SHUTTERSTOCK

Initial thoughts for corporate treasurers in the wake of the UK referendum result

The events of 23 June clearly surprised some more than others – and, as we all know, the one thing that markets hate is surprises… and this isn't a UK-only issue.

It is clear that it will take some considerable time for the political process and EU negotiations to be completed (or even provide any degree of clarity). But in the meantime, the wheels of the real economy must continue to turn, and so management teams – including treasurers – need to start planning and finding solutions as soon as possible.

From a treasurer's perspective, this stage of the process is all about planning, communication and disclosure. This is not the time for the treasurer to hide themselves away – they need to be involved in every Brexit conversation and party to all decisions. And they need to be looking both inwards and externally.

There is the internal angle: it is vitally important that the treasury team is fully embedded into the business, not only to provide support to those businesses that are having to adjust their strategic plans, but also to ensure that any planning includes the impact on financial risk and funding. For example, if the decision is made to restructure or relocate, this may have an impact on foreign currency exposures and local borrowing requirements. Given the high degree of uncertainty, chances are there'll be more than one plan, too… More prosaically, treasurers also need to revisit treasury policies and ensure that they still 'work' in the post-Brexit world and are being adhered to.

Then there is the external angle: strong and effective relationships with debt investors and relationship banks (the sources of finance and hedging) are critical. The high volatility in FX and interest-rate markets that has been present for several months is unlikely to fall in the short term and so, not only do treasurers need to manage their exposures carefully, they need to be able to explain to investors and other stakeholders the impact of this volatility on the financials.

So, initial thoughts for a treasurer might be:

- Sit down with the FD and management team, and understand the big picture internally. Consider carefully what disclosures are made to the markets;
- Talk to relationship banks, lenders and debt investors, and understand what they are thinking and what their worries are; and
- Talk to their legal advisers, particularly about continuity of contracts and covenant compliance.

Of course, all this talk of Brexit overlooks a few 'minor' points: even before the referendum there were building pressures from low (or even negative) interest rates; slowing growth in many parts of the world (not just the mature Western economies); changes in accounting rules and other regulation that will result in the grossing up of the balance sheet with the resulting impact on financial covenants, credit ratings, etc; increased bank regulation feeding through to the real economy; growing political instability – not just emanating from the Middle East, but also from the forthcoming US elections. As for the strains that were beginning to show in the eurozone, these have not been helped by the vote on 23 June.

To summarise, we are now in the Brexit planning phase – and need to be prepared to make many plans, safe in the knowledge that none of them will quite fit the bill when the time comes. But treasurers are excellent problem-solvers, so should relish the opportunity to really get stuck in.

The ACT published a number of articles and guides in the weeks leading up to the referendum and will continue to provide resources and support to our members and the wider financial community. These resources can be found at **www.treasurers.org/brexit**

Sarah Boyce is associate director in the ACT's policy and technical team

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