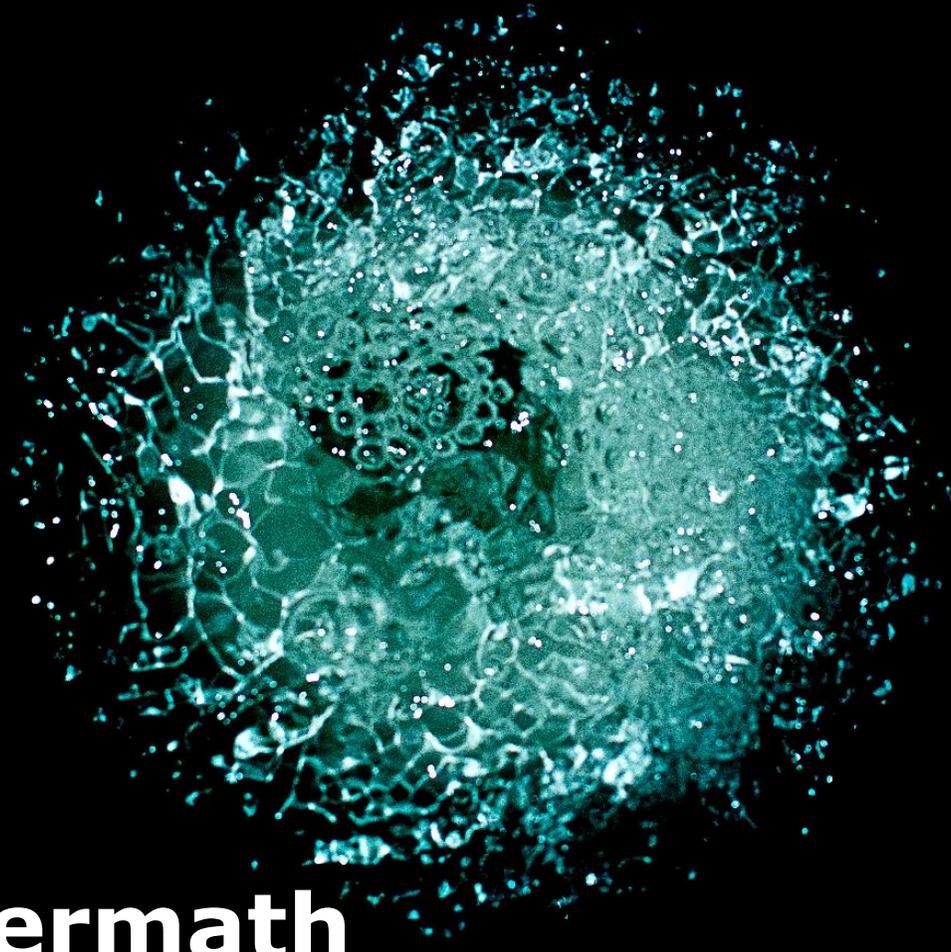


Deloitte.



Brexit: The aftermath

Assessing the impact

19th July 2016

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Brendan Jennings, Managing Partner

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David Dalton, Consulting Partner & Head of Financial Services

Immigration, mobility, talent & reward

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Supply chain implications

John Stewart, Indirect Tax Director & Ted Holohan, Indirect Tax Director

Roundtable discussion & questions - over to you

Navigating Brexit panel discussion

Moderator: Pádraig Cronin, Partner and Vice Chairman

Panel:

David Hearn, Vice-Chairman, Consulting Partner and Head of Consumer and Industrial Products

Deirdre Power, Tax Partner and Head of Financial Services Tax

Sean Smith, Partner, Governance, Risk & Regulatory

Daryl Hanberry, Tax Partner, Global Employer Services

John Stewart, Director, Indirect Tax

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Introduction

Brexit is a significant event, generating uncertainty, complexity and ultimately disruption to businesses

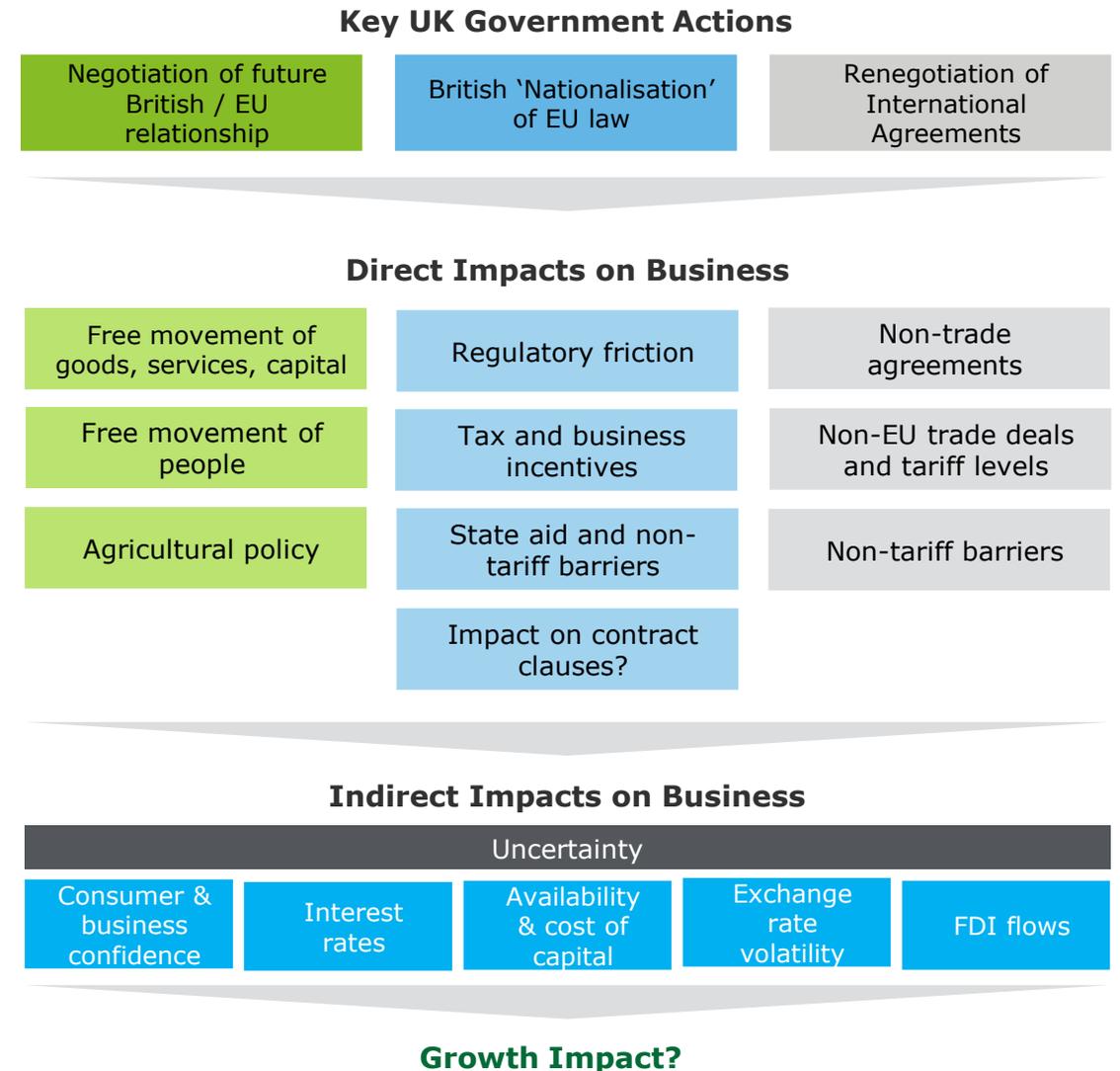
- UK Vote has triggered uncertainty which will continue for an extended period.
 - Article 50 unlikely to be invoked until political consensus around UK strategic objectives is achieved.
 - Settlement negotiations will take 2 years, and can be extended. Ratification of the exit agreement and further negotiations on the EU / UK relationship will follow.
 - Current legal, regulatory, trade and mobility arrangements are in place until this is complete.
 - Depending on the “option” negotiated, there may also be an extended period during which complex legislative and regulatory issues must be unwound / resolved.



Key Impacts

Direct and indirect

- Impacts vary depending on domicile, business model, trade flows and ultimate business strategy.
- The key direct impacts will be on the free movement of goods, services, capital and people, as well as potential changes to tax and business incentives in the UK.
- The extent of the impacts will ultimately be dictated by the type of exit option the UK chooses.
- In the short term, this creates uncertainty.
- The indirect impacts of this uncertainty include sterling weakness, loss of consumer confidence (demand), loss of business confidence (investment), BoE stimulus and reduced FDI flows to the UK.



Brexit Scenarios

Regulatory impacts



4 main scenarios for the eventual UK / European relationship:

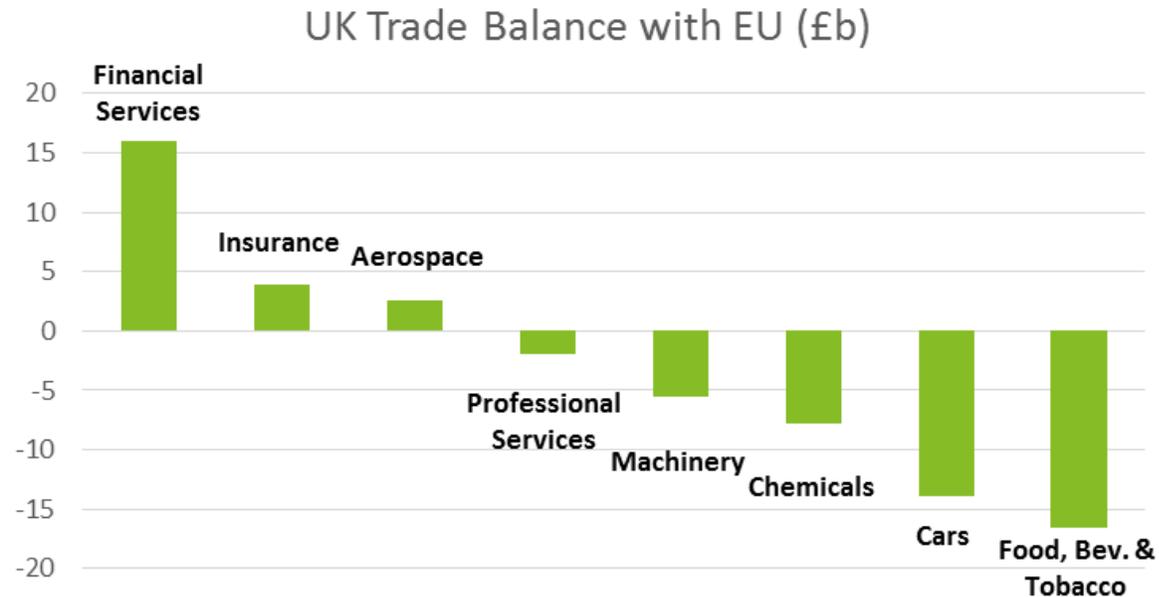
1. UK remains (Status Quo)
2. EEA Membership (Norway)
3. EU-UK Bilateral Agreement (Switzerland, Canada)
4. WTO

Each scenario has different implications for business depending on industry sector, business model and importance of UK market.

Brexit Scenario		EEA Member	Bilateral Agreement	WTO
		Norway, Lichtenstein, Iceland	Swiss, Canada	US
Regulatory Impacts				
Free movement of goods, services, and capital		Yes	Some	No
Free movement of people		Yes	Yes for Swiss-style	No
Full EU financial services passport		Yes	No	No
EU laws and regulation	Influence	Slight/indirect	No	No
	Compliance	Yes	Some	No
Fiscal contributions		Yes (83% of full rate)	Yes for Swiss-style (52% of full rate)	No
Common Agricultural Policy (CAP)		No	No	No

UK Government Position

Trade and economic policy



Source: Open Europe

- **UK has trade deficit in goods of c. £34b** (Q1 2016). Key import sectors include food and beverage and automobiles.
- **UK has a trade surplus in services of c. £22b** (Q1 2016). Financial services is a key export sector.

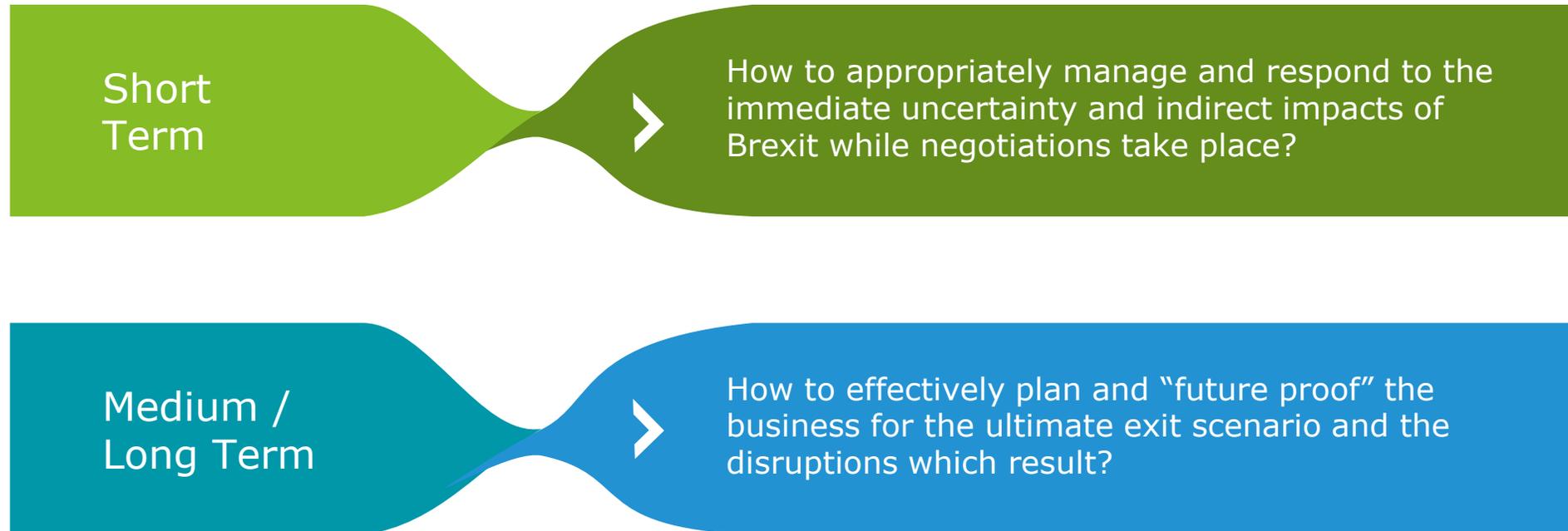
UK macro-economic environment:

- **The UK has limited room for fiscal stimulus** – current public deficit stands at 4% of GDP, with debt-to-GDP ratio at 90%.
- **Monetary stimulus may also be limited** – Bank of England has indicated it will cut interest rates closer to zero. However, additional cuts may have limited impact given rate currently at 0.5%.

Preparing for Brexit

Planning horizons

- Firms should plan their response to Brexit around two planning horizons:



Impact of Brexit

Potential business disruptions

People



Immigration – restricted access of EU nationals to UK and vice versa.



Talent and reward – impact on mobile workers and attracting talent.

Regulatory & Legal



Financial passport – UK financial institutions lose ability to sell services within EU.



Data flows – restricted ability of UK to house or process EU citizens' data.



Regulatory friction – business compliance costs rise due to UK specific rules.

Finance



Availability and cost of capital – lending terms and limits to firms with high UK exposure.



M&A – UK acquisition risk. Value in targets with significant non-EU revenues?

Intellectual Property



R&D funding – costs of R&D in the UK increase as UK loses access to EU research funding.



IP rules – friction between EU and UK regimes (patents and trademarks).

Supply Chain & Tax



Tax/Incentives – new UK corporate tax and business incentives to attract/retain FDI.



Supply chain – tariffs on UK imports/exports and VAT and customs implications.

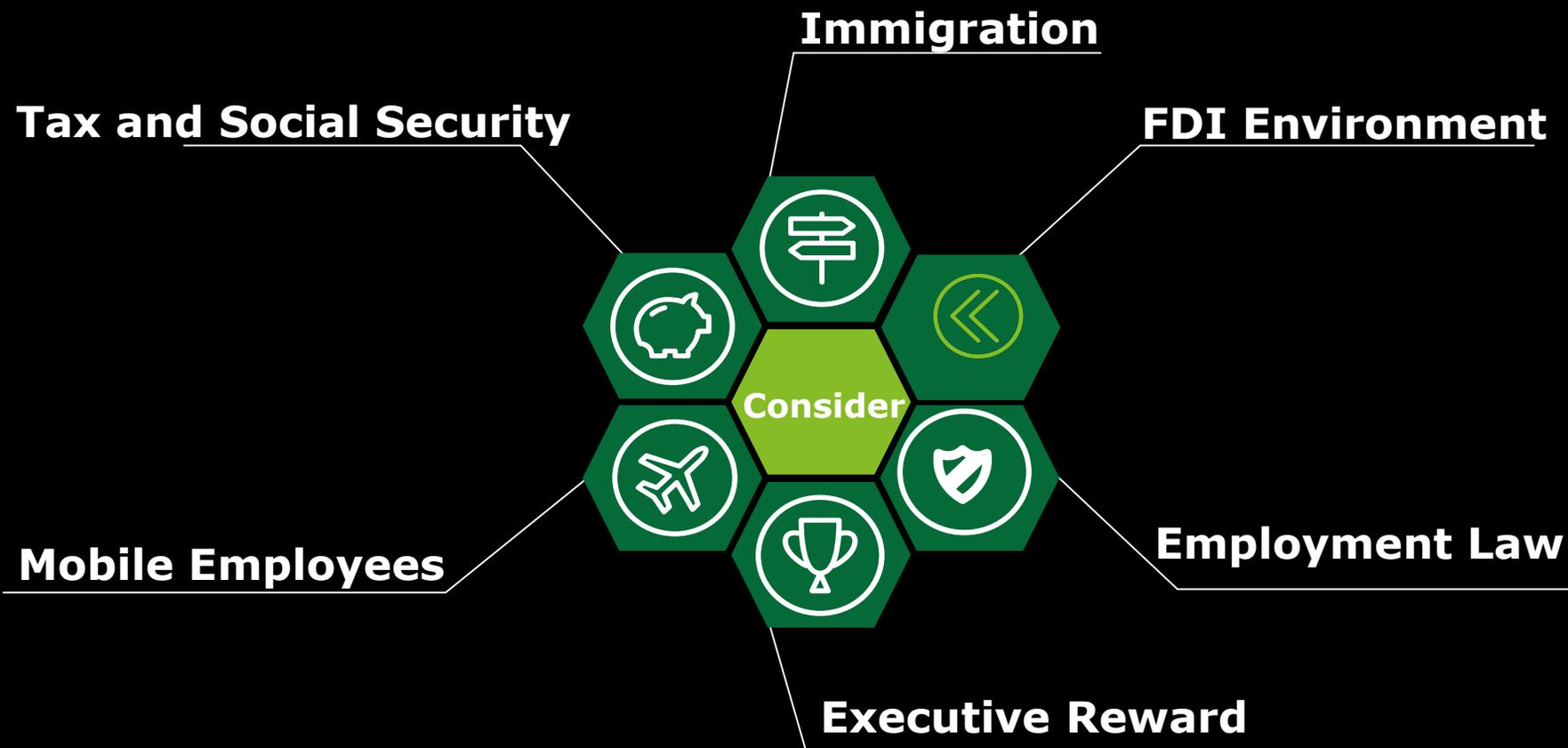
Talent and mobility considerations

Daryl Hanberry

Jacqueline Ho

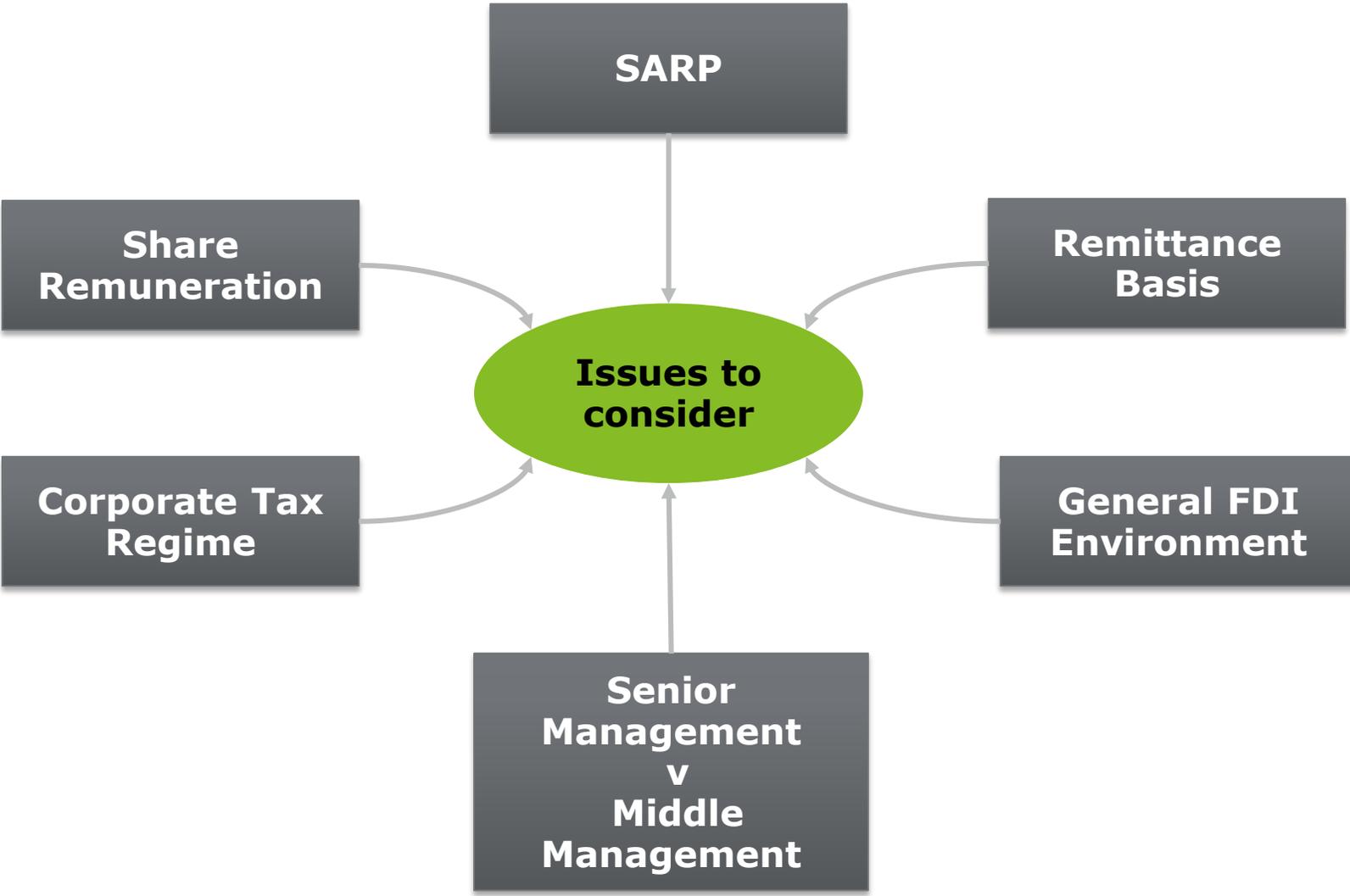
Talent Considerations

Managing your workforce



FDI & Relocating Talent to Ireland

Issues to Consider



Executive Compensation & Reward

Impact on design and implementation

Incentive plans

Short to medium term

- Impact of market volatility and exchange rates on performance conditions and employee issues related to this
- Impact on remuneration committee review to ensure alignment with shareholder experience

Long Term

- Evolution of reward strategy to align with revised business strategies

EU regulations

Short Term

- EU law continues until exit

Long Term

- Post exit review of regulatory regime on reward and opportunities. Impact on Bonus Caps?

Mobile Employees

A moving target

Relocation of business to Ireland

- Review of package / offering
- Local Hire versus assignee status
- Tax efficiency of remuneration structure
- Tax equalization / net pay arrangements
- Impact on long term benefits (pension) and incentive plans

Mobility Policy Implications

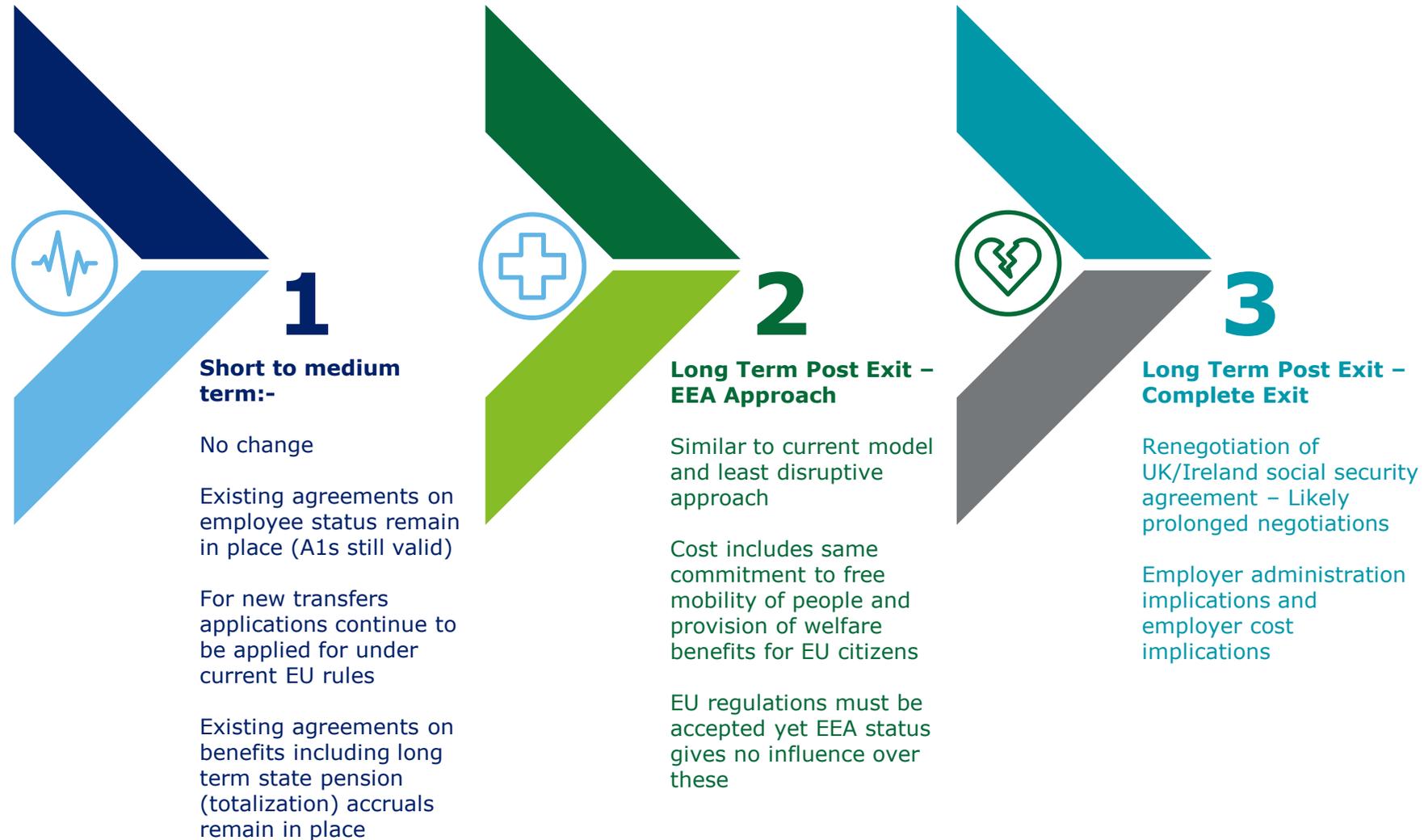
- Short Term issues
- Review Home versus host based policies UK / Ireland transfers
- Currency implications and exchange rate protection costs
- Split pay arrangements
- Consideration of policy exceptions
- Long term issues
- Are existing policies fit for purpose

Employee Communications

- Managing noise in the system
- The need for a wait and see response
- Anticipate and manage employee expectations to enable employees to focus on their role

Social Security Issues

Impact on outbound assignees to the UK and inbound assignees from the UK



Immigration

Post Brexit – Potential Future Issues



Future Immigration Regime for EU and UK Citizens



Ireland specific matters

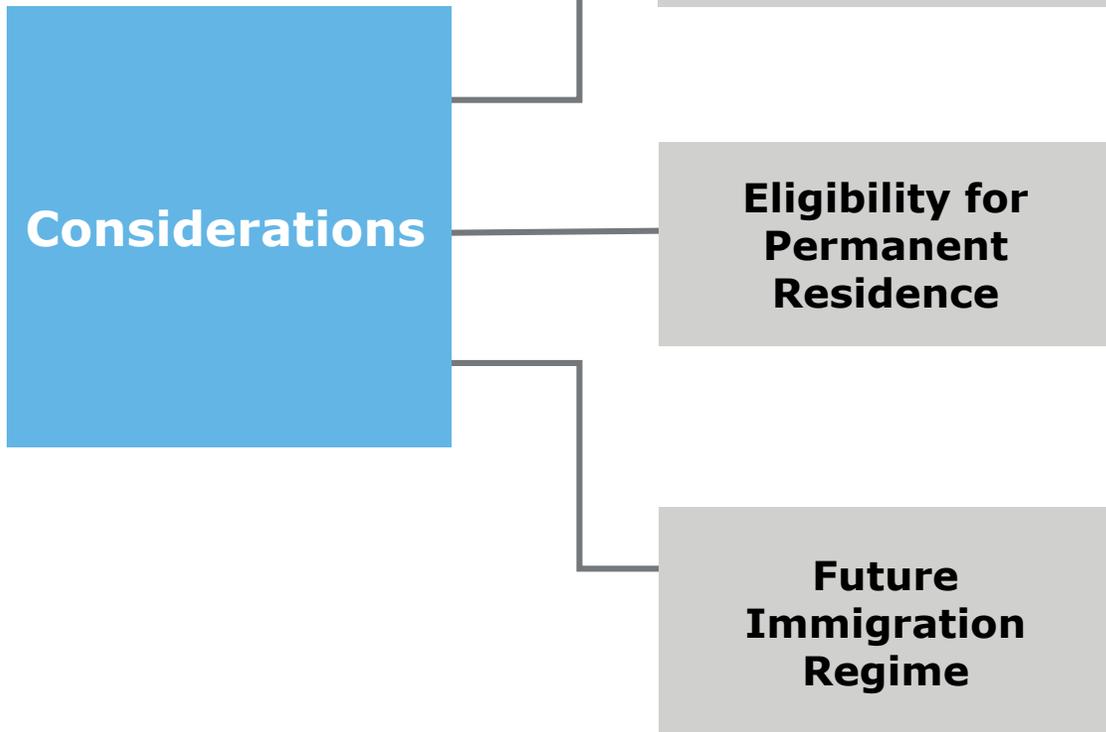


Short Term Actions

Post Brexit – Immigration Regime for EU and UK citizens

EU nationals in UK

UK nationals in EU countries



Negotiations will inform how EU citizens will be treated in UK

- UK unlikely to maintain freedom in current state?
- EU-Canada model

If UK/EU citizens are eligible to apply for Permanent Residence in relevant country after 5 years residence

- for consideration to safeguard respective positions in UK/EU
- UK investors – accelerate route

Likely to be subject to employment permit regime

- UK regime is currently points based but unsure if this will be regime that applies post Brexit
- UK in EU– will need to consider employment permits based on specific immigration rules.
- UK in Ireland – employment permits based on salary thresholds and types of roles.

Post Brexit – Ireland Specific Matters

Common Travel Area

Pre-dates EU membership

Unlikely to continue in current state post Brexit

Protocol 20 in TFEU – special arrangements between UK and Ireland

Irish Government Brexit Contingency Framework – Pre Negotiation Priority

Schengen Area

If no CTA – consider Schengen?

Closer Alignment with Europe

Advantages in attracting visitors to Ireland

Schengen future is uncertain following refugee crisis

British-Irish Visa Waiver Schemes

Irish Short Stay Visa Waiver Scheme

British Irish Visa Scheme

Subject to review in October 2016

Post Brexit

Employer and Employment Law Considerations – Short Term Actions



Audit Current Workforce Demographic

EU nationals in UK and vice versa

Any “Island of Ireland” staff e.g. field sales?

Eligibility for key people for Permanent Residency?



Review of Contractual Documents

Restrictive covenants and IP clauses

Governing Law Clauses

Are contractual amendments required?

Consultation/Consent from Employees



Regulatory Impacts

Data Flows and Data Centres

EEA resident directors?

Loss of EU directly effective legislation/CJEU precedents



Consider pending/proposed recruitment drives/assignments

Additional compliance costs

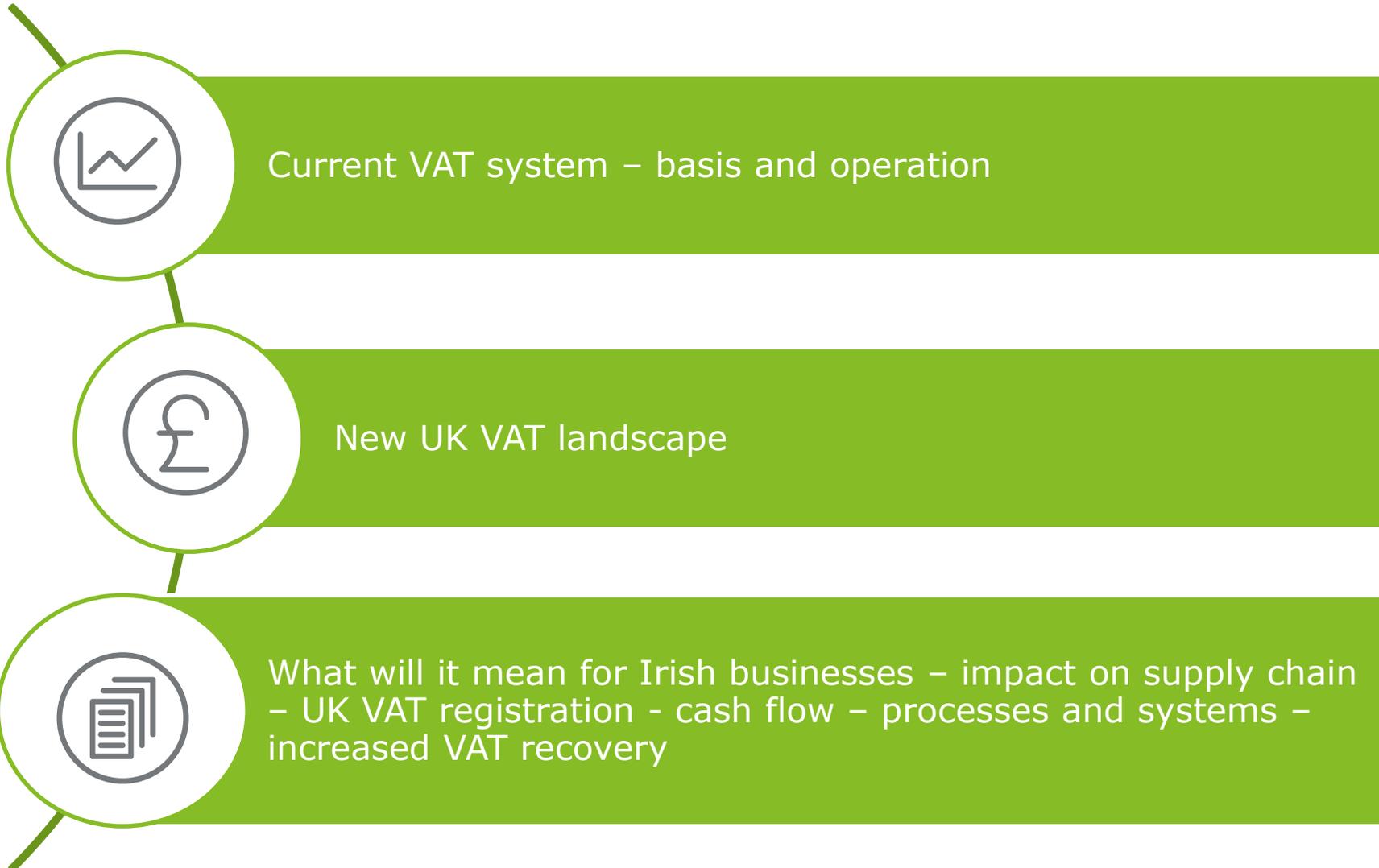
Ensure non discriminatory treatment

Supply chain implications

John Stewart

Ted Holohan

Planning Horizon – VAT



VAT Impacts

Key consideration – selling to the UK B2B

Goods

Export from Ireland
Import into the UK – import VAT
Commercially who will be liable for the import VAT?
Relief from import VAT?

Services

Export from Ireland
Import in the UK – no import VAT
Customer to account for VAT – “reverse charge”

Industry Impacts

Key consideration – selling to the UK B2C

Goods

Export from Ireland
Import in the UK – import VAT
Customer liable to pay the import VAT

Services

Export from Ireland
Import in the UK – no import VAT
Supplier may have to register and charge UK VAT

VAT Impacts

Key consideration – Buying from the UK B2B

Goods

Export out of the UK
Import into Ireland – import VAT
Cash flow cost
Ideally Ireland would have a relief for import VAT

Services

Export out of the UK
Import into Ireland – no import VAT
Customer to account for VAT – “reverse charge”

Customs Practical Implications

A range of outcomes are possible as discussed earlier e.g. Norwegian model, Swiss model, Turkish model. Some level of tariffs exist in all cases.

Either way formalities will be required. In other words a 'hard border' will be necessary between UK and ROI.

Road traffic to N.Irl. and trucks boarding RO-RO ferries to UK ports will be subject to Customs formalities. Trucks going through the UK to the continent will have to be sealed.

Formalities arise on both entry and exit i.e. at the Irish side and at the UK side.

This is likely to lead to border stations on North-South border so commercial vehicles use only approved exit points e.g. Norway has 10 stations for 1000 miles border with EU.

Customs Practical Implications continued

Might effectively be 'an electronic border' where digital manifests are sent in advance and number plates read. E-manifests are currently required for container shipping & aircraft

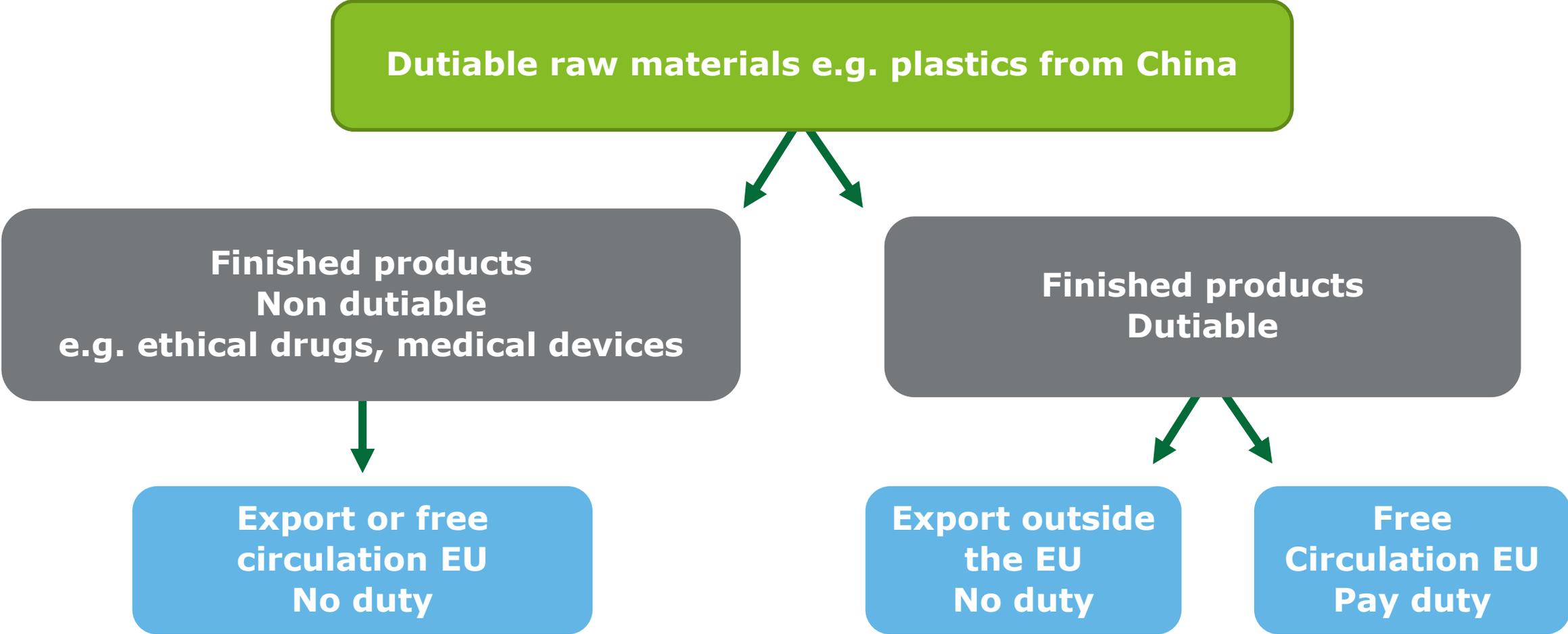
Common Transit Area already exists which covers EU and a number of non-EU Member States i.e. Iceland, Norway, Switzerland, Liechtenstein, Turkey, Macedonia and Serbia. This facilitates efficient external transit and internal transit procedures.

Proof of origin (EU R1) will be required for EFTA as 'free trade'. Only goods originating in the State qualify for exemption and not goods originating in Third Countries such as China.

Simplification procedure to allow the completion of transit formalities at traders' own premises.

Other reliefs should also continue e.g. inward processing, customs warehousing, end-use etc. Paramount to avoid a double duty 'hit'.

Inward Processing



Customs Practical Implications continued

Agricultural products are subject to separate agreements under EEA and EFTA and do not enjoy full access to the EU market. EU subsidies, veterinary and food safety complicate this trade. 'Processed Agricultural Products' usually qualify for relief in EFTA. Protection measures continue to exist in this sector.

Excisable products, comprising mineral oil, tobacco and alcohol may lead to distortions in trade between North and South. Cross-border retail shopping for petrol, drink and cigarettes is likely to increase. Also duty free shops and flights to and from UK will be restored.

Businesses should consider applying for AEO status for preferential clearance through Customs

Also plan for the funding of bonds, guarantees and TAN accounts

Re-engineer accounting systems to ensure paperwork is in place. Can't rely on clearance agents to process paperwork.

Review legal contracts from a Customs point of view. Who is importer of record? Clarify INCO terms.

Navigating Brexit
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Planning Horizons

Short term

- We recommend that firms assess potential issues and risk, beginning with the indirect and immediate impacts of Brexit.



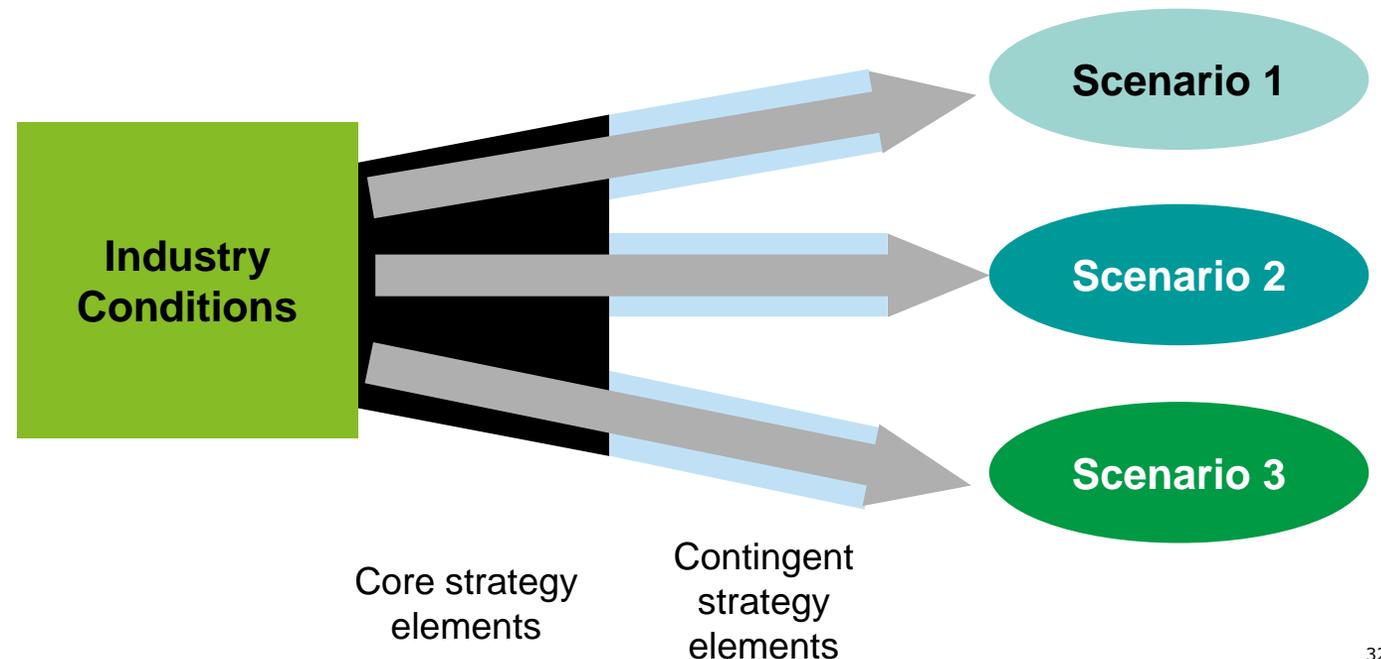
Planning Horizons

Medium / long term

- The direct impacts of Brexit will be felt over the medium / long term and are dependent on the exit option chosen.
- However, firms should begin assessing the potential impacts now given the scale of the potential changes.
- This process should identify the potential impacts of Brexit for your particular firm and industry under the various exit scenarios.
- Plans should then be drawn up outlining responses under the scenarios. Some responses will be identical regardless of the exit scenario – these are part of the 'core' strategy.
- Other responses will only be triggered under particular exit scenarios or as particular circumstances unfold. These are the 'contingent' strategies.

'Core' strategy – plans that remain the same regardless of the Brexit outcome.

'Contingent' strategy – responses that are triggered under a given Brexit scenario or as particular circumstances unfold.



Planning Horizons

Medium / long term

- The direct and medium / long term impacts have the potential to impact a range of areas across the business.



Industry Impacts

Key considerations by sector

Financial Services

- **Loss of passporting rights** – is there a need to relocate some UK-based operations to ensure continuity of service?
- **Restricted free movement** – how will restricted free movement of EU nationals in the UK and UK nationals in Ireland impact our workforce planning?
- **Regulatory friction** – what is the potential compliance burden for organisations operating within both the EU and UK?
- **Employee remuneration** – what is the impact if Britain no longer subject to remuneration caps (CRD IV)?

Technology

- **Data flows** – do we need to review where we house our customer data?
- **Regulatory friction** – what is the potential compliance burden for processing data within the UK and EU?
- **IP rules** – how should we manage our IP if the UK is not captured by EU IP regimes?

Life Sciences/ Healthcare

- **Supply chain** – how will our supply chains be affected by tariffs on UK inputs?
- **R&D funding** – do we need to extend our R&D collaboration network to non-UK EU partners/universities?
- **IP rules** – how should we manage our IP if the UK is not captured by EU IP regimes?
- **Location of European Medicines Agency** – what impact would relocation have on regulatory approval and lead times?

Industry Impacts

Key considerations by sector

Agriculture/ Food

- **Exports** – what is our dependency on the UK market as an export destination? Where can we diversify exports to mitigate risk of potential trade barriers with the UK?
- **Supply chain** – what is our exposure to UK-based suppliers? What alternatives exist?
- **Operations** – do we need to review the location of our existing operations for food processing? Would UK-based operations make more/less sense under different Brexit scenarios? What are the potential administrative costs of border checks and customs paperwork?

Energy

- **Infrastructure** – are there opportunities to respond to Ireland’s changing energy infrastructure and supply needs (diversification away from UK-reliance) in renewables, fossil fuels and electricity distribution?
- **Regulatory friction** – do we need to review commercial plans in the UK to prepare for a potential shift in UK energy/climate change policy?

Consumer Business

- **Internet sales** – in the short term, sterling weakness may generate more sales for UK based online retailers with almost 10% of online sales coming from outside the UK. In the longer term, how could tariffs impact these sales?
- **Supply chain** – many consumer goods firms use the UK as a distribution centre for Europe. How would tariffs and duties impact these companies?
- **Operations** – what are the potential administrative costs of border checks and customs paperwork?

Conclusions

Next steps for business

Brexit Taskforce

- PMO
- Function / line of business reps

Financial Planning

- Short-term impact and responses
- Balance sheet assessment

Impact Framework

- Brexit scenarios
- Points of disruption
- Accelerated approach (workshops, assessment exercises – e.g. Deloitte Brexit Labs)
- Identify + plan core and contingent business activities

Monitor and Act

- Review conditions and act according to the core and contingent plans



What is our **exposure to the UK market**, and how must our **market development strategy evolve** to balance the Brexit Scenarios (e.g. M&A, Diversification, Supplier Base)?



Which **elements of our business model** (suppliers, locations, manufacturing, market development, etc.) would require **30 months or greater to transform** or adjust to a post Brexit scenario?



How can we **“future proof” investment** decisions to maximise the return and effectiveness across the Brexit scenarios?



Where will opportunities be presented in this period of uncertainty, either through competitive action, value available (e.g. acquisition) or partnerships that might be formed?



How will the potential **disruptions impact our business strategy and operations?**

Navigating Brexit

Panel Moderator: Pádraig Cronin

Navigating Brexit

Panellists

David Hearn, Vice-Chairman, Consulting Partner and Head of Consumer and Industrial Product

Deirdre Power, Tax Partner and Head of Financial Services Tax

Sean Smith, Partner, Governance, Risk & Regulatory

Daryl Hanberry, Tax Partner, Global Employer Services

John Stewart, Director, Indirect Tax

Close
Pádraig Cronin

Navigating Brexit Speakers & panellists

Navigating Brexit

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