

UK Votes to Leave the EU

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International

The UK has voted to leave the European Union in an advisory referendum. 52% leave - 48% remain.

Were the UK to leave the EU, this would have significant implications for the UK and for international businesses operating in the UK. The longer term impact of the decision on the regulatory framework for the UK will depend, in part, on the relationship that the UK seeks with the EU in the future. That will not become clear for some time as it will likely take at least two years for the UK to negotiate an exit from the EU.

Covington has formed a Brexit Task Force staffed by senior lawyers and advisors linking its offices in London, Brussels and Washington to monitor events and to keep clients apprised of legal, regulatory and policy developments. We will send you regular updates over the coming days and beyond to explain what this result means for your business operations in Europe and/or your trading relationships with the UK.

What Happens Next?

Technically, the referendum result is advisory only, but the UK Government is expected to accept it and to start the process to leave the EU—the first time that an EU member state has done so.

To do this, the UK must issue formal notice to leave in accordance with the [Treaty on European Union \(Article 50\)](#). This begins a two year period for the UK to set out the arrangements for its withdrawal and negotiate its future relationship with the EU. It appears unlikely that the UK will initiate the formal procedure until a new Prime Minister takes office, which is expected to happen before October.

While EU ministers and commissioners will meet over the next few days, there is unlikely to be a substantive reaction from Europe's leaders until after next Tuesday's summit in Brussels.

What Will Be the Impact on Different Areas of Law and Regulation?

The UK's withdrawal from the EU is likely to have a significant impact on many areas of law and regulation, although much will depend on the precise trading arrangement that the UK and EU negotiate. We expect key areas of focus to include:

- **Life Sciences Regulation:** There may be serious implications for clinical trial authorizations, marketing authorizations, regulatory procedures (particularly for the mutual recognition, decentralized and centralized procedures) and the manufacturing of pharmaceuticals in the UK. There may also be significant implications for CE marking of medical devices.

- Financial Services Regulation—impact on regulated firms: The vote brings into doubt the passporting system for financial services and the CRD IV framework as it applies to the UK, which allows non-European firms that are registered in at least one EU country to operate in all other member countries. The five largest US banks currently employ 40,000 people in London and if they lose “passporting rights” those banks are likely to relocate their European operations. There will also be serious implications for derivatives and for EU-focused funds. The benefits of MiFID and EMIR could also be lost.
- Litigation: We anticipate an increase in contractual cases as litigants claim frustration or invoke “force majeure” and material adverse change clauses, due to anticipated changes in the economic environment. There will also be issues relating to jurisdiction and recognition of judgments, which is currently governed by the Recast Brussels Regulation.
- Competition Law: It is likely that there will be dual investigations for conduct cases and merger notifications, with separate filings with the European Commission and the UK Competition and Markets Authority.
- Data Protection: The UK is expected to retain data protection laws that are broadly aligned with EU standards in order to enable personal data to flow freely to and from the EU. The UK may need to negotiate a new data flow agreement (similar to the proposed EU-U.S. Privacy Shield).
- International Trade Agreements: The UK’s WTO membership is currently intertwined with that of the EU. In addition to the new bilateral relationship between the UK and the EU, the UK would need to renegotiate market access and tariff agreements with other countries with whom the EU has a current trade deal that it wishes to replicate.

Our team will be following all of the above closely and is standing by to answer your questions. Please contact any of the lawyers listed below, who are leading our Brexit team.

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