STUDIO LEGALE DELFINO E ASSOCIATI
WILLKIE FARR & GALLAGHER LLP

MEMORANDUM

TO:	CLIENTS AND FRIENDS OF THE FIRM
FROM:	Maurizio Delfino Martin Pugsley Massimo Chiais
RE:	**BREXIT - BRITAIN VOTES TO LEAVE UK - IMPACT ON ITALIAN-UK BUSINESS**
DATED:	July 1, 2016

The Vote

On 23 June the British electorate voted on the question of whether or not to remain a member of the European Union ("EU"). The result of the vote was for the United Kingdom to leave the EU, the so-called "Brexit". At present the result of the vote has more political significance than direct legal significance and, for the time being, the UK remains in the EU and enjoys all the benefits and is subject to all the burdens of membership.

The immediate next steps are also largely going to be driven by politics rather than any defined legal road map. They will be subject to a number of key dependencies, including the reaction of the other leaders of the larger EU member states and, closer to home, the Scottish Government. However, it is fair to assume that as part of this the process of withdrawal will begin. But what "withdrawal" actually means has yet to be determined. It was a feature of the referendum campaign that advocates of "leave" did not spell out a particular model for a post Brexit relationship with the EU.

This note does not set out the range of potential alternative outcomes as there has been a great deal written about this and further detail can be provided if required.

In the meantime this note is to alert clients and friends of the Firm to the outcome of the vote and that we are on standby to respond to their queries as to any questions they have as to the implications for them. The note focuses primarily on the impact for financial services as the UK is a key centre for this globally, and on the possible short-term impact on Italian-UK trade.

It is clear that it will be an extremely complex and probably lengthy process which we anticipate could affect every aspect of conducting business in and into the UK. It must be emphasized that this vote is the start of what will now be a very uncertain period.

Message for clients

For the time being clients can continue business as now (albeit with heightened political and financial risk). However clients will need to consider whether they should plan to make changes to their UK and European operations once we have more clarity as to the UK's ongoing relationship with the EU. Clients should consider a contract review to ensure that Brexit has not triggered "events of default", "change of law" or "material adverse effect" provisions. We can keep clients informed and advise accordingly.

Immediate financial market consequences

We expect at least in the short term the high levels of market volatility in both the currency and securities markets to continue in the short term. The Bank of England and other central banks are expected to ensure that banks and other significant financial institutions maintain sufficient liquidity during this period of uncertainty. The Bank of England has said it has undertaken extensive contingency planning to protect the financial system and the economy. Many businesses have entered into hedging arrangements prior to the vote to limit their exposures to currency risk or to other exposures in shares and bonds.

Timing and process of withdrawal from the EU

Domestically, the move to exit the EU will require primary legislation to be passed in the UK in the usual way by both houses of parliament, including the amendment or repeal of the original legislation that paved the way to membership, the European Communities Act 1972.

With regard to the EU, Article 50 of the Treaty on European Union (the "Treaty") requires any member state to notify the European Council of its intention to leave. The Treaty is not prescriptive about how and when such a notice is to be given, so the most likely scenario is that before anything is done there will as a minimum be a series of summits between EU leaders and the President of the European Council before any formal step would be taken under Article 50.

To date, there has been no political consensus within the UK as to when formal notice of withdrawal should be given. It is unlikely that the withdrawal negotiations will begin until a new conservative leader and future Prime Minister is in place, which is expected to be in October.

In any case, the giving of a notice under Article 50 will not give rise to an immediate exit, but it is merely the start of a two-year negotiation period. During this period the members of the EU are required to "negotiate and conclude an agreement with [the UK], setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union". The agreement would require a qualified majority of member states to vote in favour (excluding the UK itself) after obtaining the consent of the European Parliament.

The agreement would come into force on the date contemplated by the agreement. Failing any such agreement, exit would occur two years from the date the formal notice to withdraw was given by the UK. Given the complexity of the exit negotiations it is fair to say that the UK would remain in the EU for a bare minimum period of two years. During this period, the laws and other aspects of the UK's membership of the EU will continue unchanged.

Following exit from membership of the EU there will be a complex process of disentangling UK legislation from EU laws and filling in the gaps of legislation.

Impact for financial services institutions

The impact of Brexit will need to be assessed for any impact on financial services firms operating in the UK or providing financial services into the UK. The nature and extent of the impact can not be fully assessed until it is clear what the future relationship is between the UK and EU is to be.

A number of EU directives allow financial services firms established in one member state to conduct business in any other member state without additional authorisation or licensing requirements in the host member state either through a branch or cross border. This is known as "passporting" and many large financial institutions have established UK subsidiaries to allow them to operate as a European hub for their European business.

Passporting applies to banking, investment services and insurance business. Passporting also applies to the marketing of collective investment schemes such as UCITS and to alternative investment funds such as hedge funds and private equity funds.

The loss of passporting rights will be significant for firms currently relying on them and may lead to firms changing their business model in the EU.

Depending on the nature of the exit clients will wish to consider how in the future they wish to provide services to their clients across the EU. This may include setting up subsidiaries in remaining EU jurisdictions to obtain the passport and moving existing UK operations. Firms currently established in other EU jurisdictions providing services on the basis of a passport into the UK will also need to consider how they access the UK market in the future.

Fund managers in the UK who currently rely on a passport to market their products across the EU may need to rely on the private placement regime in the future, in the same way that non-EU managers do currently.

In addition there are European rules which ease capital raising by firms throughout the EU as they include mutual recognition of prospectuses and announcements. Although the choice of where to list takes account of many factors such as access to potential investors, liquidity etc, relevant regulation and its recognition is a factor taken into account by potential issuers. It will be important for the UK to ensure any UK legislation in this area is equivalent to EU legislation which should ensure other member states recognize prospectuses for example drawn up in the UK.

Impact on Italian-UK trade

There are likely to be immediate effects of the referendum result on "business as usual" as well as wider short to medium-term effects. The immediate effects will likely include:

- Currency volatility. Sterling had a mild rally in the days leading up to the referendum based on the market's view that the vote would be to remain. With the "leave" vote, that rally was reversed and we have already seen sterling lose value. How far it will fall is impossible to say, but for Italian or UK businesses trading in euro or sterling, currency volatility is likely to continue, also linked to political developments (particularly the leadership race for the next leader of the Conservative party and, by default, the UK's next Prime Minister).

- Allied to this, market instability and severe fluctuations in the value of UK equities are likely to continue whilst markets absorb the implications of the referendum result. Although FTSE 100 stocks appear to have rallied in recent days to pre-vote levels, these stocks are typically of international companies and less representative of the UK economy. The FTSE 250 is a more representative indication of UK stocks – expect continued volatility.

- If the UK goes into recession – as the Bank of England has predicted - consumers may defer product purchases pending more certain information and this will have a knock-on effect for Anglo-Italian trade.

- The UK regulatory authorities are likely to be under extreme pressure given the weight of the issues they need to face. For business carrying out regulated activities, all regulatory business-as-usual activity could be severely delayed.

- Businesses should consider reviewing their contractual arrangements to ensure that no "illegality", "change of law" or "material adverse effect" provisions are triggered by the Brexit vote.

Planning for Brexit

Financial services firms will want to review their current business model and operational structure in Europe and in particular consider the following:

- What services does the firm currently offer in the EU, does it have a branch or subsidiary in the UK or elsewhere in Europe, does it currently rely on passporting for any of its services or products, does it rely on capital raising ability throughout Europe.

- How will the firm want to provide services post Brexit, will it need to amend its legal and business structures for example by subsidiarising, merging or taking over another regulated firm to ensure it can passport.

- Provision of services which rely on the UK legislation being deemed equivalent by the EU will need to consider whether this will be the case in the future or whether UK laws will start to diverge from EU legislation.

- Firms would need to carry out an analysis of regulations applying in different member states where a passport can not be relied on, prior to conducting business in that member state.

- Branches in EU member states of UK headquartered firms will in the future no longer be a branch of an EU firm and will become subject to additional local regulation.

- Setting up new entities in an alternative EU member state from the UK will entail significant costs and lead times. Changing from an existing branch to a subsidiary in such a member state may be a useful alternative.

- Manufacturers of funds will need to consider where the fund and its managers are registered where the fund has EU based clients. Firms may wish to consider whether delegation of functions to an EU based manager could be helpful.

- Asset managers and private equity funds will want to consider the impact of Brexit on their portfolio companies and investments.

As a general point for new transactions, we will expect to see implications for documentation as people factor in potential changes in law, changes to standard definitions which currently refer to EU legislation, amendment to risk factors in PPMs and other offer documents and so on.

Other implications for all companies operating in the UK

All businesses in the UK will be watching other developments including in respect of:

- Tax

- Immigration and employment

- Competition and anti-trust

Willkie contacts for Brexit questions

We expect that any client currently with operations in the UK or with plans to invest in the UK, and those clients with Italian-UK operations, will have questions as to the implications for their business and strategy going forward. They will need advice and help as they consider their options.

Although it will not be clear for some time what the ongoing relationship of the UK will be with the EU, clients will want to start planning for the potential consequences for them of different potential outcomes of negotiations with the EU and indeed trade negotiations that will need to be undertaken globally.

Please refer to any of the following to discuss this:

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