



USER FRIENDLY

Understanding the economic impact of Brexit in TMT

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Hanish Patel: Back in December we released Part I in our Brexit miniseries, and since then much has changed, including a "no-confidence vote," a "rejected withdrawal agreement," and most recently, a "critical vote on amendments to withdrawal plan."

A considerable number of issues remain unsettled, and for companies across tech, media, and telecom, they face disruptive changes that could affect access to talent, supply chain, licenses, permissions, intellectual property, and data, all of which could substantially impact the way they do business.

Today, we'll discuss what's changed since our last episode, what remains the same, and what we can expect in the next few months. Joining me again for Part II of our Brexit miniseries is Amanda Tickel, America's Brexit Lead and Partner at Deloitte. Amanda, welcome to the show.

Amanda Tickel: Hello, Hanish, thanks for having me back.

Hanish Patel: Well, it's great to have you on again, and I know you've been incredibly busy helping everyone understand what's going on in Brexit around the globe. So let's just jump straight into it, Amanda. With all

that's happened, it's hard to keep up with all the news around Brexit as things are constantly shifting, especially in the last two months. Can you give our listeners a quick recap on what's happened and where we are now?

Amanda Tickel: Yes, things have certainly been shifting, it's been a roller coaster of a ride on Brexit. So if you recall, the prime minister had secured cabinet agreement on the withdrawal agreement and the political declaration, so those two, just as a recap, covered things like citizens' rights, the amount the UK was going to pay to leave, a backstop arrangement on Northern Ireland,

and the political declaration was the future statement between the EU and the UK as to how they were going to trade together. So this was agreed at a cabinet level and it was also agreed at EU level and ratified at EU level, but from a UK perspective the prime minister still needed to secure parliamentary approval and she had to do that in a meaningful vote, so she then scheduled the vote, looked like she was losing the vote, so she pulled that vote. She then faced her leadership challenge from her own party, won that, rescheduled the vote to the 15th of January, and then as you probably have read, she lost that vote by the most significant margin ever. She then faced a vote of no-confidence in the whole government from the opposition party and won that. Phew! So where does this leave us? That means the withdrawal agreement and the future political declaration cannot enter into force, and the UK faces the legal default of no-deal.

The prime minister then tried to reach out across the political divide, and this led to a series of talks, but I'd say those talks didn't appear to yield any progress.

On Tuesday the 29th of January, MPs extensively tabled their own amendments to the government's motion, of which two passed, and remember, there's no written constitution in the UK, so the parliamentary process here is a little unclear, and it's being made as we speak. One of these amendments that was passed resulted in a majority to reject a no-deal exit, but this was just a statement or a kind of position statement. There wasn't any alternative or mechanism to do this, so it's a common opposition statement to no-deal, but this hasn't been adopted by the Prime Minister, so the second amendment that passed was to go back and renegotiate the withdrawal agreement, in particular the backstop arrangements, which are the piece that the members of Parliament who are voting just do not like.

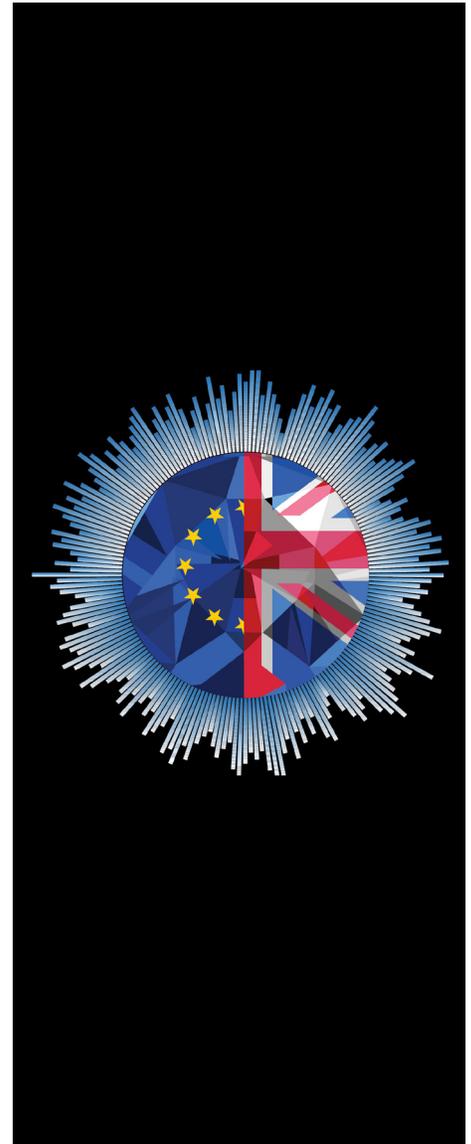
The prime minister has stated in response that she will act upon that vote, that amendment, and that she will go back to the EU to open up and renegotiate the withdrawal agreement. But of course a

renegotiation takes two sides, and this needs the EU's agreement, and the EU has so far stated that it will not renegotiate the withdrawal agreement, so at the moment we are in a situation where there is, again, no agreement between the EU and the UK. There was no majority to delay or stop the UK's exit in any of that voting that went on in Parliament, so the default position we're all facing as businesses is the legal result of Article 50, which was triggered, and the UK will exit on the 29th of March with or without a deal.

Hanish Patel: Thank you for that, Amanda. I mean, that's an incredible amount that we mentioned just happened in the last couple of months and anyone who's not keeping track of it, it's going to be hard for them to keep up, particularly like you said, there's been some big votes, pulled votes, and then votes of no-confidence, and frankly it seems like the position is the same position as it was in somewhat before, in terms of we're still where we are for March 29th. With that said, I mean, certainly as a Londoner living in LA, I've got more and more people asking me about Brexit. What does it mean, can I unpack it for them? And I know you've recently been out to the US as well for a sustained period. Have you noticed an increase in that interest coming from the US as well, and more so, an increase in awarenesses from businesses themselves?

Amanda Tickel: Well yeah, the short answer is yes, there's definitely an interest. I think there's a level of intrigue actually in the politics that are going on here, and I think that the businesses are becoming more aware that this is potentially going to have a big impact on them in terms of how they trade across Europe. This isn't just whether you trade and have a business in the UK, it includes whether you trade and with the UK perhaps from an entity in Europe, in the EU.

I do think there's definitely a level of interest. It's now being covered much more widely and as any listener will see, both in the US media, but also actually, the same goes across Europe and elsewhere in the world. And some of that fascination I think is to do with looking at the whole parliamentary process. You know, how law is made in the



UK is quite unique, and it's televised all those debates, so people have been quite gripped actually.

Hanish Patel: Yes, certainly they're televised but a lot of people out here are just, they're fascinated by the way that we do our politics back home for sure. This is definitely gaining a lot of traction on that front. One of the things I'd like to do if we could actually, Amanda, just on the basis of what we've seen in the last few months, is somewhat refresh our listeners. On our last episode, I recall you noted these five key areas around "data," "supply chain," "people," "regulation," and "tax." Based on everything that you're seeing take place over the last couple of months, what does this all mean for companies, particularly in the tech, media, and telecom space that are preparing themselves for the 29th of March deadline?

Amanda Tickel: Yes, they do remain the five big issues for business in terms of managing Brexit, and our thinking hasn't changed a great deal on any of these. We do have much deeper insight into these areas now as businesses are starting to work out what it really means for them. Taking each in term, a quick update then, so starting with technology, the biggest issue here seems to be around "data," "data flows," "data storage in warehouses," and here it's around can you both hold and transfer data across that UK-EU border freely without, for instance, breaching any GDPR regulations, because there isn't any adequacy ruling.

If the UK leaves without a specific deal, then it isn't certain at all that the UK will gain that adequacy agreement. We've also seen, for instance, announcements then that the US Department of Commerce has issued on the "privacy shield" and the actions that businesses need to take to ensure that they're still protected and covered under that arrangement.

The second big thing for technology companies, it is still around physical equipment and the logistics questions, because if remember from before there isn't a huge amount of tariffs here—they're generally zero rated for technology—but it is going to be around logistics and time to

market and getting your kit to the right place at the right time and not stuck on a mode of transport, a truck that is in a big queue waiting for clearance, so that has actually become one of the bigger issues.

The other one we've come across I would describe as "integrated services," so how you actually integrate software, if you're moving people and are using cross-EU teams, then needing to check that ability to run your operating model as you have done, and these people cross borders freely, this becomes a check whether trademarks are registered, are they properly registered and protected? So I would say those are the bigger issues for the technology businesses.

In media, actually we've seen some public statements by a number of broadcasters that they have moved where they are holding their broadcast licenses, so although there are country-by-country broadcast licenses granted, at the moment, say you have a broadcasting license across the EU. You're able to select one regulator, so that will be "Ofcom" in the United Kingdom, and they would then hold all the licenses that were broadcast in each country with that one regulator and comply with that regulator, and obviously now the EU said that those licenses and for the EU need to be held with an EU regulator, so they're having to move and transfer licenses and control mechanisms, so largely into a different subsidiary that they've got in the EU, and that's been quite an interesting thing in media to see, and the others are more broadly in media. We've seen publishing cause some issues of physical print business. A lot of magazines are physically printed in Poland, Czech Republic, and there's been a huge shift over the decades out of the UK, and if they still need to get those magazines through their supply chain from printer to the UK market, for instance, within a certain time frame, and then they're worried about whether or not the supply chain will work effectively, and so they're starting to think about different print routes and different logistics routes.

The other thing for media would be definitely in the film and entertainment space, so moving people and film crews

and kit around across borders, again, all the clearances and the immigration requirements, they're concerned about what that landscape is going to look like. Lastly, just turning to the Telecom sector, then more clearly the data issues and people issues still apply to telecoms, but in addition here there is an issue on regulation, so telecoms' licenses are granted on a country-by-country basis in the EU. They're not granted on any basis, so that in itself is not going to be an issue, but there are various directives, which mean that government pricing, for instance, on roaming, which will fall away, and this may influence pricing in the future. I mean, so far operators have said that they will not increase their roaming charges, and so therefore trying to allay consumer concerns there, but, and we'll just have to see what happens in the future because obviously it's up to the operators in terms of setting their cross-border charges as to whether or not there will be an increase for them, but I think the other thing obviously on telecoms, there is handsets, could there be supply chain issues, so they're just making sure that they have enough stock and stockholding and that all their retailers have enough handsets at the right time just over that March-April period.

The other thing of course for telecoms is that there are over-the-top services, which could be impacted and that obviously depends on what the impact is on those services that they're providing. For instance, if there was a broadcast or media content impact, and then that might affect what the telecoms company could actually provide. And of course, Hanish, there's so much convergence within these sectors these days, that, you know, it's not the case that if you're a media company this is what affects you, if you're a telecoms company this is what affects you, so I think that what we're actually seeing is that many of these issues are affecting companies in all of these ways because they are straying into different areas. The telco isn't really just a telco, it's now a media company and a technology company as well, so I think probably all of those issues may well affect some of these businesses.

Hanish Patel: That's an absolutely fair point, right, and to your point, a lot of convergence going on, so if we look at it from that perspective with potentially all of those things impacting anyone or many of these TMT companies, when we think about March 29th, it's approaching really, really quickly, and what I'd like to do is maybe wrap up the show walking through some potential scenarios. In your mind, what are some of the possible outcomes that we might see come forward in the next couple of months?

Amanda Tickle: There are so many unknowns here, but there are some facts about the current environment which we could summarize. As I said, the prime minister is taking the withdrawal agreement back to the EU, but so far, the EU has said it won't reopen that and it is its red line, that there should be a backstop included, so the thing is, absent any other agreement, the default position is we leave without a deal. Although that vote that we had shows that in Parliament there isn't an appetite for a no-deal crash-out exit. There isn't actually a viable alternative at the moment which is attracting any sufficient support and

there are lots of options out there being discussed, but they're more mechanisms to arrive at an outcome, not really outcomes in their own right, so for instance calling for general election, a new referendum, more indicative voting, they do also refer to extending Article 50 and obviously trying to renegotiate completely, and obviously that renegotiation is now out there, but I think it's really important to say that there are only three options that the UK can control and decide unilaterally itself. That is, having a no-deal Brexit by choosing an alternative action, revoking Article 50 so it could unequivocally and unconditionally decide that following a constitutional event, let's say, but it did not want to continue with its decision to leave the EU, but this is actually seen as quite unlikely.

And lastly of course they could just ratify that agreement that's out there already. MPs might decide that they've had a go at amending it, but actually the only option for them if they want to avoid a no-deal is to accept that withdrawal agreement, so all other options require someone else's agreement there. So what I'd say is, you

know, looking at all this uncertainty, business needs to continue to plan for that no deal exit the 29th of March, because today there is no UK Parliament-approved agreement or a move to stop the UK's exit or delay the leave day.

Hanish Patel: No doubt. I mean, it's incredible where we are when we're so close to this date. And, you know, the one thing I want to say, Amanda, is I can't thank you enough for joining me here again and really unpacking and making a very complex topic understandable, so I really appreciate you jumping on and helping all of our listeners understand what's going on as I call it back home for me, and no doubt there's going to be a lot of movement, hopefully, in the next two months as well. So there you go, guys, keep an ear out for our final episode in our Brexit miniseries. Until then, happy listening.

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