Practical steps to take in advance of Brexit

This article sets out practical steps that could be actioned in preparation for Brexit

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I spoke at an event in June where the turnout was lower than expected as the organisers felt that people were already "tired with Brexit". However, it is equally fair to say that companies can only be tired of listening about it and/or of the related uncertainty. For the most part, few if any Irish firms are tired of Brexit-related preparatory work as they haven't done much to date. This article sets out practical steps that could be actioned in the near-term.

The areas for immediate consideration are:

- Financial Plans
- Banking
- Tariffs
- Employment/employee issues
- Macroeconomic outlook.

Financial plans

The core aspect of this is to have one: to the end of 2019 at least. I would strongly advocate a two-year budgetary process to commence in the coming weeks. The objective is simple: have a detailed plan to bring you through the UK exit from the EU. Even if (hopefully?) there is a transition period, that period will be defined in its length and content in the coming 12

▶ Continued on Page 4

▶ Continued from Page 3

months or so. This will also need to be flexed for key variables such as foreign exchange ("FX") rates, WTO tariffs and any other identified key variables. Such a plan should also include one-off Brexit-related costs/budgets.

Banking

All aspects of banking and financial service relationships will require some due diligence including:

- Borrowing facilities (similar to the previous point on financial planning, borrowing facilities should now be established until at least March 2020)
- FX and debt hedging facilities (could be impacted by failure of UK banks to successfully passport/provide services to non-UK entities and/or at a higher cost – who currently provides these services to your UK operations and how might this change?)
- Cash management and clearing (again needs to be assessed if, for example, your clearing in the UK is currently performed by one of the Irish banks)
- FX and debt hedging should also be addressed from the perspective of possible market disruption and subsequent adverse trends
- Please also be very aware of the material effect of relatively small moves in interest rates (as they are currently very low so a 1% increase could result in a material jump in the cost of debt) and foreign exchange rates. Both, in turn, have an adverse effect on financial covenant compliance.

Tariffs

This is probably stating the obvious but do you know (a) if your products are subject to World Trade Organisation (WTO) tariffs, (b) if yes, what are those levels and (c) can your business sustain them? My guess is that WTO tariffs, if imposed, will have strategic implications for Irish companies that may entail consideration of UK acquisitions or mergers. A recent paper from the UK government cited a desire to maintain tariffs similar to those already in place. One suspects that the status quo will be sought by the UK in this regard for a transition period of 2-3 years post March 2019. Time will tell if the EU is facilitating in this regard.

Employment

Free movement of people between Ireland and the UK is, apparently, being sought by both governments. Were it to be achieved, it would reduce the complexity of using Irish employees in the UK and vice versa. In addition it would ease travel between both jurisdictions. However, consideration ought to be given to the following by both Irish government and businesses. Firstly, open borders increase the terrorist threat – most of the UK "problems" are "home-grown". So free movement of UK citizens increases this risk. And making and maintaining Ireland as a safe place to live and work could be a very important strategy for Ireland Inc. in attracting investment in a volatile world in the coming years. Secondly, we could become the de facto source of resources for UK shortages in certain professions e.g. nurses, doctors, teachers. This could be an issue, for example, in the private healthcare or nursing home sectors.

Macroeconomic outlook

The threats are obvious: slower economic growth, sectoral risk for the food and agri sectors, higher one-off and ongoing costs for Brexit-related regulations. Weak sterling won't help, throw in gradually rising EUR interest rates and the macro effect of a general financial markets correction (which this author believes to be inevitable and likely to be material) and there are a lot of external factors at play. Opportunities? Import substitution of goods subject to higher tariffs, Irish joint ventures with UK partners or franchisers (EUR income should be worth more to UK corporations) and even the possible filling of gaps in the UK markets left by departing companies all spring to mind. For every risk, there is an opportunity – it just needs to be identified early and acted upon quickly.