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SUMMARY REPORT

FT & KPMG INTERNATIONAL BREXIT BOARDROOM SERIES

June 28 2017
The Lambs Club
New York



An event from FINANCIAL TIMES **LIVE**

AGENDA

15:45 Arrivals and networking

16:00 Welcoming remarks

Emad L. Bibawi, Partner - New York Advisory Office Leader, *KPMG in the US*
Ed Crooks, US Industry and Energy Editor, *Financial Times*

16:10 Brexit observations

Daniel Dombey, Brexit Editor and Deputy World News Editor, *Financial Times*
Karen Briggs, Head of Brexit, *KPMG in the UK*

16:40 Discussion

Political risk

- What are the biggest political risks for businesses in the coming 12 months?
- What is expected on tax reform in the UK/EU and how could it affect multi-national businesses?
- How are businesses investing and planning to manage the impact of Brexit?

Trade and operating models

- What would be the main objectives of a new UK-EU trade deal?
- Is investment and trade in the UK/EU more or less appealing as a result of Brexit?
- How are businesses transforming operating models in the shifting global trade environment?

People

- What could be the impact of immigration reform on multi-national businesses operating in the UK/EU?
- How can businesses plan for the impact of harder borders on talent acquisition?
- Can relocation, digitization and automation soften the blow?

17:50 FT chair summation and closing remarks

Ed Crooks, US Industry and Energy Editor, *Financial Times*

18:00 Drinks and networking

18:30 Dinner

20:30 Car service for guests

The FT AND KPMG INTERNATIONAL BREXIT BOARDROOM SERIES was designed to canvass the views of C-suite business leaders who are mapping their way to tomorrow's opportunities. The inaugural New York meeting kicked off a global series that the FT is hosting in association with KPMG bringing senior business leaders together in major markets across the world, including Frankfurt, Tokyo and London to discuss issues around Brexit as well as other geopolitical developments.

Brexit and other shifts in the geopolitical landscape are back on boardroom agendas. From securing talent and navigating regulatory change to rethinking supply chains, reviewing location strategies and considering data and intellectual property management, businesses are facing a challenging few years. Actively planning potential strategies now is vital to minimize disruption to business as a result of Brexit, and for the most agile and innovative, Brexit could become a catalyst for change. A roadmap that plots the tasks and timelines will become essential in making decisions before the 2019 deadline for the UK's departure from the EU.

By understanding their options and being clear about their opportunities, as well as their exposure, Brexit can help reset businesses' future. The FT and KPMG have established a series of roundtables in New York, Frankfurt, Tokyo and London to help businesses consider the opportunities and risks globally.

This report provides a curated summary of the practical insights and original thinking from the event in New York, where we heard from leaders of finance, retail, technology and private equity firms with operations and customer bases that span the Atlantic.

Highlights of what we heard in New York

- The UK election has once again blown open the array of possible scenarios for a post-Brexit world, and US businesses are looking to rationalize the noise and provide direction by answering one key question: is politics going to overshadow economics?
- US businesses are subject to many of the same concerns as UK and EU-HQ companies – particularly the movement of people, intellectual property and data. Leaders are also concerned about the effect that Brexit will have on the UK economy, demand and investment, as well as the broader impacts – upstream on their suppliers and downstream on their customers.

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- Rightly or wrongly, business leaders expect that talent will still be able to move freely, but anticipate low-skilled labor shortages in the UK, and are grappling with what this means for their workforces and supply chains.
- US corporations are already investing time and energy in scenario planning, and many are applying a 'Brexit lens' to longer-term decisions. Businesses believe that decisions critical to growth or cost reduction must continue to be made, and these are being made regardless of the uncertainty around Brexit.
- Business leaders are seeking a transitional deal that is put in place with sufficient time for them to plan.
- Brexit has caused a level of uncertainty over the UK's position in the world that has made it a less attractive destination for some businesses. Leaders are considering all options – including moving globally to locations such as New York. The UK government may need to consider incentives to encourage companies that are thinking of other options to remain in the UK even though the UK market has the building blocks for sustainable business.
- Businesses leaders recognize the potential upsides of Brexit, and all participants agree that the voice of business is needed to realize the opportunities it offers.

Brexit: The New York view

The discussion with US business leaders in New York covered four key themes:

1. What businesses are thinking about Brexit and their main concerns;
2. How businesses are responding to and preparing for Brexit;
3. How Brexit has impacted on the comparative attractiveness of the UK, EU and global cities as places to do business; and
4. How Brexit may also present opportunities for businesses.

What are businesses thinking about Brexit?

Three months after the UK government triggered Article 50 – the first step towards the country leaving the European Union (EU) – there is still much uncertainty about what Brexit means for businesses on both sides of the Atlantic. It may represent a break in almost half a century of UK

policy, but what is less clear is the type of departure deal that will be achieved over the coming months. **The UK election has once again blown open the array of possible scenarios for a post-Brexit world**, many of which have been given colorful labels by various politicians. So which will it be: a hard Brexit; a soft Brexit; a red, white and blue Brexit; a Brexit means Brexit; a clean Brexit; an open Brexit; or a jobs Brexit?

As the UK embarks on several sets of negotiations (a divorce deal with the EU; an agreement on citizens' rights; an understanding on its future relationship with the EU; a transition pact; plus trade deals with other countries), some businesses are questioning whether any agreement will be achieved at all, debating in particular the EU's incentive to participate in negotiations. What is clear is that US business leaders are looking to **rationalize the different voices and media noise into a coherent position**, to provide a degree of direction in these uncertain times.

And the question most important to business: **is politics going to overshadow economics?**

The big concerns

US businesses are subject to many of the same concerns as UK and EU-HQ companies. As Brexit becomes a reality, businesses are trying to deal with **uncertainties around future movement of people, intellectual property and data across borders**. In particular, business leaders expressed concerns about changes in access to the EU market, data privacy regulations; complexity associated with data licensing rights; and the impact of Brexit on intellectual property law.

With more than 1 million US nationals employed in the UK, US businesses are also grappling with what a post-Brexit world means for their workforce, and how they will access the right technical skills to achieve growth. With Brexit will come a new UK immigration system and an associated impact on the ability of business to recruit the right staff, relocate people and deploy talent.

Movement and availability of **skilled and low-skilled labor is seen as coming with separate challenges and different business expectations**. There is a general presumption (rightly or wrongly) by business leaders that skilled and talented workers will retain the right to move around. It is where low-skilled workforces are concerned that business think they will feel the squeeze, with the expectation of longer-term labor shortages due to a combination of the UK government's net migration targets, its current employment rates, Central and Eastern

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European economic growth and increased domestic labor demand, and an anticipated exodus of EU nationals to their home countries.

Leaders also expressed concerns about the future of the UK economy and the **potential for Brexit to stifle national demand and investment** – particularly when the margins of UK importers have already been hit by the depreciation in sterling. Others highlighted the **impact of Brexit on their suppliers and customers**, many of whom have gone through a tremendous amount of complex regulatory change since 2008.

Leaders agree that a transitional agreement is vital, but what is more important is timing – the details must be in place in sufficient time for business to plan.

Business preparedness

So how are businesses coping? As one business leader stated, not knowing the future is in fact already knowing something, and many are already dealing with the uncertainty that the next two-plus years could bring.

Corporations are **already investing time and energy** to better understand the various ways in which the UK could leave the EU and minimize disruption to operations after 29 March 2019 – whether the UK exits over a cliff or under a transitional agreement. In planning for these scenarios, businesses are examining what will happen to tariffs in the medium term as well as how delays at customs and non-tariff barriers, such as standards and regulations, could affect their operations.

So what are the various options? In brief, there is the no-deal scenario, where the UK crashes out of the EU; the divorce-only deal, where it settles its citizens' rights and agrees to pay an amount to the EU but trades on WTO terms; the goods-only deal, whereby there is zero tariffs on goods but services are not covered; the comprehensive free-trade agreement; or a deal to stay in the Customs Union, which is something many businesses want, particularly as part of a transitional deal. The remaining in the single market scenario does not currently seem likely, given the government's position on rules relating to free movement of people and the European Court of Justice.

Businesses still need to make day-to-day decisions during this extended period of uncertainty, whether it is related to the fall in the value of the pound, increased prices and changes in supply chains. But leaders agree that they are applying a **'Brexit lens' to bigger, longer-term decisions** that may be deferred or impacted as a result of Brexit. Although less mobile firms (particularly in regulated industries) are executing on plans, most have delayed making any decisions about Brexit in the **hope that that uncertainty will reduce in time**: "Everybody is acting as if you have enough time to plan and be resilient against different scenarios, and you don't have to choose one yet, because the expectation is that the level of uncertainty will come down to a point where you can make a more well-informed choice."

Location, location, location

Uncertainty over the UK's position in the world post-Brexit is affecting perceptions of its attractiveness as a destination for business. At a macro level, US business leaders are not confident that Brexit will result in the UK being able to act nimbly in deals with other major markets such as the US, China or India, or that it reflects a global outlook, suggesting it is rather the action of a protectionist nation shutting itself off from the biggest market in the world. Some leaders shared that Brexit will cause them to rethink the economic viability of their access to the EU through the UK, while others report that a number of US companies have delayed plans to enter or expand in the UK market.

It is clear that London will remain an attractive market for some sectors for many reasons – its legal and regulatory framework, scale of its financial services ecosystem, tax rate and the possibility of regulatory reform, as well as softer issues of integration and cultural sensitivities – but it is not 'selling itself' as much as other European cities. The EU is considered a more 'predictable market', particularly in the M&A space, and business leaders are 'looking to the EU first', particularly Amsterdam, Paris and Berlin.

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Amsterdam, Paris or Berlin – or somewhere else?

Each European city comes with its own list of perceived pros and cons. A leader reports that a recent business trip to Paris revealed that the environment for technology and start-ups in the French capital has changed dramatically over the past two years and it has been transformed into a technology hub. Locations in the UK that were previously promoted as tech hubs are being forced to take a back seat while Paris and other European locations take advantage of the uncertainty in the UK to build market share. However, one financial sector head says that when they looked at France, although the country has great people and wonderful technology, they discovered its tax system doesn't lend itself to their business.

Frankfurt is often touted as an alternative to London for financial services. However, one head argues that although it's a very nice city, it would be very challenging for it to attract enough talent – such as lawyers and accountants – to support the infrastructure needed to service an expanded financial services sector.

Another leader reports that no other European city is really a match for London, so it remains attractive by default.

As a result, several chiefs believe that if financial services firms leave London, they are more likely to head to New York than anywhere else.

And **business is also looking elsewhere globally**. One business leader shared that its UK client list has increased by 400% since the Brexit vote as people start to look at markets beyond Europe (in this case, the US). The 'Brexit lens' has resulted in businesses – including UK-headquartered companies – accelerating their move or expansion into the comparatively more stable US market, or considering it.

The UK may “need a carrot to overcome the uncertainty”.

The carrot?

The UK currently has the lowest tax rate in the G7 and one of the lowest corporate tax rates in the EU outside Ireland. However, although the UK government has made noises about becoming the 'Singapore of Europe,' if it can't strike a deal with the EU, one leader says tax only works as an initial incentive and that a business must function for the long term: "A brief pay-off upfront, and even a small one ongoing over time, isn't enough to make one business work continuously over time, that wishes to have access to the largest market in the world."

Opportunities and optimism

Some business leaders in New York recognize that Brexit could offer both UK and US firms new opportunities if the UK can revive its trading history. Leaders highlight that the UK has seen some big investments recently. For example, Google and Facebook have increased their workforce in the country, and the purchase of ARM by Japanese firm SoftBank has also been a bonus, although this acquisition may have been eased in part by the depreciation in sterling making the deal cheaper.

As it will be difficult to dispel uncertainty in the near future, the voice of business is needed to convert the opportunities offered by Brexit. The UK government is encouraging business to speak up – including US companies – and leaders indicate that they plan to engage with it in a similar manner to Capitol Hill.

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Resetting for the future: A window into the global Brexit conversation



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Brexit: A catalyst for businesses to reset their futures

The clock is ticking, but how can you prepare for Brexit while so much uncertainty hangs in the air? From securing talent and navigating regulatory change to rethinking supply chains and reviewing location strategy, Corporate Britain faces a challenging couple of years.

Actively planning your response now is vital given everything that must be done to help ensure an orderly Brexit. A Brexit Navigator – plotting out tasks and timelines – will become your essential guide in making decisions before the 2019 deadline. And for the most agile and innovative, Brexit could become a catalyst for change. By understanding your options and being clear about your opportunities as well as your exposure, Brexit can help reset your future.

KPMG has created a suite of assets to help you navigate these two facets of Brexit – the opportunity and the risk. Draw on practical insights and original thinking from our regional, and global Brexit champions, led by our UK Head of Brexit Karen Briggs. In the United States please contact Emad Bibawi - Partner - New York Advisory Office Leader for questions regarding Brexit.

kpmg.com/brexit

For more information please contact:

- Emad L. Bibawi, Partner - New York Advisory Office Leader, *KPMG in the US*
M: +1 917.207.6994 | E: ebibawi@kpmg.com
- Karen Briggs, Head of Brexit, *KPMG in the UK*
M: +44 771.219.0900 | E: karen.briggs@kpmg.co.uk

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Financial Times Live
One Southwark Bridge
London SE1 9HL
UK

T: +44 (0) 20 7775 6653
E: ftlive@ft.com

www.ft-live.com

KPMG (U.S)
345 Park Avenue New York
NY 10154
United States

T: +1 212-758-9700

www.kpmg.com/us