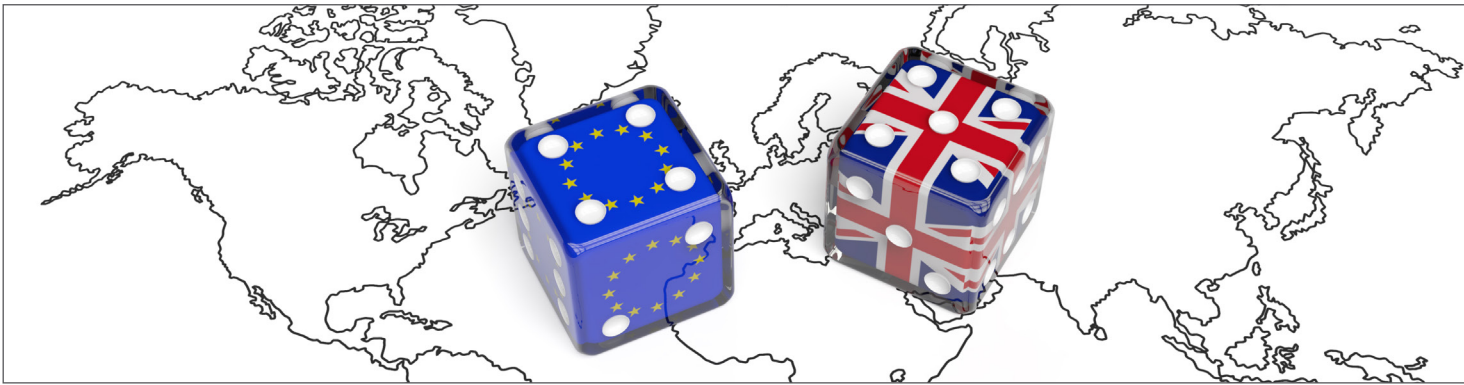


Brexit

June 2017

Time to assess your exposure



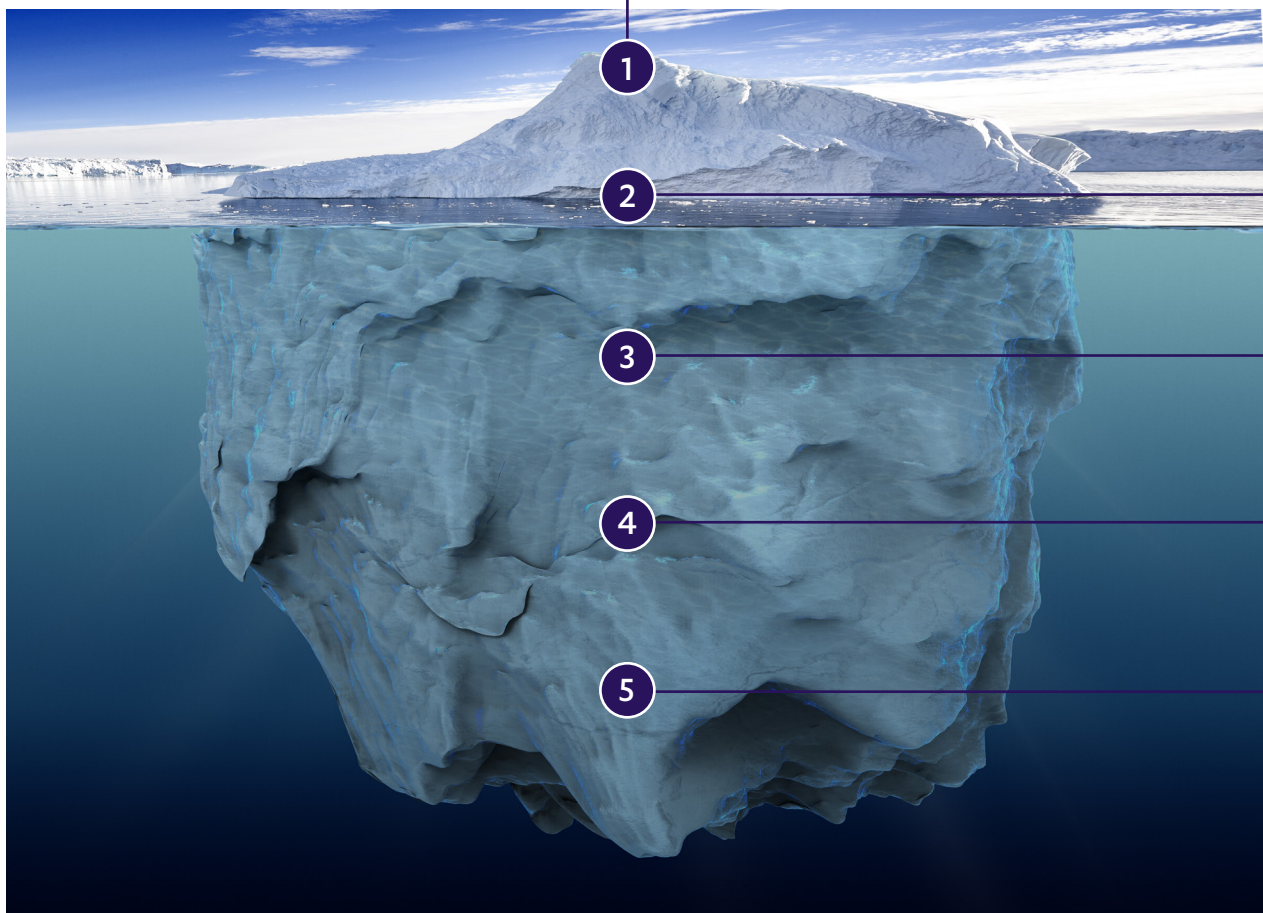
It's a big deal, it's coming soon, businesses need to act

Britain is due to leave the EU in 2019, which leaves very little time to plan and act. Companies have no more than one complete financial year left to budget for and to deliver needed changes. Your business activity exposures may or may not be obvious to you – from the composition and concerns of your workforce to trading relationships and supply chain to the source of your UK licenses – and identifying them is the place to start.

While there are still many unknowns, our aim is to give clients practical solutions, starting with helping you identify your business activity exposures, considering your options, and working out how soon you must make decisions before it's too late.

RPC and TerraLex can help businesses take steps now to ensure they are prepared for change and to minimise disruption and costs.

How exposed is your business?



Misperception: Exposed companies could be anywhere, not only those buying or selling to/from the EU to/from their UK businesses.

Consider the following sample scenarios, exposures, issues and possible solutions

1 Your UK workforce includes EU nationals (or vice versa)

Exposure – Your workforce relies on current immigration rules.

Issue – The threat of new immigration laws and arrangements could increase attrition and make recruitment harder in the short term. Medium term, new immigration laws could limit existing/new migrant workers between UK and EU.

Options* – Reassure, motivate and engage existing workforce, consider future recruitment strategy, retrain staff, introduce technological substitute (eg software, robots).

Deadline** – Now (for engaging existing workforce); working backwards from March 2019, the time it takes to retrain staff, renew contracts, implement technological solution (for medium term options).

2 You sell directly into the UK from the EU (or vice versa)

Exposure – Regulation and trade tariffs.

Issue – New customs requirements and trade tariffs could drive up costs, while loss of passporting rights for financial services limits ability to operate.

Options – Establish new subsidiary in Europe or restructure operations in the region.

Deadline – Depends on state licence rules in target country, time to restructure key customer/supplier contracts.

3 The UK is part of your supply chain

Exposure – Regulation and trade tariffs.

Issue – New customs requirements and trade tariffs could increase costs.

Options – Negotiate price freeze with existing suppliers; find alternative supplier(s) outside of UK; pass on cost to customers.

Deadline – Working backwards from your soonest key supplier contract renewal date that would commit you beyond March 2019, the time it would take to source an alternative supplier. And potentially earlier if you want your suppliers to review their own supply chains.

4 Your trade connects the UK and Rest of the World (even if otherwise unconnected to the EU)

Exposure – Your trade between UK and Rest of the World (ROW).

Issue – Many of the treaties that govern sales of services/products, or permanent/temporary movement of staff between UK and ROW are currently defined by EU-level treaties. These apply to the UK and will therefore need to be replaced in some form to allow continued movement of people, services, and goods (including electronic services eg cloud computing services) after Brexit. The follow on problem is that the UK cannot conclude treaties independently of the EU while within the EU, and it is unlikely to be able to make much progress even on informal negotiations with non EU partners until new terms of its deal with EU member states are known as these will act as relevant points for considering WTO access and state-to-state negotiations.

Options – Contain UK only operations within UK borders where you can to minimise cross-border exposures, including supply chain, sales targets, intra group service or support arrangements (eg legal support and subsidiaries). Companies are likely to continue to buy from UK as weak sterling could offset potential tariffs and its traditionally high regulatory standards likely to translate/be accepted easily by other countries.

Deadline – Working backwards from March 2019, the time it would take, where possible, to consolidate UK operations.

5 Your business model depends on UK licensing/regulations that are granted/operated at an EU level

Exposure – Your business model depends on licensing or regulatory requirements that apply internationally between UK and everywhere else where that requirement is operated at a European level for the UK (eg IP, international payment systems, freight and transport services, products and services that depend on international standards as a way of defining the product or service, telecoms, electricity, gas or other energy supply).

Issue – High levels of regulatory uncertainty could stop (temporarily or permanently) your operations or add additional levels of regulatory cost and complexity to continue operations.

Options – Understand your position and options by building corporate response plans ahead of time as part of your enterprise risk mapping, analysis and response. Do trade networking to find common issues and lobbying individually and collectively.

Deadline – Working back from your soonest key supplier contract renewal date that would commit you beyond March 2019, the longest time it takes to implement the options above.

* Options are subject to legal advice on existing obligations and future obligations as they become clear.

** Deadline should be read as the deadline by when you need to make a decision. Otherwise it may be too late to budget or put your plan into action.

The key questions to ask and answer

Once you have established how exposed your business is, here are some key questions you should ask yourself. They will help you consider the options and, crucially, identify by when you need to make a decision (even if unknowns in the Brexit negotiations remain). If you wish to submit your answers in confidence so that we can update you on the relevant issues, please click [here](#)¹ for our online questionnaire.

Which scenarios are relevant to your business?

- Your UK workforce includes EU nationals (or vice versa)
- You sell directly into the UK from the EU (or vice versa)
- The UK is part of your supply chain
- Your trade connects the UK and the Rest of the World (excluding the EU)
- Your business model is dependent on UK licencing/regulations that are granted/operated at an EU level

With only one complete budgeting year left before Brexit, have you identified your exposures; planned your response; budgeted for making the changes; and worked out how you will be ready?

Do you know how long it would take to establish separate operations within the EU if tariff changes make it unviable to supply from your UK company to the EU, or vice versa?

In relation to Financial Services, do you know how long it takes to obtain a state sales licence with the EU (if any UK licence is no longer valid in the EU) or your ability to fulfil contracts (eg, longtail insurance contracts) from the UK into the EU or vice versa if Brexit regulation no longer permits?

If data is a valuable part of your business, have you considered the consequences of UK/EU data no longer being allowed to “connect” (ie, the need for separate databases)?

Can you easily source alternative suppliers of your most critical procured goods and services to avoid any new tariffs?

1. <https://sites-rpc.vuturevx.com/18/529/landing-pages/key-questions.asp>

Do you know when your break clauses are with your existing suppliers?

Do you know when the break clauses are on your property leases?

Have you taken steps to establish the degree of potential exposure in respect of your workforce?

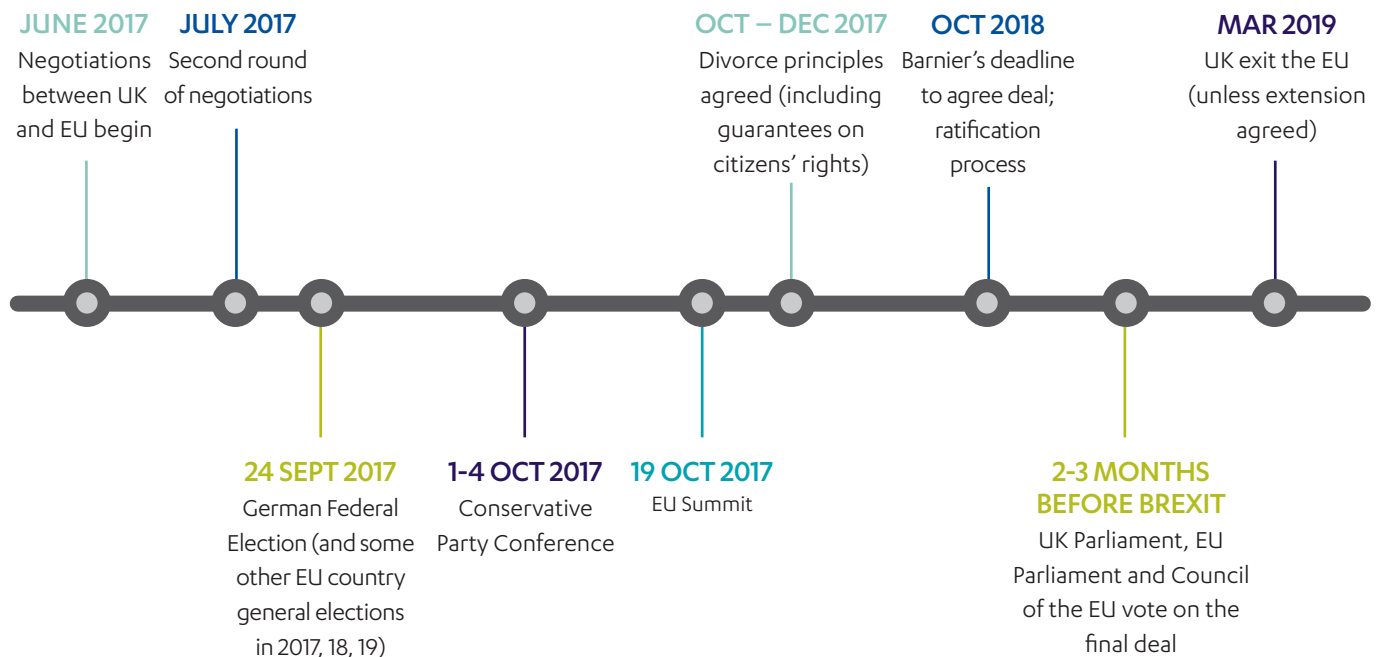
Have you thought about how your tax-optimised (within transfer pricing rules) intra group management services, IP, IT, and staffing contracts may be affected (you may want separate UK/EU structures)?

Do any of your key customers (or their customers) or suppliers (or their suppliers) have similar issues? If so, have you worked out what they are likely to do and how it will impact on you?

Even if your operations only work within the UK then there is still likely to be a lot of change both to your customers and suppliers and to UK law – that, after all, is supposed to be the point of Brexit.

Key dates that may influence negotiations and decisions

Once you have established your options and deadlines by when to make decisions, you will want to track developments in the Brexit negotiations that may affect your decision making. Here are the key events in the timeline up until March 2019, the date for Brexit itself.



While it is still uncertain what March 2019 will bring, there will come a time when you will have to make decisions, on the best knowledge available at the time, as to how you will act in order to be ready for that date. The deadline for making those decisions could be sooner than you think as some changes – especially in regulated industries – may take a long time to implement.

Monitoring the issues and developments

RPC is monitoring the key issues against the timeline above and what other businesses are doing (for example, we facilitate a discussion group on these issues for GCs from leading organisations who meet regularly). Over the coming months we will provide updates on how the negotiations are progressing. We will look at how businesses in different sectors might be affected by reference to a number of potential outcomes of those negotiations.

If you'd like updates on the issues that are relevant to your business, please complete our online questionnaire [here](#)².

Help where you need it

RPC is here to help you in conjunction with our TerraLex colleagues – we are focused on Brexit issues and solutions, and your TerraLex firm knows your business well.

Advise, confirm, deliver

We can:

- help you update your advice and decision making around your Brexit response plan (eg changing suppliers, office location, changing contract terms)
- sense check your thinking with in-house legal peers on an ongoing basis through our confidential cross sectoral GC/in-house lawyer Brexit risk management groups.
- help you to deliver the legal aspects of that Brexit response plan and, where needed, coordinate with our TerraLex partners (eg moving a division from the UK to Luxembourg).

RPC is a London headquartered international professional services firm offering both legal and consultancy advice to a range of sectors. It has topped Legal Week's annual Best Legal Adviser survey of 100+ firms twice in the last five years, and is consistently recognised for its leading commercial advice.

For more information, please contact Tim Anderson or Tim Brown.



Tim Anderson
Partner
+44 20 3060 6845
tim.anderson@rpc.co.uk



Tim Brown
Partner
+44 20 3060 6433
tim.brown@rpc.co.uk

2. <https://sites-rpc.vuturevx.com/18/529/landing-pages/key-questions.asp>

Tower Bridge House
St Katharine's Way
London E1W 1AA
T +44 20 3060 6000

Temple Circus
Temple Way
Bristol BS1 6LW
T +44 20 3060 6000

11/F Three Exchange Square
8 Connaught Place
Central Hong Kong
T +852 2216 7000

12 Marina Boulevard
#38-04 Marina Bay Financial Centre Tower 3
Singapore 018982
T +65 6422 3000