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# opinion

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The effects of the worryingly weak dollar is generating frenzied activity among US firms in London. The critical issue to be addressed by management is whether to act now (and, if so, what measures to take), or do nothing in the hope that the problem will go away when the exchange rate reverts to an acceptable level.

Doing nothing on the basis of the US 'one firm approach' is only possible if there is no step change in the dollar rate (and it is too soon to know whether this will be the case). Should the dollar-sterling exchange rate settle around 2:1 rather than the recent levels of 1.6:1 or better, then most UK partners will be on a rather different deal than the one they had bargained on – namely, a long-term 20-25 per cent cut in income. They have a cost and a risk which US partners are not taking. Looking forward, the exchange rate volatility issue is likely to be on the minds of UK partners considering a move to a US firm. This means it may be harder, not to mention more expensive, for US firms to attract the top people.

Many US firms are sufficiently well established in London (and sufficiently profitable) that they can probably afford to do nothing, at least for some time yet. Those that are not best enamoured by their London partners (usually because they have been less than busy over the last year) find their hard-nosed stance easy to maintain.

Other US firms are talking of taking measures to both protect their UK partners and incentivise UK partners to join their London offices. Hedge funds are one method, although many partners may prefer not to gamble with their own livelihoods and feel that any hedging measures would be rather too late in the day. Other partners would not consider moving to a US firm unless it put in a hedge when negotiating the deal. Only a small handful of firms are considering giving guaranteed bonuses to make up for the dilution of income.

Equally significant for the US firms is the issue of associate pay. If associates in London are paid a fixed sterling rate, then not only are London costs increasing rapidly in dollar terms, but the UK associates may also be paid considerably more than their US counterparts who are being paid in dollars.

Conversely, for those whose pay rate has been set at a dollar amount (even if then converted into sterling) there has been a substantial erosion in their pay rate, often dissipating the usual difference between associate pay at US and UK (or international) firms.

The dollar slide has also raised in some people's minds the thorny topic of charge-out rates. Should the US firms bill in dollars, sterling or euros (or a combination)? Those billing in dollars have experienced an erosion of the sterling value of their bills. Those with different fixed sterling or dollar charge-out rates can end up billing substantially different amounts for the same work. This, though, can add complexity and annoy the client.

A handful of firms, such as LeBoeuf Lamb Greene & MaRae, have avoided these problems altogether by having partners' (and associates') compensation paid and set in sterling. There seems to be a clear divide between firms that consider this a serious issue and those (typically firms that have been in London the longest) that regard it as a non-issue. Differential charge-out rates in London and across Europe are accepted features of the European legal landscape.

With partners in the US, Far East, Europe and the UK, some partners within the large global firms have always been facing a currency risk. However, the speed of the decline in the dollar has taken many by surprise. Those US firms here for the long haul (and those concentrating on maintaining overall profitability) can probably just ignore the hubbub and wait for the new status quo to be established. However, if the dollar-sterling exchange rate reaches 2.5:1, US firms may mysteriously start to lose their appeal.