The Q1 Newsletter for 2020 focuses on the following matters: the business environment, technology trends and the transition period for Brexit.

Business leaders today face a very challenging business environment marked by significant change, emerging technology trends, competition, uncertainty — and opportunity. Although many organizations find it hard to accelerate through the kinds of disruptions and mixed signals they face, research shows that there are ways to position the business to drive through disruption and come out ahead, but it takes concerted action and preparation.

The specter of Brexit and tighter data privacy regulations hasn't kept venture-capital firms from pouring cash into U.K. based artificial-intelligence start-ups, which saw total investments surge 23% in 2019 from 2018.

U.K.-based artificial-intelligence start-ups last year received a record-high $3.2 billion from venture-capital investors, who appeared undeterred by swirling political and economic uncertainties. According to a joint study by research-firm Dealroom and Tech Nation, an advocacy group for tech entrepreneurs, the upswing in funding went to start-ups developing algorithms to predict climate change, detect anomalies in email and discover new drugs, among other areas. Together, these AI start-ups took in more cash than similar ventures based in Germany and France, which raised $1.2 billion and $1.4 billion, respectively, researchers said. Among all U.K.-based start-ups, AI-powered drug discovery company Benevolent AI had one of the year's largest funding rounds, securing $90 million from Singapore state investment firm Temasek Holdings. Contract Pod AI, a contract-management software maker, raised $55 million from Insight Partners and other investors.

Tessian Ltd., a seven-year-old AI-based email security start-up, last year raised $42 million from Sequoia Capital and other investors, bringing its total funding to $60 million.

When the UK left the EU at the end of January 2020 it entered a transition period, with obligations and benefits of EU membership continuing to apply until at least the end of 2020. Such obligations and benefits being covered by the Withdrawal Agreement agreed by the UK and the EU in October 2019. After that date the outcome will depend on the progress of negotiations during the transition period and so far these negotiations are looking very tough and a "hard Brexit" style outcome is looking more and more likely.

Businesses will need to consider the potential "cliff edge" risks of regulatory changes and border checks at the end of the transition period, when the UK stops being treated as a member of the customs union and single market.

The transition period (or implementation period) is provided for by Part 4 of the Withdrawal Agreement. Unless extended, as discussed below, it applies from when the agreement came into force until 31 December 2020. It operates as a "standstill" period: the UK will have left the EU but for most purposes will continue to be treated as if it were a member of the EU. The main exception is that the UK will not have representation or voting rights in EU decision making and institutional processes. For example, it will no longer have MEPs sitting in the European Parliament.

The UK will still be treated as a member of the EU single market and customs union. EU law (including as it is applied by member states, and decisions of EU institutions and agencies) will continue to apply to the UK and businesses and individuals can continue to operate, work and travel between the EU and the UK just as before exit. The UK will be subject to new EU laws that come into force and apply during the transition period.

The UK will continue to be bound by the EU's international agreements and the EU will notify other parties to such agreements that the UK is to be treated as a member state for the purposes of those agreements during the transition period.

The transition period means that there will generally be no immediate practical changes, but the UK's exit from the EU may have some consequences that need action by businesses. For example:

- Although the Withdrawal Agreement and the Withdrawal Agreement Bill (WAB) mean that UK legislation is to be read as though the UK was still a member of the EU during the transition period, this does not apply to private contractual arrangements. Businesses may need to check their contracts and other documents in case references to, for example, the EU or EEA need to be changed to clarify that the UK is still in scope, where relevant.
- Businesses may wish to communicate with employees and other stakeholders to ensure they are clear about the impact of the transition period.
- Businesses will need to consider their plans for the next stages of the Brexit process. They should be mindful of "cliff edge" risks at the end of the transition period and ensure they retain any elements of no deal planning that may be needed in the future.
- They may also want to start engaging with governments concerning the impact of potential future trade negotiations and/or regulatory change on them and their sectors.

The Withdrawal Agreement allows the transition period to be extended by the Joint Committee (representing both the EU and the UK) established under the Withdrawal Agreement. Any decision of the Joint Committee to extend must be made before 1 July 2020. An extension can only be made once and can be for a period of one or two years, to the end of 2021 or 2022. During any extension, for the EU's budget purposes, the UK will be treated as a third country, not an EU member state, and will have to negotiate the contributions it makes to the EU in return for benefits.

As a matter of UK law, an international agreement such as the Withdrawal Agreement does not apply unless it is incorporated by legislation into UK law. The WAB does this by amending the European Union (Withdrawal) Act 2018 (the 2018 Act), which was passed to prepare for the UK's exit from the EU on the basis of a "no deal" outcome.

The 2018 Act repeals the European Communities Act 1972 (the 1972 Act), which has given effect to EU law in the UK since the UK joined the EU, but the WAB keeps the 1972 Act alive for the duration of the transition period.

Referred to as the "Implementation period" by the UK government and UK regulators, the transition period is a period of time being used to bridge the gap between the UK's withdrawal from the EU and the date on which agreement regarding the future relationship between the UK and the EU enters into force (or the UK's future relationship under a "no deal" scenario commences). Before 1st July 2020, the joint UK-EU committee, which was established under the WAB may adopt a decision to extend the transition period for up to two years. While possible, such an extension is unlikely given the UK government's stated policy to not seek an extension.

During the transition period EU law continues to be applicable to and in the UK; EU institutions, bodies, offices and agencies retain the powers conferred upon them by EU law in relation to the UK and natural and legal persons residing or established in the UK; and
The Court of Justice of the EU (ECJ) retains jurisdiction as provided for in the Treaties.

The UK will continue to be treated as part of the EU's single market in financial services meaning that access to EU/UK markets will continue on current terms and that businesses, including financial services firms, will be able to trade on the same terms and with the same rights and protections as before the withdrawal until 31 December, 2020.

New and directly applicable EU legislation (i.e., EU regulations) that comes into effect during the transition period will apply directly in the UK and to UK firms. Where EU directives, which are not self-implementing and need to be transposed into national laws, take effect during the transition period, the UK government and regulators will work to implement those EU directives as if the UK were still an EU member state.

Passporting rights will continue to apply during the transition period, meaning that UK firms accessing EU markets, and EU firms accessing UK markets, can continue to rely on passporting rights just as they did prior to 31 January 2020.

The FCA has indicated that the UK Temporary Permissions Regime (TPR) will now take effect at the end of the transition period. The window for firms and fund managers to notify the FCA that they want to use the TPR is closed but the FCA plans to re-open the notification window later in 2020, which will allow additional notifications to be made by firms and fund managers before the end of the transition period. The FCA has indicated that there will also be an opportunity for fund managers to update their previously submitted notifications, if necessary.

The UK and EU are working to conclude a free trade agreement (FTA) covering financial services (along with other areas) before 31 December 2020. If the EU and the UK are unable to reach an agreement on financial services by 11 p.m. on 31 December 2020, then the issues facing financial services firms are the same as those faced on a "no-deal" Brexit.