



**Regulatory developments
in January and February 2018**

Key regulatory developments
during the January and February 2018

EU **EIOPA** **EIOPA [highlighted](#) key financial stability risks**

EIOPA highlighted key financial stability risks, identifying the prolonged low yield environment and low market volatility, coupled with high levels of economic and political uncertainty, as key challenges for European insurers. It noted that the insurance sector is adapting its investment strategies and business models, in response to the ongoing macroeconomic environment and technological challenges. EIOPA also noticed an increase in unit-linked business over the last year and called for further scrutiny from supervisors, as this trend shifts more risks to policyholders.

EU **EIOPA** **EIOPA [called](#) for consistent supervisory practices on internal models**

EIOPA called for supervisors to ensure that firms using internal models with a Dynamic Volatility Adjustment (DVA) demonstrate that their Solvency Capital Requirement (SCR) is at least as high as if replicating the EIOPA Volatility Adjustment Methodology. Supervisors should also ensure that all tests and standards on internal models are applied and no undesirable risk management incentives are allowed.

EU **EIOPA** **EIOPA [published](#) its annual analysis on the use of Long-Term Guarantees measures (LTG) and measures on Equity Risk**

EIOPA found that, similarly to 2016, most LTG and Equity Risk measures, and in particular, the volatility adjustment and the transitional measure on technical provisions, are widely used. EIOPA calculated that the Solvency Capital Requirement ratio of undertakings using these voluntary measures is 217% and would drop to 148% should their use be discontinued, which confirms their importance for the financial position of (re)insurance undertakings.

EU **EC** **EC [proposed](#) to delay the application date for IDD to October 2018**

The EC adopted a legislative proposal delaying the application date of the Insurance Distribution Directive (IDD) until 1 October 2018 to allow firms more time to prepare. This follows a request by the European Parliament and 16 Member States. However, Member States are still required to transpose IDD into national law by the original date, 23 February 2017.

EU **EC** **European Commission [proposed](#) more proportionate and risk-sensitive rules for smaller investment firms**

The EU Commission proposed a two-track overhaul to prudential rules for smaller investment firms, as part of its Capital Markets Union agenda. Under the proposal, the vast majority of investment firms would be subject to simpler and less burdensome prudential rules. At the same time, the largest and most systemic investment firms would be supervised as if they were banks, thus bringing systemic investment firms located within Banking Union member states under ECB supervision.

EU **EBA** **EBA [published](#) an opinion on the transition from PSD1 to PSD2**

The EBA clarified a number of issues identified by market participants and competent authorities. In particular, the EBA's opinion aims to provide some additional clarity on the interpretation of PSD2, especially in the transitional period until the Regulatory Technical Standards on Strong Customer Authentication and Common and Secure Communication is finalised and becomes applicable in Autumn 2019.

EU **EBA** **EBA [published](#) a full impact assessment of Basel reforms on EU banks**

The EBA published a full impact assessment in which it quantified the impact of the reform package recently agreed by the Basel Committee on Banking Supervision on the European Banking System. The document presents aggregate data on EU banks assuming full implementation of the final Basel III framework and reflects all the revisions to the credit and operational risk approaches, as well as to the process for the estimation of the leverage ratio (LR). Among others, the results show that European banks' minimum Tier 1 capital requirement would increase by 12.9% at the full implementation date.

EU **EBA** **EBA [consulted](#) on amended technical standards on benchmarking of internal models**

The European Banking Authority (EBA) launched a consultation to amend the Commission Implementing Regulation on benchmarking of internal models. It aims to adjust the benchmarking portfolios and reporting requirements in view of the forthcoming benchmarking exercise that EBA will carry out in 2019. The proposed changes reduce uncertainties in the credit risk portfolios in order to foster a common and coherent interpretation and implementation of the reporting requirements across EU institutions.

EU **EBA** **ESAs [published](#) final draft technical standards amending margin requirements for non-centrally cleared OTC derivatives**

The draft RTSs amend the risk mitigation techniques related to the exchange of collateral to cover exposures arising from non-centrally cleared OTC derivatives with respect to physically settled FX forwards.

EU **SRB** **The SRB [published](#) updated MREL Policy**

For the on-going resolution planning cycle, the SRB will set bank-specific binding consolidated MREL targets for the majority of the largest and most complex banks, including G-SIBs and banks with resolution colleges under its remit. The 2017 MREL policy will also include a number of bank-specific adjustments, enhancing requirements for eligible liabilities and expecting a minimum level of subordination.

EU **ECB** **ESMA [issued](#) its Technical Advice to the EU Commission on how to improve the Short-Selling Regulation (SSR).**

ESMA's Technical Advice includes proposals around three main elements: (i) exemption for market making activities; (ii) short-term bans on short-selling; and transparency of net short positions. ESMA proposed including the different types of on-venue market making activities described in MiFID II in the definition of 'market-making activities', not requiring any membership requirement for OTC market-making activity and introducing reporting obligations for market makers.

Mezinár. **BIS** **BCBS [published](#) a consultation on stress testing principles and a range of practices report issued by the Basel Committee**

The BCBS found that, in recent years, both banks and authorities have made significant advances in stress testing methodologies and infrastructure. Given the rapid evolution in stress testing practices, the Committee reviewed its current set of stress testing principles, and set out a proposal to replace this set of principles with a new streamlined version. The new proposed principles are designed to be at a high enough level to be applicable across many banks and jurisdictions and remain relevant as stress testing practices continue to develop.

Mezinár. FSB FSB [published](#) governance arrangements and an implementation plan for the unique transaction identifier (UTI).

The FSB report sets out conclusions on the governance arrangements for UTI including a recommendation that jurisdictions implement the UTI no later than end-2020; the designation of the International Organization for Standardization (ISO) as the responsible body for publishing and maintaining the UTI data standard; and the designation of CPMI and IOSCO as the appropriate bodies to undertake the governance functions allocated to an International Governance Body relating to the UTI on an interim basis.

EU ESMA Consultation on implementation of anti-procyclicality provisions for central counterparties (CCPs) under the European Markets Infrastructure Regulation (EMIR).

ESMA [consulted](#) on draft guidelines to clarify the implementation of anti-procyclicality margin measures for central counterparties (CCPs) under EMIR. ESMA proposed that CCPs should define quantitative metrics to assess the efficiency of their anti-procyclicality margin measures, apply the metrics for regular assessments of the measures, make adjustments if procyclical effects arise from the margin requirements, and develop a policy for reviewing their requirements.

EU ESMA Publications relating to MiFID II and MiFIR

ESMA published a number of publications relating to MiFID II/MiFIR. The derivatives trading obligation [register](#) covers a list of swaps subject to the trading obligation, the EU trading venues which trade those swaps, third-country equivalent trading venues which can be used to satisfy the trading obligation, and the date at which the trading obligation takes effect for different categories of firms. ESMA also published a [list](#) of trading venues which have notified ESMA that they are making use of the temporary opt-out from the access provisions for ETDs under Article 36 of MiFIR, and a [first](#) MiFID II position management controls for commodity derivatives. In addition, ESMA also [decided](#) to delay the publication of the data on the double volume cap mechanism from January to March 2018. ESMA intends to publish the data covering the previous periods in order to ensure the full application of the double volume cap as of January 2018.

EU ESMA Thematic Report on fees charged by Credit Rating Agencies (CRAs) and Trade Repositories (TRs)

ESMA [published](#) a Thematic Report on fees charged by CRAs and TRs, following the conclusion of ESMA's supervisory review of the current fee structures in the credit rating and trade repository industries. ESMA said it will give supervisory priority to ensuring that the transparency and disclosure of fees and pricing, fee setting and cost monitoring, and interaction with affiliated or intragroup entities related CRAs and TRs do not result in discriminatory or inappropriate practices by CRAs or TRs.

EU **EBA** **Published its regular Risk Dashboard**

The EBA identified ongoing improvements in the repair of the EU banking sector, but also residual risks in non-performing loans (NPLs) and profitability. Overall, the results show that EU banks continued to strengthen their capital ratios; the ratio of NPLs kept a modest downward trend; profitability indicators have improved slightly - although sustainable returns remain elusive for many banks; and the loan-to-deposit ratio continued to decrease. However, the results also reveal that operational risk has increased as a consequence of cyber risk and data security.

EU **EBA** **Published final guidelines on uniform [disclosure](#) requirements for transitional arrangements (IFRS 9)**

The guidelines specify a uniform disclosure format for the effect of transitional arrangements on own funds, the risk-based capital ratio and the leverage ratio, and are aimed at those institutions that decide to apply transitional arrangements for IFRS 9. The guidelines seek to achieve a consistent and comparable disclosure among institutions and will apply from 20 March 2018.

EU **EBA** **Published a report on the implementation of its Guidelines on methods for calculating contributions to deposit guarantee schemes (DGSs).**

The EBA found that the Guidelines have broadly met the aim of introducing different contribution levels for institutions according to their riskiness, but that the current method may allow for too much flexibility and may need to be reviewed to ensure a more consistent approach, while still catering for national specificities. However, the EBA noted that these preliminary conclusions are based on limited experience of operating risk-based contributions systems in most DGSs, and the data only covers one year. Therefore, the EBA believes that further analysis and greater experience of risk-based systems will be needed before proposing any changes.

EU **ESMA** **Published a call for evidence on potential product intervention measures relating to the provision of contracts for differences (CFDs) and binary options to retail clients**

In relation to CFDs, ESMA is considering imposing restrictions to retail clients including leverage limits on the opening of a position by a client, a margin close-out rule on a position-by-position basis, negative balance protection on a per-account basis, a restriction on incentivisation of trading provided by a CFD provider, and a standardised risk warning. ESMA is also considering a prohibition on the marketing, distribution or sale of binary options to retail clients.

EU **EC** **Released a first progress report on NPLs in the EU**

The European Commission has released a first progress report on NPLs in the EU, as part of its work to reduce remaining risks in parts of the European banking sector. The report shows a positive trend of falling NPL ratios and growing coverage ratios in the second half of 2017. Specifically, the report shows that the overall NPL ratio has declined to 4.6% in the EU in Q2 2017, down 1% year-on-year and by a third since Q4 2014, and that the EU is on track with implementing the Council's "Action Plan to Tackle Non-Performing Loans in Europe".

Int'l **IOSCO** **Released communications regarding concerns related to initial coin offerings (ICO's)**

The Board of the IOSCO raised its concerns about the development of ICOs, especially with regard to their speculative nature and their risks in terms of investor protection. Given recent instances of fraud, it advised investors to think carefully before investing in ICOs. IOSCO also **published** a sample of communications issued by its members and other authorities on this matter. The IOSCO Board also established an ICO Consultation Network through which members can discuss their experiences and bring their concerns, including any cross-border issues, to the attention of fellow regulators.

EU **EIOPA** **Published a report to the EC on the Application of Group Supervision under the Solvency II Directive.**

The report found that, overall, group supervision worked well, but that there is scope for further cooperation among supervisory colleges, which could eventually remove the need for formal sub-group supervision in many cases. The report also found several areas of implementation of Solvency II where individual national authorities take different approaches. In particular EIOPA believes the treatment of internal models requires more supervisory convergence, and it is now running consistency projects to address some of these issues.

EU **EIOPA** **Published their Risk Dashboard for the third quarter of 2017.**

The dashboard continued to show relatively stable risk exposure of the European Union insurance sector. The report also found that improvements in solvency ratios are mainly driven by the increase in Eligible Own Funds; that some profitability and underwriting indicators deteriorated due to the impact of recent observed natural catastrophes; and that some improvements can be observed in the rating outlook.

EU **ESAs** **Published an opinion on the use of innovative solutions in the customer due diligence process**

The ESAs concluded that new technologies can help credit and financial institutions to comply with their Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) obligations, and encouraged national competent authorities to support these solutions when they improve the effectiveness and efficiency of AML/CFT compliance. However, the ESAs also highlighted certain risk factors that should be considered when supervising firms using these technologies, particularly in terms of oversight and control mechanisms, quality, adequacy and reliability of customer due diligence measures, delivery channel risks and geographical risks.

EU **EC** **Published a Draft Delegated Act amending the Liquidity Coverage Ratio (LCR).**

The proposed changes align the calculation of the expected liquidity outflows and inflows on repos, reverse repos and collateral swaps transactions with the international liquidity standard developed by the BCBS; alter the treatment of certain reserves with central banks and non-EU Public Sector Entities that are not rated at least ECAI 1; introduce a waiver for minimum issue size requirements for non-EU liquid assets; introduce a waiver to the unwind mechanism for secured transactions with the ECB or the central bank of a Member State; and introduce new simple, transparent and standardised criteria for securitisation.

EU **EC** **Vice-President Valdis Dombrovskis spoke on completing the Economic and Monetary Union**

He stated that immediate priorities include completing the Banking Union and developing the European Stability Mechanism. He highlighted the ongoing work on reducing NPLs, including the package of proposals that the Commission will present in March 2018. In addition, he stated his desire for Europe to lead on tackling tax evasion, and highlighted the need for Member States on the tax blacklist to follow through with reform.

EU **ECB** **Daniel Nouy, Chair of the Supervisory Board of the ECB, spoke on the 2018 priorities for banks and supervisors.**

She said that profitability remains a key concern for European banks, which in turn represents a threat to financial stability, and as such, she encouraged most banks to re-think and adapt their business models to address this issue. She also highlighted the work that the ECB is doing to reduce NPLs, noting that an addendum to the ECB's guidance on NPLs will be finalised in Q1 2018. Finally, she stressed the need to continue work to complete the banking union to provide a single frame for the European banking market.

EU **ESMA** **Updated transparency calculations for MiFID II/MiFIR.**

ESMA updated transparency calculations for MiFID II/MiFIR. The extended version of the transitional transparency calculations (TTC) for equity and bond instruments added the applicable TTC for equity instruments traded for the first time on a trading venues between 13 September 2017 and 2 January 2018, and bond instruments traded for the first time on trading venues between 1 November 2017 and 2 January 2018.

EU **ECON** **Published a briefing on equivalence decisions under MiFID II/MiFIR.**

The European Parliament's Committee on Economic and Monetary Affairs (ECON) published a briefing on equivalence decisions under MiFID II/MiFIR. The briefing sets out the process of the adoption of equivalence decisions, the relevant provisions under the MiFID II/MiFIR framework and recent equivalence decisions, including the Commission's recognition of share trading venues in the US, Australia, Hong Kong and Switzerland as equivalent to EU venues.

Mezinár. **BIS** **Published a report assessing structural changes in global banking.**

The report found that banks have become more resilient to risks and have strengthened their capital and liquidity buffers since the crisis, in line with regulatory reforms. However, it also found that long-term profitability remains a challenge for a number of banks due to lower leverage and risk-taking, sluggish revenues, and high costs.

EU **ECB** **Mario Draghi, President of the ECB, wrote a letter to several Members of the European Parliament on the ECB's interactions with external parties**

The ECB shares the view of the European Parliament that a framework for public information on interactions with external parties should be established. In support of this, Draghi outlined the ECB's continuous efforts to harmonise information on the ECB's contact groups, and increase their level of transparency.

EU **EBA** **Stefan Ingves, Chairman of the Basel Committee on Banking Supervision, gave a speech on the finalisation of Basel III**

He [noted](#) that while the finalisation was an important milestone, work still remains in three key areas: (i) to implement Basel III nationally, (ii) evaluate its effectiveness in reducing the excessive variability of risk-weighted assets (RWAs), and (iii) continue to monitor and assess emerging risks. Ingves believes that the Committee should remain open to the possibility of considering whether additional measures, or revisions to existing measures are required.

EU **EBA** **Andrea Enria, Chairperson of the EBA, gave a speech on the finalisation of Basel III**

He [spoke](#) of the necessity of bringing the reform process to a close, that addressing the excessive variability of risk weighted assets calculated via internal models restored credibility in international standards, and that reaffirming the commitment to implement the G20 standards was essential. He made further comments and recommendations on the discretion allowed within operational risk, the aggregate output floor, and the standardised approach for credit risk. Finally, he stressed the importance of implementation, and highlighted what this would mean from a European perspective, with proportionality and transparency at the core of the implementation process.

EU **EBA** **Launched its 2018 EU-wide stress test and released the macroeconomic scenarios**

For the first time, [the stress tests](#) incorporate IFRS 9 accounting standards. The adverse scenario shows a deviation of EU GDP from its baseline level by 8.3% in 2020, driven by possible Brexit effects, which would produce the most severe scenario to date. The ECB expects to publish the results of the exercise by 2 November 2018.

EU **EIOPA** **Consulted on draft Regulatory Technical Standards adapting the base euro amounts for professional indemnity insurance (PII) and financial capacity of intermediaries under the Insurance Distribution Directive**

In its [review](#) of PII, EIOPA did not find any barriers to enter the insurance intermediary market in the EEA, nor any market failure arising from PII, and concluded its review by suggesting changing the base amounts of PII and minimum financial capacity by the amount the European Index for Consumer Prices increased during the review period (4.03%).

EU **EIOPA** **Published its 2018 work program**

The [major themes](#) include InsurTech, with the launch of a thematic review on the insurance industry's use of Big Data, and the supervisory approaches and new business opportunities linked to cyber risks; a number of initiatives linked to the implementation of the IDD and PRIIPs, such as the finalisation of the Luxemburg Protocol by Q2 2018; the development of a risk-based framework for conduct of business supervision, with the further development of the retail risk indicators' methodology; and continued activity in the development of the prudential regulatory framework, with the development of a specific regulatory treatment of long term assets that back certain long term liabilities and a review of long-term guarantees.

EU **ESMA** **Published the results of the second EU-wide stress test exercise for CCPs, and has extended the scope to include liquidity risk**

The [results](#) confirmed that EU CCPs are overall resilient to common shocks and multiple defaults. Regarding the credit tests, ESMA identified differences in resilience between CCPs, in particular minor failures of no systemic relevance or higher sensitivity to marginal increases of price shocks or number of defaults that might have systemic relevance. For the liquidity stress tests, no particular deficiency was found in the management of liquidity risks by EU CCPs.

EU **EC** **Published a press release on the High-Level Expert Group (HLEG) on Sustainable Finance's roadmap for a greener and cleaner economy**

The HLEG road map [sets out](#) strategic recommendations for a financial system that supports sustainable investments, such as a classification system, or 'taxonomy', to provide market clarity on what is 'sustainable', an EU-wide label for green investment funds, and a European standard for green bonds.

EU **SRB** **The SRB published the non-confidential version of documents related to the resolution of Banco Popular**

These [documents](#) can now be publically disclosed, given the time that has lapsed since the resolution action and careful consideration of financial stability concerns. The available documents include the 2016 Resolution Plan, the Marketing Decision, and the Sale Process Letter.

Mezinár. IOSCO **Published the final report on good practices and issues for consideration for open-ended fund liquidity and risk management**

The [report](#) sets out a number of techniques and tools available to fund managers for the management of liquidity needs, including swing pricing, anti-dilution levies, valuation according to bid or ask prices, redemption gates, side pockets, notice periods, suspension of redemptions and in-kind redemptions. It also considers the importance of deploying various stress testing scenarios to support and strengthen the ability of the responsible entities in managing liquidity risk.

Mezinár. IOSCO **IOSCO published the final report of Recommendations for Liquidity Risk Management for Collective Investment Schemes**

The liquidity [recommendations](#) deal with the design process of Collective Investment Schemes, day-to-day liquidity management and contingency planning. One of the recommendations particularly specifies that the responsible entity should conduct ongoing liquidity assessments in different scenarios, which could include fund level stress testing.

EU ESMA **[Published](#) its 2018 Supervisory Convergence Work Programme.**

The priorities identified by ESMA include the consistent implementation of MiFID II/MiFIR across the EU, enhancement of data quality under different EU regulations, supervisory convergence in the context of Brexit, investor protection in the cross-border provision of services, financial innovation and the supervision of CCPs.

EU ESMA **[Published](#) the 2017 Annual Report and 2018 Work Programme for the supervision of credit rating agencies (CRAs), trade repositories (TRs) and monitoring of third country central counterparties (CCPs)**

ESMA's supervisory priorities for TRs include data quality, information technology, internal control and strategy, and governance. ESMA will focus on the quality of the credit rating process, cyber security and governance for CRAs. The report also outlines that ESMA will assess the 15 pending applications for recognition as third-country CCPs, and monitor the potential effect of Brexit on the third-country CCP regime

EU **EIOPA** **Published a paper on systemic risk and macroprudential policy in insurance.**

This paper aims to identify and analyse the sources of systemic risk in insurance from a conceptual point of view. It identified direct sources of macroprudential risks (entity-based sources) and indirect sources, linked to reactions to market events, through activity-based and behaviour-based sources.

Mezinár. **BIS** **Agustín Carstens General Manager of the Bank for International Settlements, delivered a speech at Goethe's University's House of Finance.**

He encouraged authorities to be prepared to protect consumers and investors amid the rise of crypto currencies around the world. Mr Carstens insisted on the need for regulators and supervisors to ensure that crypto currencies are not used to conduct illegal activities and that they do not pose a threat to financial stability. More specifically, authorities should focus more closely on the ties between real and crypto currencies and make sure that only products and exchanges that meet accepted high standards have access to legitimate banking and payment services.

This quarter

List of regulatory publications and events expected this quarter

| Bank prudential framework | | | Due Date |
|--|---------------------|--|-----------------|
| EU | European Commission | Framework for covered bonds | Q1 2018 |
| Int'l | BCBS | Finalisation of Phase 3 of the enhanced disclosure rules under Pillar 3 | Q1 2018 |
| Int'l | BCBS | Finalisation of the revisions to the G-SIB assessment methodology | Q1 2018 |
| Int'l | FSB | Global shadow banking monitoring report 2017 | Q1 2018 |
| Insurance prudential framework | | | |
| EU | EIOPA | Final advice to the EC on certain aspects of the Solvency Capital Requirement | 28 Feb 2018 |
| Int'l | IAIS | Second consultation on the first International Capital Standards for insurers | Mid-2018 |
| Conduct and competition | | | |
| Int'l | FSB | Final report on strengthening the governance framework to mitigate misconduct risk | Q1 2018 |
| Payments, technology and innovation | | | |
| EU | European Commission | FinTech Action Plan | Q1 2018 |
| EU | European Commission | Action Plan on sustainable finance with regulatory measures | Q1 2018 |
| EU | European Commission | Proposal for EU framework on crowd funding and peer-to-peer finance | Q1 2018 |
| Int'l | G20 | G20 to discuss a global regulatory framework for cryptocurrency | Mar 2018 |
| Economic and Monetary Union | | | |
| EU | European Commission | Proposal on secondary markets for non-performing loans | Q1 2018 |
| EU | European Commission | Protection of secured creditors from business borrowers' default | Q1 2018 |
| EU | European Commission | Enabling framework for Sovereign Bond-backed Securities | Q1 2018 |
| Capital market structures | | | |
| EU | European Commission | Proposal on cross-border distribution of AIFMD – UCITS | Q1 2018 |

Key regulatory developments during the January and February 2018

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|----|---------------------|---|-------------|
| EU | European Commission | Consultation on corporate bond market liquidity | Q1 2018 |
| EU | European Commission | Final findings from study on distribution of investment products to retail investors | Q1 2018 |
| EU | European Parliament | ECON vote on CCP RRP proposal | Q1 2018 |
| EU | ESMA | ESMA's final report on the technical advice on the evaluation of certain elements of the Short Selling Regulation | Feb 21 2018 |
| EU | ESMA | Forum's Market Structure Group, London – Steven Maijoor, Chair, to speak | Feb 15 2018 |

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