

SUMMARY REPORT

FT & KPMG INTERNATIONAL BREXIT BOARDROOM SERIES

Resetting for the future:
A window into the global
Brexit conversation

6 September 2017

Villa Kennedy
Frankfurt



AGENDA

Resetting for the future: A window into
the global Brexit conversation

15:45 Arrivals and networking

16:00 Welcoming remarks

Andreas Glunz, Managing Partner, International Business, *KPMG in Germany*

Fred Studemann, Comment & Analysis Editor, *Financial Times*

16:10 Brexit observations

Karen Briggs, Head of Brexit, *KPMG in the UK*

16:20 Discussion

Business impact of Brexit

- What are the biggest political risks for businesses in the coming 12 months?
- How are businesses investing and planning to manage the impact of political outcomes?
- What changes in economic policy could come after the German elections?
- How can political risk assessment be applied in decisions on business transformation like relocation?

Trade and operating models

- What are the main objectives for a new UK-EU trade deal?
- Will a transitional arrangement be necessary and sufficient to avoid an economic shock?
- What is the outlook for UK trade deals with non-EU countries?
- Can TTIP be revived?

People

- How are labor markets evolving across Europe?
- How can businesses plan for the impact of harder borders on talent acquisition?
- What are the prospects for relocation of workers from UK to Germany in different sectors?
- Can digitization and automation soften the blow from restrictions on movement?

17:50 FT chair summation and KPMG closing remarks

Fred Studemann, Comment & Analysis Editor, *Financial Times*

Andreas Glunz, Managing Partner, International Business, *KPMG in Germany*

18:00 Drinks and networking

18:30 Dinner

20:30 Car service for guests

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The FT AND KPMG INTERNATIONAL BREXIT BOARDROOM SERIES was designed to canvass the views of business leaders who are mapping their way to tomorrow's opportunities and challenges. The Frankfurt event was the second in the global series, which brings together senior business leaders in major markets across the world, including New York, Tokyo and London, to discuss issues around Brexit as well as other geopolitical developments.

Brexit and other shifts in the geopolitical landscape are back on boardroom agendas. From securing talent and navigating regulatory change to rethinking supply chains, reviewing location strategies and considering data and intellectual property management, businesses are facing a challenging few years. Actively planning potential strategies now is vital to minimize disruption to business as a result of Brexit - and for the most agile and innovative businesses, Brexit can also be a catalyst for change. A roadmap that plots the tasks and timelines will become essential in making decisions before the 2019 deadline for the UK's departure from the EU.

By understanding their options and being clear about their opportunities, as well as their exposure, Brexit can help businesses reset for the future. This report provides a curated summary of the practical insights and original thinking from the event in Frankfurt, where we heard from finance, manufacturing and human resource firms with operations and customer bases in the UK and Germany.

Highlights of what we heard in Frankfurt

- Businesses are being forced to plan – and make decisions – based on a 'worst case' scenario of a Hard Brexit
- Each sector faces its own challenges, and some require clarity within the next few months to prevent irreversible decisions being made
- A transitional period is necessary, but business needs to know the 'final outcome' to plan effectively
- German businesses hold the same concerns on Brexit as their British counterparts: customs and tariffs; people; and new regulations, contractual compliance and the jurisdiction of the European Court of Justice

- The depreciation of the pound may help mitigate the imposition of tariffs where capital or labor-intensive components of the supply chain are based in the UK
- Decisions are being made in ways that create the most certainty – and it is unlikely that these will be positive decisions for the UK whilst there remains a level of uncertainty
- As a comparatively attractive destination to do business, Frankfurt will likely benefit from the movement of business and talent out of the UK

Brexit from a Frankfurt point of view

The discussion with German business leaders in Frankfurt covered four key themes:

1. What businesses are thinking about Brexit and their main concerns;
2. How businesses are responding to and preparing for Brexit;
3. How Brexit has affected the comparative attractiveness of the UK and the EU as places to do business;
4. How Brexit may also present opportunities for businesses and locations.

Business is planning for the 'worst case' scenario

Business leaders were concerned about the lack of progress in negotiations and the impact that this would have on the future trading relationship between the UK and the EU27 – namely the 27 European Union countries involved in Brexit negotiations. In the six months since the triggering of Article 50, there has been little clarification about where the journey is heading: *"nobody on the British side has really said yet 'this is how we imagine our position post-Brexit'"*.

Although some were skeptical that a hard Brexit would occur, all agreed businesses have to be prepared. Some leaders saw the risk of a *"zero solution"* (no agreement) to be quite high, as the UK Government has *"promised something that they cannot deliver – namely, free trade with the removal of freedom of movement of people"*. Business leaders also referenced signals from European and UK regulators to prepare for a hard Brexit, who have warned financial institutions to plan for a scenario whereby the UK becomes a third country from the perspective of passporting and other licensing regimes.

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As such, business is being “*forced to plan now*” – and some have already acted. One multinational business had established a Brexit European Group taskforce, led out of the UK, to plan for and mitigate the possible impacts of Brexit. Whilst a “*grace period*” in the form of a transitional arrangement was considered beneficial, one leader highlighted that the staffing, capital and investment decisions are already being taken, and regardless of where Brexit lands, it is already “*within the realms of ‘second best’*”.

A transitional period is necessary, but business needs to know the ‘final outcome’

Continued cooperation between the UK and the EU over the coming months was considered critical, but the question remained on how long this should continue after March 29, 2019.

For regulated industries, many businesses will have already implemented contingency plans by this stage, and these decisions will be ‘*largely irreversible*’. For non-financial services firms, a transitional period could in fact prolong uncertainty if the direction of travel is unclear, and businesses looking to shift operations and infrastructure will still ‘wait and see’.

Despite these concerns, a transitional period was still seen to be a necessity, depending on the direction of travel – the less things ‘*stayed the same*’, the more time business will need to adapt.

Each sector faces its own challenges

Business leaders also highlighted the sector-specific unknowns, with each sector facing their own challenges and timeframes for dealing with Brexit.

Some industries require greater clarity earlier in the negotiations, or a longer transitional period, to avoid a major disruption to business. For example, the aviation industry is concerned about landing rights in Europe, with major carriers forced to add ‘health warnings’ on tickets sold for a post-Brexit date. Others raised the challenges of interconnected supply chains, highlighting that it is “*much easier to relocate an office building in the financial industry than to have to relocate an expensive factory*”.

Of course, the decline in the value of sterling as a result of the Brexit vote has resulted in wins for certain sectors, such as retail and tourism, as it has attracted more overseas visitors to shop and stay in London and the rest of the UK.

The big concerns

Broadly speaking, German businesses hold the same concerns on Brexit as their British counterparts: customs and tariffs; people; and new regulations, contractual compliance and the jurisdiction of the European Court of Justice.

On customs and tariffs

Business leaders are worried about the impact of tariff and non-tariff barriers for interconnected supply chains, and how they will work in practice. Particularly for an export-driven nation like Germany, products can cross the borders a number of times and could be subject to multiple tariffs – a cost which cannot be easily passed onto consumers, nor easily avoided through relocation.

However, one business leader noted that the exchange rate (i.e. the depreciation of the pound) has been a boon for those that produce the most capital-intensive stage in the UK. He suggested that this could lead to an expansion on the production side in the UK, and indeed have a positive net effect, despite the imposition of customs duties.

On people

A flexible and mobile labor market was highlighted as a critical component for business success. A number of leaders expressed concerns that Brexit may impact on the *'international exchange of experience'* through restrictions placed on the movement of high-skilled talent. However, Brexit was also seen to be leading to a *'brain drain'* from the UK to the EU – including to Frankfurt.

A KPMG survey of 2,000 EU nationals living in the UK and 1,000 UK nationals living in other EU member states has revealed that 45% of the former group have already decided to stay, while a small percentage have decided to leave. According to many respondents, they've based their decisions on their employer's attitude to Brexit. One business leader attributed the exodus to perceptions of welcomeness of EU nationals in the UK: *"very qualified professionals felt... hardly wanted or less tolerated than one year ago"*.

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Brexit is already influencing decision-making

"This political risk is already leading us to decisions, to say: we will counter this uncertainty by either not investing or by going to countries... where we have guaranteed political – meaning contractual – EU relations."

A number of leaders spoke of their experiences on how Brexit is already impacting on decisions being made today. One leader shared that the uncertainty created by Brexit took the UK out of the running for the establishment of a shared service for its European operations: *"The total uncertainty about how it's going to look after Brexit causes us to say: let's not do it. Otherwise, if England had chosen to stay in the EU, we probably would have gone there."*

Decreasing investment in the UK was seen as a result of the current levels of uncertainty. For the real estate sector, the extent to which this is occurring is dependent on asset class; commercial or 'financial-sector exposed' real estate is a particular area of concern, as the industry assesses how the market will change through companies leaving the UK.

Some acknowledged that whilst they may not actively look to sell UK operations, for the financial services industry, if additional requirements are imposed by regulators (in terms of local capital, liquidity and staff), the business would have to consider closing operations, rather than simply converting into a subsidiary.

Uncertainty impacts on the UK's attractiveness as a destination to do business

Decisions are being made in ways that create the most certainty – and it is unlikely that these will be positive decisions for the UK whilst there remains a level of uncertainty. Most leaders agreed that the UK will have a "J-curve trajectory" in the long-run, but many highlighted that they are beholden to shareholders for moderate time horizons: "I don't have the length of time perspective to explain such an outlook to our investors, so we have to exercise caution".

"It is not just the 8,000, 10,000 staff who will go to Frankfurt. First, there are also those who will return to New York, others will go to Dublin. We are talking of a financial services industry in London of some 700,000 staff. London will remain a financial center. But if 50,000 of these go, then it won't just be 50,000. They'll take their spouses, partners and their children with them. That's the suction effect."

Most business leaders were cautiously optimistic of the UK's policy of industrialization, but questioned the capability and capacity of government to deliver.

Frankfurt will likely benefit

Frankfurt was seen as an attractive destination for those businesses that need to establish or enhance operations to continue servicing the EU market, in both hard and soft infrastructure: transport linkages; international schools; and a multinational (and lingual) workforce. A number of leaders felt that Frankfurt could establish itself as the premier financial center for Europe; it is also home to the European Central Bank, Deutsche Bundesbank and the German Federal Financial Supervisory Authority. It also offers opportunities beyond banking and finance with its strong global credentials, including a major airport as well as an international exhibition center.

Although the exact number of jobs that will be likely to move was debated, the capacity of the city is already stretched, particularly in terms of international schools, followed by residential housing and real estate. As one leader said: *"I am very optimistic for Frankfurt. I believe it will be good for the entire region. But I also believe there are some bottlenecks that still need to be addressed"*. Business agreed that Frankfurt will need to 'step up' to take advantage of the opportunity that Brexit presents.

BIOGRAPHIES

CHAIR

Fred Studemann

Comment & Analysis Editor

Financial Times



Frederick Studemann is the Comment & Analysis Editor and a member of the editorial board of the Financial Times. In his present role, he oversees the opinion and analysis coverage of the FT online and in the paper as well as the management features.

Mr Studemann joined the FT in 1996 as Berlin Correspondent and has held a variety of posts including UK Correspondent, Political Correspondent and European News Editor. He was a member of the launch team of Financial Times Deutschland, the FT's German-language sister paper, where he established and ran the Features and Weekend sections.

Born in the United States, Mr Studemann grew up in Ireland, the UK, the former Soviet Union and Greece. He was educated in Britain and currently lives with his family in London.

SPEAKERS

Andreas Glunz

Managing Partner, International Business

KPMG in Germany



Since joining KPMG in 1991, Andreas Glunz has held a number of different responsibilities and led several major client engagements across various industries. He was appointed Partner in 2000 and in 2015 he became the Managing Partner of the Markets Segment and International Business group at KPMG in Germany. As part of his current role, Mr Glunz is leading KPMG in Germany's International

Business team, which supports and advises foreign companies based in Germany as well as German companies based in foreign markets on how to seize new business opportunities in their region.

Mr Glunz is also serving as an Audit Partner for a list of German subsidiaries and sub-holdings of international groups. He headed the Audit Inbound Department in Düsseldorf as well as the Audit Inbound cross-regional team in Germany from 2011 to 2015. He gained extensive international experience as the Head of the Global Japanese Practice in Germany from 2008 to 2015. He was part of the Turkish Country Practice team from 2006 to 2011 and also acted as a supervisory board member at KPMG in Turkey for a number of years.

Mr Glunz has a background as a German Certified Public Auditor and a Certified Tax Advisor in Germany.

BIOGRAPHIES

SPEAKERS

Karen Briggs

Head of Brexit

KPMG in the UK



Karen Briggs is KPMG's Head of Brexit and a member of the Executive Committee of the Board. She leads a dedicated team of experts to support clients in mitigating the risks and taking advantage of the opportunities that arise from Brexit.

She has been a Partner at KPMG for 18 years, where she has built a strong market reputation for working on large-scale international regulatory issues, involving complex legal negotiations, for some of its biggest clients. This makes her well placed to work with organization at home and abroad as they adapt to the post-Brexit world.

Ms Briggs has held a number of senior positions at KPMG, including Global Head of Anti-Money Laundering and, more recently, UK Head of Solutions, which comprises Tax, Deal Advisory, and Management and Risk Consulting and innovation and investment strategy.

She is a Forensic Partner by background, and was seconded for two years to the Bank of England's Special Investigations Unit, becoming Head of Bank Investigations at the Enforcement Division of the FSA (now FCA). During this time, she was also an advisor to the Board of Banking Supervision. She has been involved in a number of reports to the regulator concerning fraud investigation, money laundering and miss-selling.

She has led large regulatory and fraud investigations for investment banks, insurers and retail banks and has written reports used as expert evidence in the prosecution of fraud.

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KPMG in Germany is a leading provider of audit, tax, consulting and deal advisory services to a broad range of domestic and international entities – delivering integrated solutions to their clients' issues. Operating from 25 offices throughout Germany, their more than 10,200 employees and partners support business leaders across various industries.

Being part of a strong global network of member firms gives KPMG in Germany a truly global mindset and they strive to deliver on KPMG's brand promise: "With passion and purpose, we work shoulder-to-shoulder with our clients, integrating innovative approaches and deep expertise to deliver real results".

Brexit: A catalyst for businesses to reset their futures

The clock is ticking, but how can you prepare for Brexit while so much uncertainty hangs in the air? From securing talent and navigating regulatory change to rethinking supply chains and reviewing location strategy, Corporate Britain faces a challenging couple of years.

Actively planning your response now is vital given everything that must be done to help ensure an orderly Brexit. A Brexit Navigator – plotting out tasks and timelines – will become your essential guide in making decisions before the 2019 deadline. And for the most agile and innovative, Brexit could become a catalyst for change. By understanding your options and being clear about your opportunities as well as your exposure, Brexit can help reset your future.

KPMG has created a suite of assets to help you navigate these two facets of Brexit – the opportunity and the risk. Draw on practical insights and original thinking from our regional, and global Brexit champions, led by our UK Head of Brexit Karen Briggs. In Germany please contact Andreas Glunz, Managing Partner, International Business for questions regarding Brexit.

www.kpmg.com/brexit

For more information please contact:

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