



DINNER DEBATE

# BREXIT: EVEN MORE VOLATILITY AHEAD

hosted by  
SHARON CONSTANÇON, CEO OF VALUFIN LIMITED  
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If you are interested in attending future dinners, please contact  
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# INTRODUCTION



Sharon opened the evening and welcomed her guests. She noted that there was additional uncertainty in markets and for businesses in the period leading up to the UK referendum – although uncertainty was ever present.

In particular, she sought to explore how to deal with currency movements, and to focus on challenges in the context of day-to-day business.

Guests, as business owners first, will have experience of dealing with currency impacts, and Sharon sought to explore how businesses could gain from market movements – while having no control over it. In particular:

Guests introduced themselves, their companies and their interest in the topic under discussion. It was agreed that learning would be shared, but under Chatham House rules.

Within these introductions, the following emerged – guests have a wide range of experience and represent an equally wide range of business enterprises. A common element for discussion was seen to be the need to pro-actively take steps to guard against loss created by currency volatility. The impact of, and implications for, UK industry should Brexit occur, was also a central issue articulated by guests.

- What are the instrument options for forex management?
- How does forex impact internationally trading businesses?
- What are the types of risks that arise – timing, cash, cost, realised gains and realised losses?

# GUESTS



Jeff  
Watts

Jeff was involved with the music industry before investing in a South African property sales, company a business that provides property investment opportunities in SA for foreigners. He is also involved in a charity for the less privileged, wildlife conservation and importing wines from SA – Corky Screwcap.

Hans  
Karlsen

Working within the defence sector—a \$24 billion industry—Hans's expertise is aircraft components & equipment. A trusted independent advisor to the aviation and aeronautical and related industries, Hans brings entrepreneurial can do strategic thinking to customers, while using honed negotiating skills to ensure the right outcomes. Hans pulls together experts to work with him to widen the remit of solutions.

Roy  
Ruddock

Roy has been in the forex market for 30 years, 20 of which have been spent in the private sector. His specialism is the films and entertainment industry and heads Media & Entertainment at SGM Foreign Exchange Ltd, one of the London forex brokers.

Martin  
Watkins

Martin has worked in Norway in the defence industry advising the Norwegian government, Europe and the UK in the exchanges market. Martin, an Executive at Ernst and Young, specialises in fintech, infrastructure and the precious metals exchanges.

John  
McKinley

John's career spans several business areas, starting as a barrister and then moving into underwriting, defence and life science sectors. He has been involved with start-ups, is a consultant with MoD, and while running Caldwell Capital is a Chairman and NED. John has been a pioneer in a number of areas helping industries and companies engineer change and achieve strategic objectives.

Chris  
Backhouse

Chris has worked for KPMG and EY. He was an FD in an aerospace business and was involved with several entities which traded internationally. Chris joined FD Solutions which works with SMEs and entrepreneurs in relation to assessing risk, MI, and financial positioning.

Clive  
Morris

Clive is an entrepreneur who sold his first business at age 43 years. He is a co-director of a trading company and has recently spent time on income tax mitigation. The business helps small, medium and large companies execute trades. As opposed to venture capital, his approach has been to assist in the absence of bank or private equity funding. Thus he will execute orders on behalf of companies and many are still in business.

Nick  
Beecroft

Founder and CEO of HP Economics, a long successful more than 30 year forex career in the City and is currently SID of Crown Agents Bank and NED of National Bank of Egypt and until recently Chairman of SAXO Capital Markets. Nick now consults to business on forex management strategies.



Sharon  
Constançon

A forex chief dealer and forex corporate treasurer for 37 years who created the first outsourced forex consultancy company and listed it within 10 years. Today Sharon is again a forex consultant passionate about helping companies manage their risks properly.

Sharon also runs a Board Governance consultancy.

# DISCUSSION



## General issues of forex and potential support for small businesses

It was noted that SME start-ups have the highest loss ratio in the UK and risks are not identified for stakeholders. The majority of new, small businesses around the world do not need office space – their infrastructure is not conventional and is often technology led. New opportunities and approaches are needed to support them.

Deloittes have created an infrastructure to assess new companies in this context, and have experience/knowledge of the huge opportunities for risk analysis and to providing support – the start-ups normally have no idea of the scale or range of business risk. In relation to forex and trading companies, the cost of currency volatility can be high – hedging is therefore a primary factor.

Venture capital is more stable in USA – the tendency in the UK is for VCs to exit at an early stage, when their objectives are met.

There are differences in business structure across the EU – with more family businesses being a predominant model in many countries, for example.

SME start-ups encounter difficulties and bank funding is relatively scarce. UK businesses are hard pushed to afford the rates of major lenders, Morning Star will provide equity reports to assist companies with obtaining investment.

There is no single capital market in the EU – the UK is a more advanced capital funding market. It was mentioned that UK banks are no longer lending to European companies which are provided for by indigenous or other European banks.

It is sensible to deal with Europe on a 'by country' basis or a regional basis – natural areas such as the Baltic states, Scandinavia etc – this makes approaching activities manageable and culture- / business practice-centric.

Should Brexit occur, regional targeting of markets will be key. For example, lending from banks in Sweden can be more effectively sourced for small amounts of capital lending. It was noted that the ECB has no power to change the way it operates – it is not allowed unilaterally to support individual nations. Reform of EU operations was seen as vital if the Remain vote wins the day. The role of national banks was again mentioned, in terms of rate changes – but the view was expressed that they fail to pass on any profits to win customers or support existing clients.

Volatility in relation to imports and exports will be felt should Brexit occur – indeed there is currently great uncertainty.

Sterling will depreciate if UK leaves – possibly more than 10%. Most small companies work on lean margins – and will not be able to sustain such loss. However, the point was made that UK has coped with much volatility in the past in terms of market failure – volatility has a role to play – although extreme volatility is normally a result of political actions. It was suggested that, right now, Brexit could be

**It was felt generally that few small companies adopt a risk register or appreciate that key risks need to be identified**

# DISCUSSION



regarded as a 'media issue'.

A view put forward was in relation to forex losses, even if hedging makes a loss, you have preserved your budget rate – which should have been fixed. Hedging is an optimum strategy – firms tend to make mistakes if buying from volatile countries or where the currency is/has been struggling. It was noted that experience of dealing with market volatility is needed in all companies, and is not part of a learning experience– and even FDs are not normally trained in forex and currency risk management.

The CISI has launched an initiative to include financial education in the school curriculum – not just concerning personal finance, but taking a broader stance – financial management needs to be integrated to become a core subject - as much as technology and social media have become integrated in people's lives.

Ongoing training enables improvement – and this is comparable to how, for example, new technology is introduced and learned – it is a development within our society.

The point was made that new technology disregards the past – it moves on; young

Monthly reviews of budgets / costs and taking necessary and possibly multiple decisions where needed, enables a business to be better than the market - this requires diligence and forward looking at economic and geopolitical developments.

A particular issue lies in non-UK supply chains – where goods are landed in another country, but there has been failure to assess risk or to act on smart currency exchange deals (ie, where potential profit would have been pre-calculated). Such failure will almost certainly result in significant business loss.

Sharon raised the concern in the context of forex specialist guidance being needed – particularly for small businesses that understandably fear the unknown in relation to uncertainty in hedging and assessing currency impacts.

She questioned why UK businesses show a lack of desire to hedge currency exposures, and queried whether this was driven by perception of no control, low volatility or common low interest rates across different countries, such that no risk is perceived?

Many components will impact currency strategies, for example, what currency markets are your competitors in, what is your order lead time – these questions alone indicate a need to view the issue of hedging holistically, and take the right level of protection that hedging offers.

Where will businesses go in the event of Brexit?

Is the latter an impediment? If sterling is likely to drop, should importers be hedging now?

The advice, in conclusion, was—  
there is added value in managing  
currency risk as it provides  
certainty, sustainability and stability

# DISCUSSION

## Will prices rise?

Key is knowing the business' cash flow position and the degree to which hedging is possible. It is not a good strategy to be 100% hedged or 100% unhedged.

Sharon feels strongly that every business is unique and needs to assess its risks and currency actively, such that it works appropriately for the business. We all know that no decision is likely to be right for 365 days of the year; however, use of instruments or strategies can take in upside opportunities and downside risks reducing margin for cost errors.

The extent of the percentage hedged will depend on a company's degree of risk appetite and the perceived need for adjustment as currency rates change. The performance of a market cannot be outguessed, but it was suggested that available profits should be locked in profit enough, hedging can ensure you continue to trade.

The media – and the politicians feeding the media – are sending a range of messages – the question of 'what does the nation want?' has many subsets and challenges in relation to the nation's decision making. Politicians have failed to present a convincing argument either way, making arguments that fall short of fact and which lack proper information.

Is there a xenophobic reason for leaving the EU – or are there other strong factors, such as lack of accountable democracy and the stifling of free trade agreements with individual countries? What could Europe look like in, say, 10 years' time – are we thinking that far ahead? Much more is needed, in terms of good quality information, pros and cons from government - both the In and Out camps.

One point of view indicated that Europe does many good things in relation to supporting trade and businesses – negotiating en bloc is advantageous; however, we tend not to make an investment in trying to understand what Europe does or is trying to achieve. On the other hand, it was felt that there is no effort from Brussels to share knowledge.

Regulation is a significant issue.

Concern was expressed that the next generation does not understand the issues around Brexit and are likely to be concerned about isolationism; however, the different generations have different priorities.

There are myriad languages and cultures across the EU – and one guest felt there is little understanding across areas – a 'common text' is needed in relation to processes relating to business support and remedies for failing entities.

SMEs need to do business in Europe – if Brexit occurs, re-negotiations of treaties and trading agreements, as well as patents and trademarks will be needed.

The Canadian model – which has taken years to attain – was noted. However, a view debated was that the UK should have enough confidence in itself to go it alone – although it may take up to two years to agree new contracts – with the support of companies who



# DISCUSSION

## A question : As a nation, can we produce entrepre-

Three elements to mentoring students studying relevant disciplines: **Innovation / Education / Entrepreneurship**

The latter was felt to emanate from one's own personal ambition and drive. Work experience – i.e. working for someone else, supports individual drive – and increases the likelihood of an individual, in turn, becoming a good employer.

Fundamentally, though, personal desire, need and other factors will enable success – whatever an individual's background. It was suggested that entrepreneurs should employ around six people who are 'better than you' to enable and manage innovation and business flow. Competence is key, whatever the underlying qualifications of individuals. One view expressed was that the EU suppresses us – the UK is good at supporting entrepreneurs.

## A Forex example : Can we afford to remain ignorant?

The Aerospace industry is constantly expanding, along with global technology developments – the context is one of continuous change and intense competition. Financial transactions across continents are commonplace and of significant order and denominated in USD even within businesses based in the UK.

The weakening of the Euro has provided opportunities for competitiveness, and UK is well placed in this sector to be competitive. A counter though would be a weakening in the sterling (an outcome expected of an Exit vote) which would create imported inflation and a high cost doing business and risks due to IP country of registration.

