



DINNER DEBATE

# BREXIT: EVEN MORE VOLATILITY AHEAD

hosted by

SHARON CONSTANÇON, CEO OF VALUFIN LIMITED

held on 21 June 2016

*(two days before the country voted for change)*

If you are interested in attending future dinners, please contact Valufin on [events@valufin.com](mailto:events@valufin.com)

Tel: +44 207 193 0241 / [www.valufin.com](http://www.valufin.com)

## INTRODUCTION

Sharon opened the evening, and welcomed her guests with ‘Whatever the result of the Referendum on the EU on Thursday, life will not be the same again’, (*Never a truer word said*)

The evening’s discussion focused on what is important to business, depending on the outcome of the Referendum on the EU; the guests shared their views of potential outcomes – politically, business and in relation to foreign currency volatility.

Sharon observed that it had become clear, in her years of experience, many companies outside of the FTSE 350 tend to pay limited and appropriate attention to exchange rates – even though the currency impact is critical to business solvency.

Volatility has the potential to undermine significant deals, impact cash flow, influence credit lines, change pricing, change customer relations and supply chains and therefore, directly impact a company’s bottom line.

Guests introduced themselves, their companies and their interest in the topic and agreed that learning would be shared, although no attribution would be made to specific views, organisations or people.

### SHARON’S VIEW:

EITHER WAY THE VOTE GOES,  
UK PLC AND EUROPEAN RELATIONS WILL  
NOT BE THE SAME AGAIN, POLITICALLY OR  
ECONOMICALLY



*On this evening, two days before the vote, there was an 80% majority to REMAIN.*

*By the time of publishing, events have shown that the profile around the table was not that of the country.*

***BREXIT is what the people have voted for ...***

## DINNER GUESTS

### *David Priseman – NED – Quantum Care*

David has a background in alternative forms of finance, banking and private equity. He has been engaged with companies across a range of sectors where funding was required, has been involved with a number of boards and is currently a NED with Quantum Care Homes. David previously worked in Paris and Geneva.

### *Gerhard Visagie – Director – Exceed UK Ltd*

Gerhard, a finance executive offers accounting and compliance services, and more extensively offers financial management (CFO), marketing, customer service, team retention, working processes and business building strategies.

### *Jeremy Larsson - Head of Telegraph Financial Services at Telegraph Media Group*

Jeremy heads up the Telegraph's financial services – a retail financial services brand which spans five areas, including consumer finance and currency exchange.

### *Michael Stafferton – BRRT/MS'K Financial Training*

Michael provides training in technical financial areas and has been involved in the deconstruction of financial instruments – e.g., the risk management products offered by banks – and has assessed how banks impact on forex products.

### *Valerie Amato – Stakeholder Engagement Advisor Global Renaissance*

Valerie, a former international banker, whose clients have comprised large corporates. Forex has been a recent part of her assessment portfolio, advising businesses and NGOs on how they can work together. Her interests are international unison and harmony and bringing together different working cultures to be productive through working harmoniously.

### *Paul Phillips – Fund raiser, previously with Lloyds Banking Group*

Paul noted that his specialism was the insurance market – and following his time at Lloyds, he transferred to a Toronto based company, seeing through many technical changes within the industry. He is now involved with a mortgage business and has retained his Canadian connection. He is involved in raising capital for businesses, mortgages and forex.

### *Richard Brooks – Co-founder and CEO – FD Solutions*

Richard's business employs full and part-time FDs, who generally work with new and developing businesses. He has been involved as a director in a wide range of business, and previously worked for Proctor and Gamble.

### *Sharon Constancon – CEO Valufin*

Sharon noted that – importantly – Valufin is a company offering expertise in forex – it does not act as a broker, but integrates with customers to understand their exact needs and find appropriate solutions. Valufin specialises as an independent foreign exchange management consultancy focused on supporting internationally trading businesses to manage their currency risk.



## DISCUSSION

Some of the discussion detail will not be recorded, in terms of whether guests decided 'Leave' or 'Remain'.

*The poll taken indicated that eight of the ten present were going to vote to Remain.*

The issues raised indicated that guests had considered: what would be best for the common good, the long term impact on the country of a Leave vote, and the potential and likely impacts on the UK economy.

However, most guests noted that the EU was in need of reform; however, there was no guarantee that the EU would concede to the UK's demands or accommodate its wishes if Remain won the day.

Asked what was important in terms of voting – values of trust, freedom, loyalty, long termism, security, fairer society, eradication of poverty, integrity, transparency, sustainability, shared vision, aspirational politics and policies, sharing of gifts with others, accountability, and equality resonated, along with 'don't harm others', as well as looking towards progressive taxation systems and wealth creation, were all cited.

In terms of where we are now, do these still resonate?

Two key questions were posed:

If guests were 35 years old and were asked to make a decision to go into the EU – what would the answer be?

**It was a resounding 'NO'.**

If the UK was not in the EU and guests were asked to make a decision today to go into the EU – what would the answer be?

**It was a resounding 'NO'.**

## POINTS MADE FOR REMAINING:

- curbing Russia's power;
- intellectual property – the example was given that Rolls Royce's intellectual property lies with Europe and not the UK;
- the UK economy would suffer, particularly those likely to vote out – the only winners would be solicitors and advisors
- Years of negotiation and uncertainty yet still having to abide by Europe; rather influence the required changes from within Europe
- not all of the voting population in the UK is politically or economically literate – voting trends may depend on geographical area, social mobility, education and other factors which drive personal motivation on voting choice;
- if the UK Exits, we will lose influence over the EU, risking the collapse of a major trading block;
- is Brexit too high a price for UK democracy? We will have sovereignty, but no power;
- there are many, likely unintended consequences of voting out – N Ireland, Scotland and Gibraltar – all of these may feel uncertainty/unrest. What would have been the outcome of an under-25 years vote in these regions?
- in the context of a leave vote – there is no obvious infrastructure in place – where is GB's space? Do we have a viable Plan B with the competencies to negotiate an Exit on our terms?
- migration is valued by business;
- Exit will NOT address immigration issues
- there is an economic case for Remain.

## POINTS MADE TO EXIT:

- the UK has no influence within the Commission;
- the Commission is not elected, is not democratic;
- the EU has been guilty of misrepresenting budgets, member countries' assets and there is no auditing of EU accounts and risk assessment. The tone and culture of EU needs change;
- Europe is evolving as a political elite;
- the very diversity of the EU makes it difficult to manage;
- can the EU's politicians be trusted; can they work with fundamental change or are its mechanisms too cumbersome and bureaucratic?
- The MEP 'gravity train' has contributed to maintaining the status quo – change of any kind, including societies, cultures (which vary considerably across the union) takes time and education;
- UK does not obtain value for money from its contribution to the EU;
- the EU has not taken Britain's agenda seriously;
- the EU has set up trade barriers with South Africa – more trade is needed with this fast growing country – is there an opportunity here, despite different ways of doing business, cultural norms and business values – we consume many SA goods?



## POSSIBLE EXIT RISK OUTCOMES:

- unrest in some EU countries, with calls for a similar referendum – denoting that the EU landscape could change in the future;
- the UK tends to be ambivalent about Europe – but it is not the only country to have doubts;
- UK could join forces with the Nordic countries, with which it has a more common set of values. But equally then risk the costs, not vote and no influence—in other words being worse off than we are now;
- the impact of European regulation on the financial services sector has been significant (negative), but the cost of integrating regulations with 27 nations, passporting, initial, and possible longer term, increased cost and risk to London being the largest international financial centre;
- London is global – its financial services sector has a world class international presence; but will Brexit cause people and business to move to where it is easier to do business?

## IMPLICATIONS OF EXITING THE EU

Several views were voiced, some of these are listed below.

- Exiting will cause short to medium term friction and a long term negative impact on trade and business.
- The UK's political parties are divided; whatever the outcome, these divisions will resonate into the future, but there are likely to be more immediate issues if a Leave vote occurs.
- Who will we trade with and who will invest in the UK? China was cited.
- The Brexit campaign has been short of detail; the risks of leaving are enormous and unquantifiable. Problems and potential solutions have not been presented.
- Other countries outside of the EU will be impacted by a Leave decision – and in turn their policies may impact on UK in unfavourable ways.
- Are UK's politicians and advisors sufficiently competent and willing to deal with a Leave vote – are they now able to handle this outcome without a significant re-shuffle?
- Illogical passion – such as that shown in the Scottish referendum, has demonstrated that potentially large sections of Scotland's population were driven by issues other than the economy. The drop in the oil price, for example, would have been disastrous had the country opted 'out'.



- The labour market could slow and affect businesses reliant on migrant labour – particularly for new recruits or the repatriation of existing staff – the question raised was whether businesses had been cognisant of the implications of Brexit for their staff.
- Can Article 50 be implemented – if so, what will happen? It was agreed, in relation to Brexit, that :
  - ◇ a period of judgement and deliberation would be needed on the basis of a close voting outcome
  - ◇ a discussion with the EU will be vital
  - ◇ the leadership from the PM is critical
  - ◇ a leadership battle is emerging in the Conservative party.

## WHERE IS THE FUTURE FOR THE UK?

A number of ideas were cited, one being the need for visionaries (Robert Hooke – inventor of the telescope, amongst other futuristic inventions).

Technology was cited as a key factor for growth and development and equates to a high proportion of GDP. It was felt that the best country for technology start-ups is the UK.

Linking with like minded economies – Nordic countries was suggested, re-establishing stronger links with commonwealth countries, working better and directly with the Americas were also noted.

## FOREX

The sterling has suffered more volatility in the past six months than most businesses are used to seeing and are reeling from the impact it is having on the bottom line, time and strategic business decisions.

It is recognised that the banks cannot provide a full forex service as they are not experienced at business and those involved in forex at the bank are market focused traders.

A broker market has developed to provide simpler transaction processes and in many cases improved prices. They provide an easily accessible second or third provider to ensure the company gains the best solution for all requirements.

A company must always question how the bank or broker makes money—it is only out of a transaction occurring, and a more complex instrument is more profitable. Dealers are often incentivised such that the company's best interests may not be foremost in the dealers mind.

The disintermediation of brokers – through peer to peer forex – based on a trusted party is a new alternative to using banks.

To add value to a finance director or business owner, the provider of information on the market must more importantly know about the business and what is important to them in terms of the outcome of forex decisions. It is not only about current price, it is about trends, the solution that fits the problem, margin, duration and behaviour of the instrument depending on the business and market changes.

Simply—business is generally not acquainted with the accounting, reporting and opportunity management associated with forex irrespective of risk appetite.

What instruments can they use? What are 'currency risks'?

Importers and exporters abdicate to a belief that they do not have control or influence on the markets—that may well be true, but they do have influence on the outcome or these risks on their business and customers.

No one forex decision will be right for a year or more in time, therefore no forex decision will be 100% risk proof. What is important, is:

- ◇ What risk needs protecting
- ◇ What are the business cycles
- ◇ What degree of underlying change will occur
- ◇ What does the customer need
- ◇ Where is breakeven and what is the benchmark

Then the market price, direction, liquidity and trends are considered.

Within these questions, time and interest rates are considered in conjunction to the spot rate and the choice of instrument and provider to use.

## AFTER NOTE— BREXIT IT IS ....

The following have been the outcome of the BREXIT win to exit from Europe:

- Resignation of the PM;
- Complete reshuffle of government post May being appointed as within days she was the only candidate;
- In-fighting within both mainstream political parties;
- Scotland creating greater confusion;
- No clear Plan for Brexit;
- No clarity on when to invoke Article 50;
- the seeking of a fast exit by EU ministers;
- Down rating AAA status to AA by S&P;
- Solicitors, "big four" & others on the gravy train;
- Lack of negotiators and expertise needed;
- The inevitable slide of sterling;
- Banks' losses.