



USER FRIENDLY

Understanding the economic impact of Brexit in TMT

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“Most Brexit conversations so far have addressed the financial services, insurance, and automotive industries. But TMT businesses will also certainly be impacted, likely in these five key areas: data, supply chain, people, regulations, and tax.”

Hanish Patel: The UK is scheduled to leave the EU on 29th March, 2019, and a considerable number of issues remain unsettled, on both its “Withdrawal Terms” and on the “Future Economic Trade” and arrangements. A transition period until the end of 2020 has been agreed in principle, but has not been formally ratified or legally adopted. As such, there are a range of possible outcomes, including the UK leaving the EU without any deal. Technology, media, and telecommunication businesses may think they are less vulnerable than other businesses, with less significant restrictions

to market access. But they face a number of disruptive changes that could affect access to talent, supply chain, license and permissions, intellectual property protection, and data flows, which could substantially disrupt the way they do business. The winners from these changes will be those that have assessed the potential threats and opportunities and prepared for them. I’m Hanish Patel, and joining me today for Part One of our “Miniseries on Brexit” is Amanda Tickel, Americas Brexit Lead at Deloitte. Amanda, welcome to the show.

Amanda Tickle: Hello, good to be here.

Hanish Patel: So, Amanda, to start off, can you provide our listeners with a high-level overview of what Brexit is?

Amanda Tickle: What is Brexit? That's a good question. That must be one of the most Googled terms right now. So, I'll try and be succinct. The UK has been a member of the European Union since 1973, so a few decades now. Membership has been growing, and there are now 28 member states in the EU. So 25 years ago the single market was created across Europe, which now means the 28 countries in the market operate basically on a borderless basis, so there is free movement of people, capital goods, and services. But, for some years a political debate has been increasing as to whether the UK should remain in the EU, as many didn't agree with the strategy of closer integration, and we're uncomfortable with the lack of independent control over areas such as immigration, regulation, and budget spending. So then, a Conservative government won a surprise majority in 2015, so within their manifesto was a promise to hold a referendum on whether the UK should continue to remain in the EU. So, on the 23rd of June 2016, following a really intense period of campaigning, the British people were asked a single question: Do you want to remain in the EU or leave the EU? The result was not the one predicted, and was to leave the EU, so I was really pretty surprised to wake up that morning on the 24th of June and see the news reports flashing across the TV saying the UK had actually voted to leave the EU. I certainly think people in London were not expecting it. So now, Article 50, which is a technical provision, has been triggered, and the leave date is set for March the 29th, 2019, so that's around four months away now.

Hanish Patel: Yeah, for sure. I mean, not just London. I recall speaking to a lot of friends and family back at home. And everyone was in disbelief in the end result, including myself.

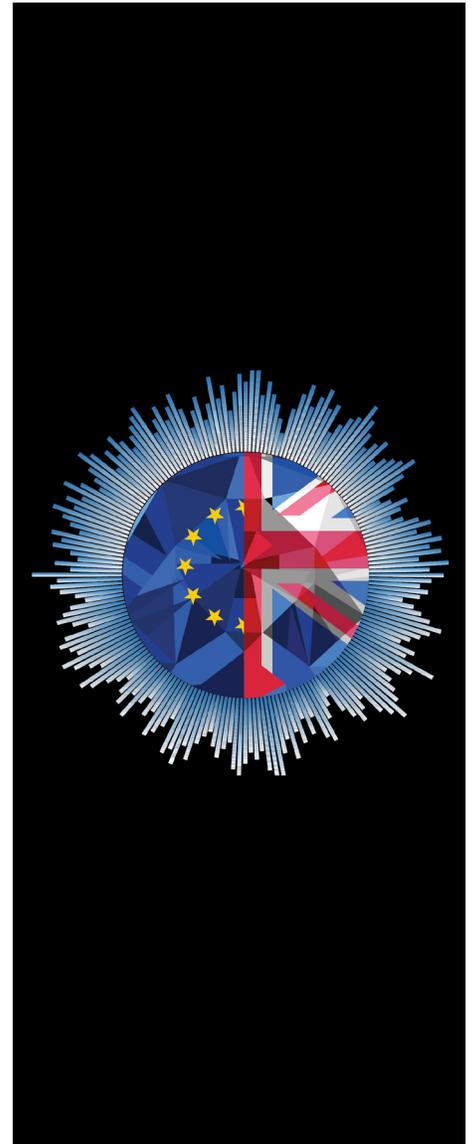
Amanda Tickle: So since the vote a lot has been going on. I mean a couple of years have passed, but the UK and the EU have been working out exactly how the UK should leave. As this is unprecedented and it's been really quite difficult to enter into negotiations, and we've now actually lost two Brexit negotiators along the lines and we're on our third now in the UK, so these negotiators are working toward two agreements. The first is the "Withdrawal Agreement" and the second relates to the "Future Relationship."

Hanish Patel: So Amanda, can you help our listeners understand what these agreements set out to do?

Amanda Tickle: The "Withdrawal Agreement" sets out the steps the UK and EU need to follow both before and after exit, and they cover four key areas, and they include "Citizens' Rights," so what're we going to do about our people? The financial settlement—how much is the UK going to pay to leave the EU? A transition period—how long have we got to actually put everything in place? And the Northern Ireland-Ireland border. So the question of what happens to people living and working in the UK and the EU and the Irish border have been the most challenging to manage. There's approximately three million EU nationals living and working in the UK, and around a million UK nationals working and living in the EU. So working out whether they can stay in the country they're in was really important. For instance, the UK has a low unemployment rate, so it does need to continue to attract people to work in the UK, which is extremely important for the businesses operating it.

Hanish Patel: And what about the Second Agreement?

Amanda Tickle: The Second Agreement relates to the "Future Relationship," so how will the UK and the EU trade with



each other in future? What happens to fishing rights in each other's waters? What about providing services to UK and EU governments? Participating in various agencies and projects, such as investments and space, and it also covers important areas like security and data. So remember, the UK and EU have been intertwined as sort of one borderless state for a very long time, so extracting the UK is a complex and complicated process.

Hanish Patel: Yes, it sure sounds like it. And also, you mentioned that “no-deal scenario.” Can you speak more on that?

Amanda Tickle: So whilst negotiations on these two main agreements, “Withdrawal” and “Future Relationship,” have continued, both the EU and the UK government have also been preparing for a “no-deal scenario,” as it’s been referred to very broadly in the media, and this is that the UK leaves on the 29th of March next year without a specific agreement, and without transitions, so there have now been at least a 140 technical notices issued by the EU and the UK government, which contain what they believe will happen and emergency measures that they would implement, and in particular instructions to businesses to what they need to do to prepare.

Hanish Patel: Amanda, that’s fantastic and an incredible amount to unpack there, I want us go deeper in some of those areas as we continue on through the miniseries, particularly as we look for the “Withdrawal, Future Agreement” and, what that “no-deal scenario” would be.

So going back to what you described and particularly the deep parts of the negotiation with regards to the “Withdrawal, Future Agreement” and potentially a “no-deal scenario.” So if we were to fast-track to where we are right now, what would you say is happening, and what can we expect to see in the next few months leading up to 29th March 2019?

Amanda Tickle: Well actually, in the last few days a lot has been happening. This is an extremely important time. On the 14th of November the UK Prime Minister Theresa May finally got a withdrawal—that “Withdrawal Agreement” I was talking about—agreed with the EU, and that evening she announced that her Cabinet, who she’d got in a room for a few hours, had agreed to support it, so this was big news and businesses really want certainty. They want the certainty an agreement would give them so that they can start planning all the changes that they need to make, so it was starting to look like a real step forward, and what was particularly welcome to business is this transition period.

In the “Withdrawal Agreement,” it is agreed between the UK and the EU that business would get up to the 31st of December 2020 to implement changes required, but to illustrate how fluid the situation is, by the next morning two members of her Cabinet had resigned, along with other ministers, and they were citing that they couldn’t support the deal as it was not in the UK’s interest, so some MPs have declared that they believe no deal, so the UK leaving without a transition arrangement, without any specific agreement on anything, was actually in the UK’s better interest than the deal on the table.

Hanish Patel: Wow, that’s a lot of changes. I can see why it can be hard to keep up with everything, and also why there might be some major sensitivity around the topic.

Amanda Tickle: And even the opposition party, Labour, have been saying that they would renegotiate the terms and that they would do a better job. So you can see how fluid and how difficult and how politically sensitive the situation is to how these resignations, including by the way, the previous Brexit Secretary, who’d negotiated the deal.

Hanish Patel: What can we expect in the coming months?

Amanda Tickle: Well, I would say this is really unknown political territory. Really, it’s very difficult to predict how this is going to end up. It’s quite important because the “Withdrawal Agreement” is actually really detailed. It’s got 585 pages of legalistic language in it, although fortunately the second agreement relating to the protocol for the future relationship, that’s a much faster read, but the point is, all of these MPs have been given the right to vote on this deal to say whether or not they agree with it, so it must go through the UK parliament in order for it be agreed. If it isn’t voted through, the UK is still scheduled to leave on the 29th of March. So what happens then is really unclear—we’re in totally uncharted waters. The range of options include a renegotiation, a leadership challenge to the current prime minister, and even a general election, so as a result we are continuing to see businesses plan for a “no-deal outcome” and a disorderly exit from the EU, and this uncertainty does continue to have a negative effect on business sentiment, and Sterling remains under pressure.

Hanish Patel: So Amanda, actually, let’s go there with a little bit of that uncertainty you talked about, and let’s narrow that scope a bit and how might Brexit affect TMT businesses specifically, whether there’s, like you said, uncertainty, or is there some opportunity that lies ahead for these TMT businesses?

Amanda Tickle: Okay, that’s a really good way of thinking about it because it is—there is some downside and a lot of risk because of the uncertainty at the moment, but actually some businesses are seeing opportunity here, so it’s not that we shouldn’t always look on the downside, but there may be a bright side for some businesses. And the way I’d look at that is, generally any changed situation gives some an issue, some a risk, but others an opportunity, so I’d view it like that.

TMT businesses haven't received many column inches in the media about the impact Brexit has on them actually. Most of this has been addressed to the finance and insurance sectors, automotive, as they have more complex supply chains, but the TMT businesses are certainly impacted if they have operations in the UK or operations in the rest of Europe, which trade with the UK. In fact, I've yet to come across a business which is not affected by Brexit.

Hanish Patel: You touch upon how they're affected. Can you give us a view of some of the high-level areas that are likely to be affected?

Amanda Tickle: Yeah, I would summarize, probably point out five areas, I think—data, supply chain, people, regulation, and tax.

Hanish Patel: So, let's actually go through those, Amanda. Let's start off with your first one. You mentioned data.

Amanda Tickle: Okay. So data. You'll no doubt have heard of GDPR. It's been quite painful for a number of businesses to actually implement these. They are quite complex, far-reaching provisions surrounding the use of personal data. Well, the UK has fully implemented the EU-wide regulation, and personal data can be transferred from an EU country to a UK entity. But, when the UK is outside the EU, without an adequacy ruling that data couldn't be freely transferred, which leads to concerns over where the data is stored, hosted, the use of shared service centers for customer billing, for instance, and a whole load of other issues for businesses, so we really need the adequacy ruling to be agreed between the UK and the EU.

Hanish Patel: And then for supply chain?

Amanda Tickle: So supply chain of course, one doesn't normally associate really complex heavy supply chains with the TMT sector, but actually we probably should, because the tech and telecom sectors need hardware to supply their services. No, we can't make calls without phones, and

a lot of what telecom companies do for instance, does require complex networks and receiving kit, so the ability to get that product or kit to the right place at the right time, or to fulfill service-level agreements for instance, is critical. And what the issue is here is that if border checks are implemented, so that we can ship things from the UK across the EU and back again and particularly across the Northern Ireland-Irish border, then that would lead to delays in actually getting product from A to B, and that may actually lead to delays in being able to deliver services.

Hanish Patel: And no doubt with that, one of the other items you mention is taxation?

Amanda Tickle: Yeah, so when it comes to tax we know the way customs declarations are made, for instance, will become much more complex, with more data required to be gathered. For instance, in gathering data you may need to complete a 54-box return if something is an import rather than a nine-box return if something's an acquisition. That's the sort of detail that we'll need go into. We know the VAT regime will change because that is an EU-wide directive. We're expecting there might be more withholding taxes on payments that go cross-border, say royalties, dividends, interest. We know the state provisions are going to change and branch structures might not be recognized. That's probably the best way to summarize the tax impact.

Hanish Patel: And then you mentioned regulation as well?

Amanda Tickle: Yeah, so regulation, so media businesses, for instance, might be affected because broadcasting licenses are granted locally but also on a European basis, so broadcasting businesses will need to have an EU establishment in order to get a license to broadcast across the EU. There are various restrictions and requirements on the way that content is put together, so where and what people use to make films and TV programs for instance. So that actually might change in future.

Hanish Patel: And then on to the final one and probably the big one is, people and access to talent.

Amanda Tickle: Yeah, and as you say, this has actually become the big one. It's the most important thing. Businesses—we all need our people to make our business work. We want to retain our talent after Brexit, so businesses, as their pretty much No. 1 issue, are now working out what processes and procedures they'll need to follow to ensure their workforce can remain, and that they want to remain, that they're happy to continue to live and work in the UK. So business is asking, so how much will that cost them? What's going to happen to the EU-wide social security system? Do they need visas and work permits to continue to use the people that they've been using in multiple EU locations to deliver their contracts to clients, for instance?

Hanish Patel: I can't wait for us to get into Part Two of this, as we dig in a lot deeper in those five areas you talked about, as well as those kind of big, four components you talked about upfront, with citizen rights. The financial settlement no doubt is on a lot of people's minds, as well as some of that Transition Agreement you touched upon earlier, and obviously the Northern Ireland-Ireland border aspects as well. So, there's a huge amount for us to continue to unpack throughout this series.

The official withdrawal date is set to March 29th, 2019. Many businesses find the uncertainty of what lies ahead troubling. Some are taking action, some are waiting it out. One thing is certain. Amanda, you mentioned it. Brexit would change the way every business operates in and with the UK. There are many scenarios of how this split will unfold. The challenge for businesses is to anticipate the changes and react accordingly. Join us next time on Part Two for our "Brexit Miniseries," as we dive deeper into the implications on companies within TMT, as well as share our thoughts on the latest Brexit news and decisions. I want to thank my guest today, Amanda Tickel, for joining the show. See you next time.

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