

## Feature

# US Law Firms Eye Brexit Windfall As Uncertainty Swirls

By **Natalie Rodriguez**

Law360, New York (May 3, 2016, 2:24 PM EDT) -- U.S. law firms operating in the U.K. are sizing up new opportunities should Britons vote to exit the European Union, a historic step that could shake the country's regulatory framework to its roots.

A vote to leave the EU in the country's June 23 national referendum could have a profound impact on U.K. regulatory architecture, which is largely set by EU institutions. But it also could mean big changes for big U.S. law firms, whose branch offices in the U.K. have joined in preparing for the various scenarios if Britain pulled out of the EU's legal sphere.

"For all parts of the legal sector there will be uncertainty — the effect on the legal sector ultimately depends on the impact on clients," said Susan Bright, regional managing partner for the U.K. and Africa at Hogan Lovells LLP.

Nearly 100 U.S. law firms currently operate in Britain, according to Chambers data. The top echelon of U.S. and international law firms operating in the U.K. last year generated \$3.8 billion in annual revenue — a 13 percent increase from 2013 and accounting for nearly an eighth of the £20.5 billion (\$29.8 billion) in revenue generated by the top 200 firms operating in the U.K., according to data released in the fall by The Lawyer.

The impending vote has clouded the future of financial regulation in London, Europe's capital for banking and legal services. Law firms are considering how to maintain an EU base if U.K.-based financial and legal services lose open access to EU markets. On the plus side, some lawyers see a likely jump in demand for contractual, intellectual property and immigration law work that would likely result from Britain exit.

Much depends on how Britain renegotiates its post-exit relationship with the EU.

For example, the U.K. may seek membership in the European Economic Area alongside Iceland, Liechtenstein and Norway or it may seek to negotiate a bilateral free trade arrangement similar to Switzerland's pact with the EU, noted a recent Clifford Chance report. These and other alternative relationships with the EU would have different degrees of regulatory and access rules, contributing to the uncertainty for businesses following a 'leave' victory.

Baker & McKenzie, which has more than 400 legal professionals in the U.K., believes the implications of a withdrawal on law firms will depend on how exactly the U.K. relationship with the EU will be structured.

"Even if the U.K. leaves the EU, U.K. companies will still have to comply with EU laws when doing business in the EU. What is less clear is the extent to which U.K. companies will have to obey those laws when operating outside of the EU and the degree of influence the U.K. will have in shaping those laws," Baker & McKenzie said in an email interview. The firm said it has created a Brexit Working Group with clients to weigh, the legal and commercial implications of the UK's potential withdrawal from the EU.

London's standing as Europe's top financial center likely won't be immediately challenged after a break-up vote — particularly as there would be two-year period in which terms of the divorce will be negotiated.

"My take is that London is an important money center and will continue to be. I don't think that is going to change any time soon. Firms that are performing with strength there will continue to perform with strength there," said Kent Zimmermann, a consultant at Zeughauser Group.

One possible consequence of a Brexit would be spurring some major law firms, which invested in London or U.K offices as an "entrée" into Europe, to speed up plans to grow elsewhere in the EU, noted Chris Ryan, managing director of the law firm advisory practice for consulting firm HBR. Those next steps "are probably consistent with an original business plan, Brexit or not, of expanding into other European jurisdictions.

But if the U.K. breaks off from the union, firms looking to maintain a presence in the EU will likely want to have a strong base in one of the other EU countries, experts say. "You probably want to be pretty strategic in choosing where you go," Ryan said.

Other European jurisdictions recently have been luring U.S. law firms with existing London offices that have been looking to expand for various strategic reasons. These include both Reed Smith LLP and Goodwin Procter LLP, which last year both opened new offices in Frankfurt, Germany.

"I think Germany will continue to be important to the extent its economy continues to do well. Law is a follow-the-money profession. Where the money is will likely continue to be most important to law firm strategy in Europe, separate from any Brexit, if it happens," Zimmermann said.

Brussels, the EU's administrative capital, is emerging as another growth area for BigLaw. Hogan Lovells has seen some uptick in work there related to Britain's possible departure. "Our international financial regulatory team and our international trade team in Brussels have been particularly engaged on Brexit issues, including assessing the implications of the range of potential 'out' scenarios which might be negotiated post-Brexit," noted Bright.

Another potential EU haven is Dublin, which has already been attractive to U.S. firms for its well-educated English-speaking workforce, low corporate tax structure and friendly environment. Ireland's capital could become a new EU hub if Brexit were to happen, said Ryan. Though, again, this will depend on how the terms of the breakup affect London's standing as a financial hub.

To date, most U.S. firms have never needed to head into the small and competitive legal landscape of Dublin because London is the more attractive economic hub and the two are so close together that lawyers based in London can serve Irish companies.

"Also, Ireland and U.K. economies and political landscape are closely tied together, so they would likely be dealing with some challenges if the U.K. left the EU," said Ryan, noting free trade challenges and growth issues coming out of a recession.

More than office logistics, however, law firms are carefully weighing how best to invest resources into certain practice areas to deal with the potential legal issues that would arise out of a 'Brexit', shorthand for Britain exiting the EU.

Already, some U.S. firms currently operating in the U.K. are starting to feel the first few tremors of what a Brexit could mean for the legal community and it is not affecting all practice areas the same, experts note.

“We are already seeing an impact as a business, with increased demand in some areas and reduced demand in others. Some clients are seeking advice on the potential legal implications for their own business of Brexit to assist with assessing any steps they would be taking now, as well as contingency planning,” Bright said. “Some clients are choosing to delay work on deals until after the referendum.”

The uncertainty, volatility and economic impact of a Brexit would likely suppress M&A and investment activity — or divert it to other regions — in the short and medium term of a Brexit, noted Bright.

“Uncertainty is going to breed a slowdown in activity and there is a risk that London, being one of the major financial centers of Europe, is going to start to lose its influence and I think that is going to have a negative impact ... in terms of U.S. investment into the U.K.,” said Roger Barton, managing partner of U.S. law firm Barton LLP, which deals with significant cross-border work into London.

But there would also be new opportunities in advising clients on potential changes to their regulatory environments and implementing changes to their operational structure, experts noted.

Britain’s departure from the EU will almost certainly mean that it would no longer participate in the EU’s trademark system, and brand owners across continental Europe will have to seek new protections to adjust to this, said Jed Ferdinand, senior managing partner at Ferdinand IP.

“This could lead to more work. As with most practice areas, change and new regulations can be good for business. We could definitely envision a substantial increase in the number of new national trademark applications filed by U.K. law firms for both U.K. brand owners and European brand owners seeking to gain protection in the U.K.,” Ferdinand said.

There also are questions as to how a Brexit will impact the U.K.’s adherence to EU privacy laws, noted Kristopher Wasserman, vice president of client solutions at e-discovery service provider eQ. If Britain adds their own independent data protection laws that differ from the EU or U.S. models, it will only add to an already complex patchwork of laws confronting multinational companies.

All of those questions translate into big business for law firms, according to Peter Zeughouser, principal of consultancy Zeughouser Group LLC.

“I would expect a significant influx of demand for services as countries re-gear their regulatory and statutory frameworks and treaties with Great Britain if Brexit occurs.”