

SUMMARY REPORT

FT & KPMG INTERNATIONAL BREXIT BOARDROOM SERIES

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

20 February 2018
Number Twenty
London



AGENDA

4:45 pm **Arrivals and networking**

5:00 pm **Welcome remarks**

Bill Michael, Chairman & Senior Partner, *KPMG in the UK*

5:05 pm **FT chair opening remarks**

Lionel Barber, Editor, *Financial Times*

5:10 pm **Brexit observations**

James Stewart, Vice Chair & Head of Brexit, *KPMG in the UK*

5:15 pm **Keynote insights**

Michael Cole-Fontayn, Chairman, *Association for Financial Markets in Europe*

5:25 pm **Discussions**

Political Risk

- The UK and European political landscape continues to change. What does this mean for Brexit?
- What is the likelihood of a no-deal outcome and what could a transitional arrangement look like?
- How is business working with governments in the UK and elsewhere to influence the Brexit strategy?
- As practical deadlines approach, how prepared are businesses and what decisions can be made in advance?

Future of the UK and future of Europe

- What are the objectives of a new UK-EU trade deal?
- What is the outlook for UK trade deals with non-EU countries and what does the world want from Britain?
- What do the Brexit negotiations tell us about the future direction of the UK and EU?
- Will the government's industrial strategy help Britain focus on its strengths? How can businesses take advantage of that?

Trade

- How are businesses transforming their operating models to adapt?
- How would different sectors be affected by trading with the EU under WTO rules?
- How are labour markets evolving across the UK and Europe and how can businesses plan for the impact of harder borders on talent acquisition?

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6:50 pm **FT chair summation**

Lionel Barber, Editor, *Financial Times*

6:55 pm **KPMG closing remarks**

Bill Michael, Chairman & Senior Partner, *KPMG in the UK*

7:00 pm **Drinks and networking**

7:30 pm **Seated dinner**

9:00 pm **Carriages**

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The **FT AND KPMG INTERNATIONAL BREXIT BOARDROOM SERIES** was designed to canvass the views of C-suite business leaders who are mapping their way to tomorrow's opportunities. The London event was the fourth and final event and thus the capstone for this global series which brought together senior business leaders in major markets across the world, including New York, Tokyo and Frankfurt, to discuss issues around Brexit as well as other geopolitical developments.

Brexit and other shifts in the geopolitical landscape are moving up 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 will be vital to minimise disruption to business as a result of Brexit - and for the most agile and innovative, the UK's departure from the EU can also be a catalyst for change. A roadmap that plots the tasks and timelines will become essential in making decisions before the 2019 exit deadline as well as any transitional period that may follow.

By understanding their options and being clear about their opportunities, as well as their exposure, businesses can use Brexit as a catalyst to reset their future. This report provides a curated summary of the practical insights and original thinking from the event in London, where we heard from financial services, industrial manufacturing, transport, and real estate, as well as retail and consumer firms - with operations and customer bases around the world.

Highlights of what we heard in London

- Business leaders are concerned about the continued division on the preferred type of Brexit, suggesting that a compromise (even at a sector level through managed divergence) could be a dangerous outcome for business.
- Notwithstanding a possible political agreement on the transition in March, UK business is 'well past the date at which decisions are made' and without legal certainty over the transition, many businesses are starting to make irreversible decisions around a 'no deal' Brexit (including loss of EU-third country FTAs).
- Profits, platforms and people will be impacted by the more complex and 'unwieldy' trading framework that may result from Brexit, with some businesses already experiencing challenges around the latter.

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- Whilst greater regulatory sovereignty and trading flexibility could have its upsides for some sectors, it was not seen to be worth a trade-off of increased friction of trade or loss of regulatory access to the EU market that it would likely require in practice.
- Brexit is regarded as symptomatic of broader societal issues, and acknowledging the role of business in increasing productivity and the living wage may help offset some of the impacts of Brexit. Business also has a responsibility to be vocal about what they need in order to generate growth from a Brexit deal.

Brexit: The London view

The discussion with UK business leaders in London 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, EU and global cities as places to do business; and
4. How Brexit may also present opportunities for businesses.

A compromise could be a dangerous result

With just over 12 months to go until the Article 50 deadline, business leaders expressed concern at the different visions of Brexit that continue to divide UK government and populations - particularly in the face of EU unity.

The UK's proposal of sector-by-sector 'managed divergence' was raised. The financial services sector was seen to showcase the complexity of such an approach, where differing impacts on subsectors may result in conflicting 'asks' for the end deal. For example, smaller UK domestic banks and life insurance companies may benefit from watered-down aspects of EU regulation that are costly and difficult to comply with (like Solvency II) – while global banks *"can cope with what's going on by shifting the way they do business within their global infrastructure... [but not] to the benefit of the UK"*. Asset management was seen to be the least impacted, as an ideas business with local products that serve local clients: *"Continental European funds for continental European clients, UK funds for UK investors. And we don't move capital about in Europe; we just move ideas and money stays where the funds are."*

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Whilst business leaders acknowledged that some industries and sub-sectors may wish to see divergence at the expense of full access to the EU market, most agreed that a compromise would not be in the best interests of business and could lead to dangerous outcomes, where *“no one is happy”*. Although leaders acknowledged that there may be some upsides to increased sovereignty, in practice there will be trade-offs: *“I don’t see how you can have an independent regulatory policy and also then expect to have free trade access in the EU.”* For example, businesses said there would be no upside to regulatory divergence within the automotive sector, given the requirement to comply with EU standards and regulations in order to sell into its market – and any divergence could increase the costs of compliance for business.

Business leaders largely agreed that this regulatory flexibility would not be worth increased friction of trade or loss of access to the EU market. It was highlighted that even the ‘best case’ CETA-like deal would be challenging for some sectors, such as manufactured goods: *“There may not be tariffs, but there’s a hard border and document checks and anyone who’s looked in any detail at all at logistics, ports, customs, knows that that’s just not doable, certainly not by December 2020.”*

Profits, platforms, and people will be impacted

Similarly, a Brexit that results in a more complex and ‘unwieldy’ regulatory and trading framework will likely impact on profitability - and therefore on governance decisions and location of business. One leader commented *“the whole construct that many businesses have had about running a business in Europe from the UK, or running an EMEA region business from the UK, is beginning to unravel, which could have a significant effect on people, their careers and their opportunities.”* Others suggested that certain industries are *“gradually drifting out of the UK, just by default”*, and that some businesses are adopting an *“anywhere but the UK mentality”*. One leader added: *“If you’ve taken a decision that you cannot afford not to be business-ready in April 2019, every strategic hire or marginal hire you’re going to make is probably an allocation towards somewhere other than the UK, in the EU27.”*

Platforms and people were called out as two key cross-sectoral concerns. As one business leader put it: *“No deal means no deal on data. A significant percentage of EU27 data is held on servers in the UK – questions on where that data is going to move to, how it’s going to move, who owns it and so on need to be considered”*. Brexit may have significant implications for

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technology and data storage, and may require businesses to undergo structural change, re-platforming and re-contracting to address these concerns.

Access to talent and labour was also raised. Business leaders noted that the current level of uncertainty is driving less senior professionals to seek or accept jobs in the EU – or further abroad: *“What we’re now finding is that some of our younger employees are saying, ‘I want to go to the Singapore office’ or ‘I want to go to the Mumbai or Delhi office’, or ‘I want to get out of the UK because the opportunity is bigger outside the UK and the risk of remaining in the UK is huge’”*. One leader suggested that the movement of non-EU talent into the UK is also becoming difficult, stating *“the attitude’s already started to change, irrespective of what the policy might look like.”*

Business has a role in creating societal change

The crunch is particularly being felt in lower paid professions, where the devaluation of the sterling (lowering repatriation income) is making other countries such as Germany comparatively more attractive. A head of a construction company reported that they have had to double the pay of some of their workers over the last two years in order to retain them.

In light of this, business leaders acknowledged the need to upskill British workers, particularly in the construction, agriculture, retail and hospitality sectors. One business leader pointed to the volume of the population that is not active in the UK labour market, and suggested that *“business needs to find a way of improving the UK workforce. We can’t just flippantly, or seriously, write people off... we have to find a way to upskill, and that’s going to be expensive, because we’ll need to do it fast.”*

Comments around potential labour shortages and a possible increase in the cost of goods for the average consumer (due to trade tariffs and wage inflation) also raised broader questions around the role of business in addressing societal issues of which Brexit may have be a symptom:

“It feels to me that in businesses we have taken our eye off the ball in being able to articulate what we’re doing to drive productivity increases and how we’re going to deliver real wage increases. We have had a decade of no real wage growth in this country and there’s sharp inequality.” The answer to that can either be a significant change in political direction or business collectively deciding how it is going to address that.

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Global opportunities do not trump current market access

While Brexit is impacting on the job attractiveness of the UK, it is not the only factor, as one leader pointed out. *“Young people in the early stage of their career are making decisions to relocate to places where there are opportunities. It’s easy to blame this on Brexit. The truth is that, if you look at what’s going to happen over the next 50 years in terms of GDP growth and technological advance, it’s coming from Asia.”*

Reflecting this, business leaders acknowledged that Brexit may allow for more advantageous trade deals (“prizes”) with other markets, such as the US, the Middle East and India. However, similar to regulatory divergence, these benefits were not seen to offset the EU market, nor the loss of UK access to current EU-third party trade deals – particularly when companies are increasingly moving towards regional production for local markets; *“we produce in ASPAC for ASPAC”*.

A political declaration is not sufficient certainty

Many leaders felt that a political agreement on transition will be reached at the European Council in March, and that the legal text would provide greater clarity over the timeframes and structure of that period.

However, it was generally agreed that a transition period is not a safe assumption for business to be making. Businesses want legal certainty - few saw value in a political declaration, with one commenting: *“I don’t know what would need to be said to not carry on with the assumption of a hard Brexit”*. Most business leaders agreed that the UK is *“well past the date at which decisions are made”* and without legal certainty, many businesses are planning for a hard Brexit as the *“only proper prudent way”* forward.

A number of attendees suggested that the EU and UK regulators have a role in clarifying whether business leaders have a duty to operate on the assumption of a hard Brexit, but also acknowledged that they have not had the *“political cover”* to collaborate to date.

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Business must have a voice

Several leaders commented that the business world is still very quiet about Brexit, which is worrying because unless it finds its voice, one of two outcomes is likely – a bad exit deal or a cliff-edge hard Brexit – both of which would be extremely challenging.

Some suggested that while the UK government may not have sufficient capacity or capability to fully understand the business impact, business still has a responsibility to be far more articulate about what the consequences of the various outcomes are for them; *“we will make our own recession, unless we can influence what happens with Brexit”*.

Brexit may be resulting in prolonged economic and business uncertainty, but as leaders throughout the global series have acknowledged, for the most agile and innovative, the UK's departure from the EU can be a catalyst for change. Leaders at the London event once again advocated for more proactive engagement with businesses over the next year, to identify and share what they require to continue to grow into the future.

BIOGRAPHIES

CHAIR

Lionel Barber

Editor

Financial Times



Lionel Barber is the editor of the Financial Times. Since his appointment in 2005, Mr Barber has helped solidify the FT's position as one of the first publishers to successfully transform itself into a multichannel news organisation. During his tenure, the FT has won numerous global prizes for its journalism, including Newspaper of the Year, Overseas Press Club, Gerald Loeb and Society of Publishers in Asia awards. He has co-written several books and has lectured widely on foreign policy, transatlantic relations, European security and monetary union in the US and Europe and appears regularly on TV and radio around the world. As editor, he has interviewed many of the world's leaders in business and politics, including: US President Barack Obama, Chancellor Angela Merkel of Germany and President of Iran, Hassan Rouhani.

Mr Barber has received several distinguished awards, including the St George Society medal of honour and the Legion d'Honneur for his contribution to journalism in the transatlantic community. He serves on the Board of Trustees at the Tate and the Carnegie Corporation of New York.

KEYNOTE SPEAKER

Michael Cole-Fontayn

Chairman

Association for Financial Markets in Europe



Michael Cole-Fontayn is Chairman of the Association for Financial Markets in Europe, an industry organisation representing its membership as the voice of Europe's wholesale financial markets.

Mr Cole-Fontayn previously spent 35 years with BNY Mellon, the last seven years serving as Chairman of BNY Mellon Europe, Middle East and Africa. In that role, he was responsible for BNY Mellon's governance culture in Europe, Middle East and Africa (EMEA) and led regional strategy development, execution and the delivery of enterprise initiatives in the region. Mr Cole-Fontayn joined BNY Mellon over 35 years ago, starting initially as a credit and risk analyst. He was then appointed as a corporate finance banker to special industry clients, including Securities, Oil and Gas and Telecoms between 1986 and 1993. He then joined the Depositary Receipts (DR) division where he continued to work on many DR equity capital raising transactions, including numerous privatisations and equity offerings around the world. He ran BNY Mellon's Issuer Services Group in Hong Kong for seven years from 1993 to 2000, before serving as CEO of the company's global Depositary Receipts business. He was BNY Mellon's EMEA Chairman from 2011 to 2017.

External to AFME, Mr Cole-Fontayn sits on numerous financial service industry associations. He is a member and co-chair of the Wholesale Banking Group of the European Financial Services Chairman's Advisory Council (EFSCAC), as well as a member of the advisory council for TheCityUK, and FICC Markets Standards Board Advisory Council. He has been a member of the BritishAmerican Business International Advisory Board and a member of the Official Monetary and Financial Institutions Forum (OMFIF) Advisory Board. He is also a Board and Executive Committee Member of the Global Financial Markets Association (GFMA). He is 30% Club mentor of the Year 2017, trustee of a mental health charity – the Charlie Waller Memorial Trust – and Director of Ranmore Strategic Advisory.

BIOGRAPHIES

SPEAKERS

Bill Michael

Chairman & Senior Partner

KPMG in the UK



Bill Michael is the Chairman and Senior Partner of KPMG in the UK and a member of the KPMG Global Board and Executive Committee, leading a £2.1bn business of over 13,000 employees.

Prior to election, Mr Michael was KPMG's Global Head of Banking and Capital Markets, leading the network across audit, tax and advisory in this sector. He has over 20 years experience in global corporate and investment banking. Mr Michael qualified as a chartered accountant in Australia before moving to the UK to work with global banking clients.

Over the last seven years, he has spearheaded KPMG's work relating to the financial crisis and championed the debate about bank culture and standards and the need for change in the industry. He was special advisor to the UK's Treasury Select Committee into Banking Standards and represents KPMG as an advisory council member of the FICC Market Standards Board (FMSB).

More recently, in response to the seismic change in bank regulation in Europe, he has established KPMG's European Central Bank office aiming to give banks across Europe a consistent perspective of how their world is changing. He also led KPMG professionals working across the full suite of Financial Services clients in the EMA region, including banking, insurance and investment management.

Mr Michael has been invited to join the World Economic Forum's Network of Global Future Councils for 2016 to 2018. He is a member of the Global Future Council on Financial and Monetary Systems a group which comes together to discuss how to build a more efficient, resilient and equitable international system.

SPEAKERS

James Stewart

Vice Chair & Head of Brexit

KPMG in the UK



James Stewart sits on the Board of KPMG in the UK and is one of four Vice Chairs. Mr Stewart provides overall leadership for the firm's engagement with Brexit, and Britain's industrial strategy, productivity and trade issues. He also provides particular support for the Infrastructure, Energy, Government and Health businesses.

Until very recently Mr Stewart was Chairman of KPMG's Global Infrastructure practice. In the last six years in this role, he has visited over 60 countries advising governments, cities and private sector companies.

Mr Stewart is Chairman of the Advisory Board for the UNECE PPP Centre of Excellence and a Board Member of Infrastructure Exports:UK. He regularly speaks around the world at high profile infrastructure/investment conferences.

Prior to joining KPMG in 2011, he spent eleven years as the CEO of Infrastructure UK and its predecessor, Partnerships UK. During this time, he was responsible for the publication of the UK's first National Infrastructure Plan and was involved in most of the significant UK infrastructure projects.

Before that, Mr Stewart spent fourteen years in the banking sector working at Hambros and Societe Generale.

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KPMG is committed to helping businesses transform for tomorrow by bringing innovative approaches and deep expertise to the challenge of Brexit. Given the on-going market uncertainty and potential wide-sweeping changes that lie ahead, we believe that businesses need to prepare fully to maximise opportunities and remain agile to secure competitive advantage in a post Brexit world. It is an opportunity for businesses to rethink and reset their futures.

KPMG is a global network of professional services firms operating in 154 countries around the world with more than 200,000 people. Providing audit, tax and advisory services we combine our multi-disciplinary approach with deep industry knowledge to help clients meet challenges and find opportunities each and every day. With passion and purpose, we work shoulder-to-shoulder with you, 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 James Stewart.

kpmg.com/uk/brexitnavigator

For more information please contact:

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Navigate turbulent times with clarity

The Brexit journey has reached a critical point and the time to take action is narrowing. KPMG's Brexit Navigator helps you count down with clarity and make vital decisions with confidence so where possible you can turn risks into opportunity.

Find out more at
kpmg.com/uk/brexitnavigator

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