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Brexit Briefing

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Uncertainty Remains The Only Certainty...

A lot is being said and written about what Brexit will mean for Northern Ireland, the UK, Ireland and the broader EU. Trade with the UK equates to 35 percent of Irish GDP and any negative impact of Brexit on UK growth will have serious knock-on consequences for Ireland where weaker sterling is already impacting exporters.

A NI Chamber of Commerce Quarterly Economic Survey published in January 2017 showed that turnover was down for 1 in 5 businesses in Q4 2016, costs were up for 1 in 2 and signals on exports were mixed ranging from a 14 percent increase for some to a 12 percent decline for others. The prospect of a so-called 'hard Brexit' has the potential to stifle Northern Ireland's economy where loss of access to EU structural funds and potentially reduced funding from the UK Exchequer will create difficulties for many organisations.

Across the island of Ireland, Brexit will continue to challenge most sectors in 2017 and beyond and is likely to impact cross-country investment between Ireland and the UK with the agri sector, tourism, energy, retailing and the financial sector all likely to be affected.

> ***Business leaders will need to monitor developments closely, examining the potential implications of Brexit for their organisations... preparation and confidence have never been more crucial.***

The UK is the largest market for tourism to Ireland and a very important market for food exports. Agriculture and the food industry - where the effects of reform to the Common Agricultural Policy and the influence of large retailers were already contributing to widespread uncertainty - is particularly exposed to a negative impact. Ireland exports over €4 billion in agri-food produce to the UK annually and trade barriers would increase costs for Irish businesses while CAP subsidies to Irish farmers could decrease when the UK's contribution of €1.2 billion is no longer available. In Northern Ireland, £700m of the annual £1.15 billion agri food exports go to the Republic of Ireland.

While Northern retailers may benefit in the short term from cross-border shopping due to weaker Sterling, the prospects for Ireland's retail sector are worrying post-Brexit as the introduction of bureaucracy and customs duties would increase costs leading to higher prices for consumers with a knock-on impact on competitiveness across the wider economy.

Ireland's lower corporation tax rates and stable corporate tax regime have played an important role in attracting inward investment but Brexit, together with the stated tax plans of the new US President, may impact the future investment decisions of international businesses. On the other hand, Ireland's advantages in terms of labour, language, access to EU markets and so on may attract businesses displaced from the UK because of Brexit. There may also be opportunities for Northern Ireland, which has a highly skilled workforce, respected universities, a can-do business culture and modern infrastructure.

Another concern is that changes to EU directives such as the Parent-Subsidiary Directive, the EU Mergers Directive and the EU Interest and Royalties Directive could lead to inefficiencies in corporate structures and impact EU cross border transactions. There may also be changes ahead in VAT if the UK sets its own VAT rates and decides what goods might be zero-rated.

It is only once the negotiations get under way that we may begin to see some clarity emerge. The one certainty is that uncertainty is set to continue, perhaps for up to 10 years or more depending on what happens between now and 2019 and thereafter. In the face of ongoing uncertainty, business leaders will need to monitor developments closely, examining the potential implications of Brexit for their organisations and undertaking scenario planning so as to be ready to respond as and when circumstances change. Preparation and confidence have never been more crucial. Practical steps to consider immediately include:

- Review your financing structures and manage your exposure to exchange rate volatility;
- Review your operational effectiveness and costs;
- Review the impact of low interest rates and whether fixed deals should be considered;
- Review your communication plans focusing in particular on financial reporting disclosures and communication to shareholders and staff;
- Look for opportunities in your relationships and contracts with customers, suppliers and third party service providers;
- Diversify and innovate;
- Investigate new markets
- Review your people assets and potential future talent requirements.

The PKF-FPM Brexit Centre of Excellence provides specialist resources and expertise tailored to your business's specific circumstances. For further information, please contact a member of our team.

Currency / Exchange Rates

Sterling has weakened since the UK's referendum vote in June 2016.

Sixty-two percent of respondents to the NI Chamber of Commerce 2016 Q4 survey cited exchange rates as concern, up almost ten percent on the previous quarter. While the weaker pound obviously helps exports from Northern Ireland, it increases import costs for manufacturers putting pressure on profit margins and prices.

The UK is Ireland's largest export market and Irish exporters selling in Sterling have also come under pressure. In its ***Export Performance & Prospects Report for 2016-2017***, Bord Bia said that the underlying weakness and volatility of Sterling negatively affected the competitiveness of Irish exports reducing the value of trade by a potential €570 million.

The risks to Sterling are likely to continue in 2017 if, as expected, Britain's exit talks with the EU prove difficult. Some commentators predict that the euro will rise to 94/95p this year.

Employers should note that exchange rate volatility could have an impact on defined benefit pension schemes and impact deficits and the underlying value of investments.

In the coming months, it will be important for business leaders in both jurisdictions to remain currency aware, keep financing arrangements under review and manage exposure to exchange rate volatility. Questions to ask include:

- What is the extent of our currency exposure?
- How should we quantify the impact on our margins?
- How do our competitors manage their currency risks?
- What measures can we implement to reduce our currency exposure?

Should your business require advice or support in this area, please contact a member of the PKF-FPM team.

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Maintain Sales, Secure New Customers

A recent ESRI paper examined the product and sector level impact of a hard Brexit, and showed that the EU's exports to the UK would fall by 30% representing a 2% reduction in its total world trade. Ireland and Belgium would be the most exposed, losing 4% and 3.1% of their total exports respectively.

Indigenous Irish companies are likely to be worst affected by Brexit. In preparing their strategies, businesses across Ireland will need to focus on developing new markets. Research by Enterprise Ireland published in October last year showed that almost 9 out of 10 Irish companies plan to expand into new global markets in 2017 while in Northern Ireland, around 15 percent of businesses are planning to expand their investment in new markets according to NI Chamber Q4 2016 research.

As a member firm of the PKF International network, PKF-FPM can provide your business with access to expertise in more than 150 countries when you are expanding into new markets. Information on these services is available through the PKF-FPM Brexit Centre of Excellence.

Common Travel Area

When Prime Minister Theresa May outlined her Brexit plan in January 2017, she said that the Common Travel area will be "an important part" of the forthcoming Brexit talks.

"So we will work to deliver a practical solution that allows the maintenance of the Common Travel Area with the Republic, while protecting the integrity of the UK's immigration system," Prime Minister May said.

The same week, at the World Economic Forum in Davos, Taoiseach Enda Kenny told Francine Lacqua on **Bloomberg Daybreak: Americas** that he has already agreed with the British Prime Minister that the Common Travel Area between Ireland and the UK, which has existed since 1922, will continue and that there will be "no return to the hard border of the past".

Disclosures in Financial Reports

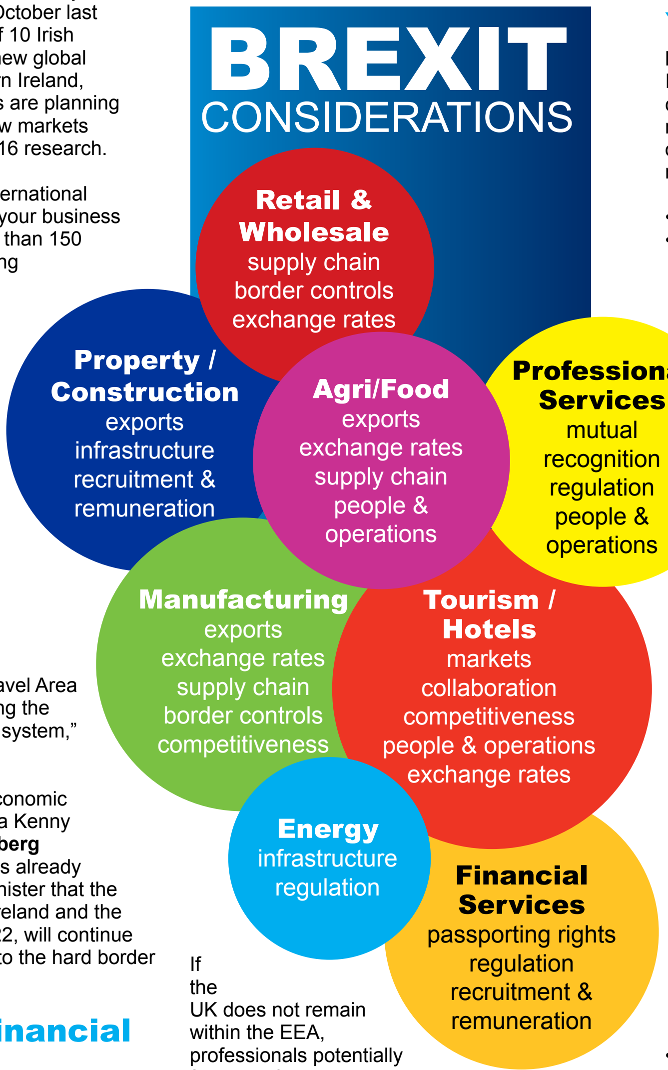
Directors will need to take into account the uncertainties arising from Brexit and decide what disclosures are required to ensure that their financial statements and strategic reports meet the needs of investors and comply with regulatory requirements.

Data Protection

The General Data Protection Regulation (GDPR) comes into force in May 2018.
UK firms that want to trade and exchange information with the EU will have to adhere to the GDPR or something comparable while businesses whose data is stored in the UK may need to make contingency plans in the event that the UK data protection regulations differ from the EU's.

Professional Qualifications

The European Professional Qualifications Directive provides recognition of regulated professions such as architects, doctors, civil engineers and auditors. The Directive allows people in these professions to move freely across the EU/EEA and have their qualifications recognised by passing a local aptitude test. The Audit Directive makes further provisions for auditors. These arrangements allow Ireland and Irish professionals to support international businesses effectively.



If the UK does not remain within the EEA, professionals potentially face significant challenges in terms of recognition and mobility which may increase skills shortages. It will be important that Ireland is part of the EU team negotiating a recognition policy for professional qualifications.

Visas and Work Permits

Brexit creates a myriad of potential challenges in relation to movement of people and may result in skills shortages in Ireland where there are already existing gaps in areas such as financial services, science and technology. It also potentially means that Irish citizens, and therefore EU citizens, living in Northern Ireland may be cut off from their own country while Irish citizens living and working in the UK may be forced back to Ireland, putting pressure on employment levels, housing, health and transport systems. EU citizens who were bound for the UK may instead migrate to Ireland.

Businesses who are concerned about their EU employees can obtain further information and advice from the PKF-FPM Centre of Excellence. There are steps that employers can take to reassure employees. These include assisting with registration certificates, citizenship applications and applications for leave to remain in the UK indefinitely.

Getting to Grips With Your Brexit Plan

Immediate Considerations

In the short term, Brexit will impact areas such consumer and business confidence, exchange rates and interest rates, the availability and cost of finance and FDI flows. Business owners will need to consider the Brexit impact on:

- Exchange rate volatility
- Supply chain
- Demand for products and services
- Growth targets, margins, profitability, competitiveness
- People and remuneration
- Extent of reliance on EU grants and/ or trade agreements
- Capital investment plans
- Mergers and acquisitions plans

Mid to Long Term Considerations

Brexit will impact the free movement of goods, services, capital and people. Businesses will need to consider how they may be impacted by the changes to legal, regulatory and tax changes that may lie ahead including the impact of potential future political and economic volatility. Areas to review include:

- Value proposition
- Sales channels
- Base of operations
- Exposure to UK suppliers
- Skills / recruitment

Other considerations

- Market development strategy (diversification, collaboration, M&A, etc)
- Business modelling (examining business transformations required in various post-Brexit scenarios)
- Business strategy & operations
- Investment decisions
- Opportunities

The PKF-FPM Brexit Centre of Excellence has resources and expertise that can assist you in this planning exercise. To discuss your specific requirements, please contact a member of our team.