Brexit
What next?

The UK has voted to leave the European Union (EU). This represents a fundamental change. Uncertainty is high, and many critical unknowns will not be resolved for some time, possibly years. Commentary and information is fast and furious, and rhetoric and political positioning abounds. In this short note we would like to cover what we do know now, explore what the future may hold, and importantly what steps organisations can take now to begin the process of managing Brexit to emerge stronger and well positioned for the future.

What is the process?

The UK has held a referendum in which a majority voted to leave the EU. At this point in time no formal decision by the UK government has been made to leave the EU, nor has a formal notice of intention to leave been lodged. It is highly likely that the UK parliament will ratify the vote, but it should be noted "Remain" activists are lobbying the Parliament to take a different path, and this the first area of uncertainty that needs to be resolved.

Once the UK has made a decision to leave the EU, it must file a notice under Article 50 of the Treaty on European Union (TEU). The current highly-charged debate about the speed with which the UK should "leave" the EU is around the filing of this notice, not the formal separation.

Given the nature and scale of potential impacts, and the time required to implement, a wait-and-see attitude would be a highly risky choice.

The Article 50 filing starts a two-year clock. Within that two-year period the EU and the UK must negotiate the terms of exit as well as the framework for future relationships. Importantly the agreement will also include the "entry into force" or actual leave date (which may be some time after the two year period). Also of note is that the two-year period may be extended. This will be a complex, detailed and highly debated process involving many parties, so expectations on finalisation should centre around the latter part of the two-year period.

Importantly until negotiations are concluded and the agreed formal separation date arrives, the UK remains a full-member of the EU with all benefits and obligations remaining in force as they are today up until that date.

What does Brexit actually mean?

There is much detail and complexity to the benefits and obligations of being a member of the EU, and intensive analysis will need to be undertaken on many points. What we would like to offer here is a plain-language overview of the impacts of Brexit, and as always advice should be sought on any point of detail.

1) Access to the single market

The pillars of the EU single market are often referred to as the "four freedoms". The free movement of goods, services, capital, and people. Countries that are not members of the EU do not have access to the single market. Of course that is not to say that movement of all four categories will not continue between the UK and EU countries, as for example, goods, services, people, and capital flow between Australia and the EU. However, the terms on which that happens may well be very different for the UK than they are today, and will be a key determinant of the impact of Brexit. A critical question facing firms is the relocation of some or all of their UK operations. Article 50 negotiations will be dominated by the agreement of trade, tax, and immigration parameters.

2) Policy making and implementation

One of the key arguments of the "Leave" campaign was that Britain was not free to make its own rules. Separation from the EU means that EU regulations no longer apply, and directives no longer need to be followed. In some cases, such as bank capital rules, very little will change. However in other areas, such as organisational tax arrangements, change is inevitable. Such changes will be subject to all the usual rule-makings that any country follows either through legislation or regulation. As above, even if decided earlier, change cannot come into effect before the formal leave date from the EU.

3) Political considerations

The Brexit vote is not the end of the political story and risk assessment for doing business in the UK and EU. Expectations are high around a second Scottish referendum, which may see Scotland leave the UK and seek to join the EU (within the UK-wide vote, Scotland voted 62-38 to remain in the EU). Now that one country has decided to leave the EU others may seek referenda of their own to determine their future, and political machinations are already underway to seek such votes within a number of countries. We note both the French presidential and German parliamentary elections will take place in 2017. The possibility or occurrence of other EU exits and political change in the EU must be factored into scenario planning for managing Brexit responses.

What can organisations do now?

The impact on Australian firms will vary according to the nature of their operations and activities in the UK and the EU. Further it will vary across sectors. Stock-market moves around the world should reflect assessments of sectoral and individual firm impacts though, in the short term at least, they are also reflecting greater caution by investors. Short term financial market responses should not necessarily be seen as reflecting the actual longer term effect of Brexit. For organisations, this will be a long-drawn out process, but given the nature and scale of potential impacts, and the time that will be required to implement, a wait-and-see attitude would be a highly risky choice.

Leveraging the work of our Centre for Regulatory Strategy in EMEA, which has published a blog on the impact on financial firms, we would suggest the following six actions for immediate consideration:

1. Source the data and conduct the analysis around the impacts of market volatility on your business, balance sheet, customers and counterparties.
2. Broaden and deepen scenario analysis and contingency planning, with a view to regular updates as clarity emerges or other potential risks emerge.
3. Develop well considered, consistent and regular communications to internal and external stakeholders.
4. Consider how future business strategy might be affected, and the changes required to mitigate impacts and leverage opportunities.
5. Begin to work through detailed plans and timelines for any relocation/restructuring decisions.
6. Consider the appetite for 'insurance' against possible outcomes. This may include establishing corporate entities or securing premises.

Deloitte has established a website for Brexit resources and information updates as they become available.

In order to provide a local support and advisory process for our clients in Australia, we have established a Brexit Centre led by Kevin Nixon, Global Lead for our Centre for Regulatory Strategy.

Deloitte Partners and teams stand ready to assist our clients with insights, planning and implementation.

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