Brexit

The United Kingdom's decision to leave the European Union is one of the most important events in the history of the European Union, and in the history of the UK's relationship with the rest of Europe.

The Lisbon Treaty dictates the mechanism by which the UK can leave the EU. The Treaty allows for up to 2 years of negotiations. If no agreement has been reached by this point, all 27 other member states either have to unanimously agree to extend the negotiation period, or Britain leaves with no deal in place. As there is no template for such an event it is likely to be a long and complex process resulting in a prolonged period of economic uncertainty. PwC experts identified five possible exit scenarios currently open to the UK, and their resultant impact on UK.

1 The Canadian Model
Comprehensive Economic Trade Agreement (CETA)

- 99% of customs duties removed
- UK would not have full access to the EU;
  No passporting for FS; No full access for air transport to EU;
  quotas on agriculture
- Rules of Origin: Must prove products originated in UK – cost to implement circa £3bn
- Free movement of key personnel only

- **UK GDP falls 6.2%**

2 The Swiss Model
European Free Trade Association (EFTA)

- UK and the EU enter into a bilateral trade agreement
- UK access to sector specific areas of the single market
- UK would align with the relevant EU legislation, rules and regulations

- **UK GDP fall between 3.1% and 1.2%**

3 The Norwegian Model
European Economic Area (EEA)

- The UK joins the European Economic Area
- Maintains access to the single market
- Still makes a substantial contribution to the EU budget
- Must comply with EU standards and regulations over which it will have little influence

- **UK GDP falls 3.8%**

4 The World Trade Organisation Model
(WTO)

- UK fails to secure a trade agreement with the EU
- Must rely on normal WTO rules for access to the European Market
- May be imposition of tariffs

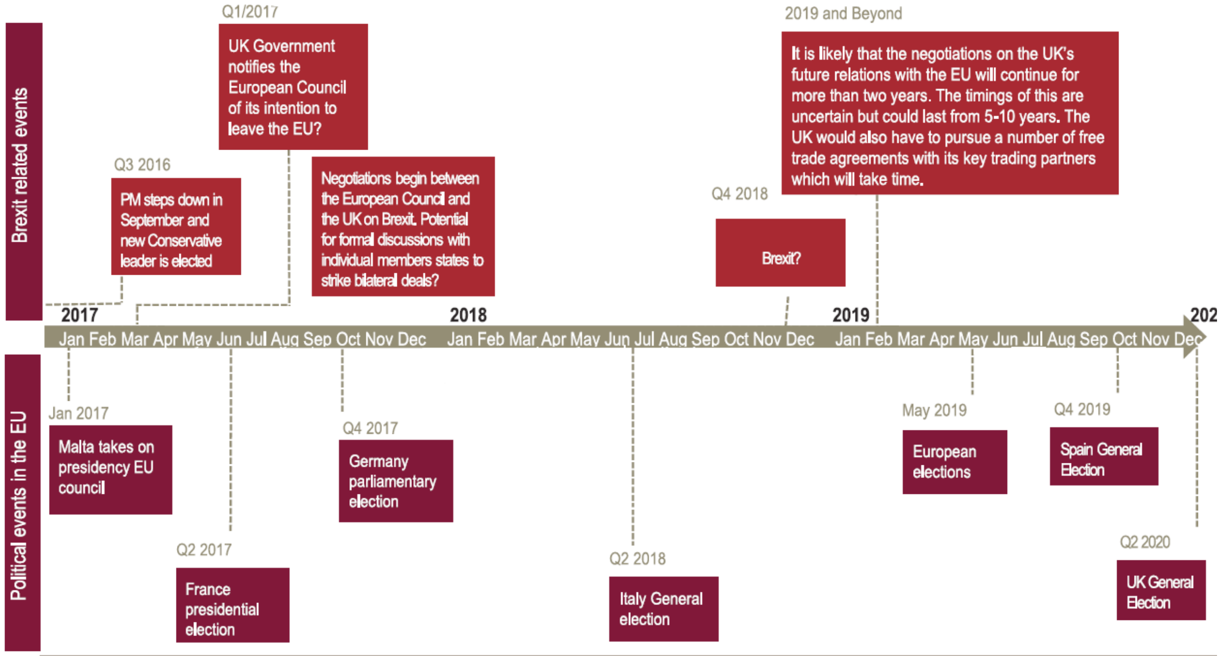
- **UK GDP fall between 5.4% and 2.7%**

5 The Turkish Model
Customs Union

- The UK and EU establish a customs union
- UK accepts the EU's external tariffs when trading with non-EU countries
- UK have no influence over these tariffs, which would not apply to the service markets

- **GDP Impact data not available**

Timeline Brexit



Key unknowns: Trade patterns – Mobility of goods, services, and labour – Policy responses

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What should you think about now?

Tax

- Brexit will undoubtedly affect **how businesses are taxed**. Different exit scenarios will affect the extent of free movement of goods, services and people.
- Many of the rules established by EU, implemented into the domestic laws of Member States for application across the EU, will no longer have effect. E.g., the zero rate of **dividend withholding tax** will not apply and UK parent companies will need to fall back on treaty rates of withholding.
- UK companies operating in the EU and vice versa will need to review their **VAT** compliance and operations.
- Trade between the UK and the EU countries will be recognized as imports and exports. **Customs duties** could add costs through the entire supply chain.

Treasury

Funding

- Higher stress on covenants and collateral requirements for funding of GBP related business.
- Sterling liquidity may become limited.

Cash management

- Some more complex liquidity management solutions should be reviewed with special attention to banks' operations in the UK and in the EU.

Foreign Exchange

- The recent unprecedent FX volatility is likely to stay or potentially increase. Additional headges might be needed.

Credit risk management

- Monitoring, valuation and careful assessment of your client portfolio and financial institutions relationships becomes the main topic.
- Credit ratings may temporarily be decreased as a result of uncertainty.

Law and legal

- Majority of EU law has already been implemented in the UK law in forms of directives and would not be affected by Brexit. EU regulations and similar forms are part of UK law as long as the UK is a member of the EU. However, once UK leaves EU, it can be expected that while some laws may not change, others will be replaced or changed to suit UK interests. PwC is closely monitoring the changes and likely impact on the business.
- The UK supports the General Data Protection Regulation (GDPR) and it is already giving effect to many of the GDPR's requirements. A departure by the UK from its progression would appear very unlikely.
- The UK would not be part of the new European unitary patent system and separate patents will continue to be required for UK and rest of Europe. In addition, EU trade marks will no longer have effect in the UK.
- UK's financial crime regime is likely to be unaffected by Brexit. Changes to the enforceability of UK judgments in EU Member States and greater complexity and uncertainty surrounding insolvency proceedings can be expected.
- Existing group structures may require review as may no longer continue to have the desired effect following Brexit.

Mobility

Social Security

- Social security position of employees coming from other EU countries to work in the UK and vice versa will be substantially changed. Costs may increase due to necessity to provide more comprehensive private medical insurance to employees, dual liabilities may arise, pension rights may be fragmented and employee benefits may suffer a negative impact.

Mobility

- Current freedom of movement rules will continue to apply until the date of a formal exit.
- Exit from the EU could mean the end of the Freedom of Movement principles. This would impact EU nationals seeking to exercise their rights to work, study, or simply move to the UK and also UK nationals wanting to move to or continue to live/work within the EU.
- Although it is widely expected that grandfathering will occur, whereby existing EU migrants would be able to continue to live and work in the UK, it is still unknown what transitional arrangements, if any, will be made.
- Employers and employees need to be aware that following an exit, any immigration requirements for EU nationals in the UK will depend on the final agreements negotiated and may include burdensome visa and work permit procedures.

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