



May saw a number of developments around Brexit, including the publication of several papers outlining the negotiating position of the European Commission. The outcome of the UK general election on 8 June has led to some suggesting that the British government's approach to the Brexit talks may be altered, but it is currently too early to say what the effect might be.

The European Commission published a first set of legislative amendments proposing updates to the European Market Infrastructure Regulation (EMIR) which will now enter into negotiations. Elsewhere, there has been a noticeable increase in focus on FinTech, with the European Parliament passing an own-initiative report calling for the European Commission to do further work on this issue, along with cyber security. The Financial Stability Board also published a review of FinTech credit, discussing the potential financial stability implications it might pose in the future, as it continues to grow.

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Brexit

The European Commission sent a [recommendation](#) to the European Council to **open Article 50 negotiations** for an agreement with the UK. The recommendation includes [draft negotiating directives](#) covering aspects to be discussed in the first phase of the negotiations namely: (1) citizens' rights, (2) financial settlement, (3) the situation of goods already placed on the market under Union law before the withdrawal date, (4) other administrative issues relating to the functioning of the European Union, and (5) governance of the withdrawal agreement with the UK. The document noted that the "negotiating directives may be amended and supplemented as necessary throughout the negotiations, in particular to reflect the European Council guidelines as they evolve and to cover the subsequent phase of the negotiations."

Sabine Lautenschläger, Member of the Executive Board of the European Central Bank (ECB) and Vice-Chair of the Supervisory Board of the ECB, [spoke](#) about **supervisory expectations for banks relocating to the euro area**. She provided detailed information about the ECB's approach towards banks seeking to obtain a banking license in the Eurozone, particularly in relation to shell companies, large intra-group exposures and booking models, and the approval of internal models. In addition, she re-iterated her concerns about fragmented supervision of third-country branches and investment firms.

The European Securities and Markets Authority (ESMA) [published](#) an opinion addressed to the EU27 national regulators setting out nine general principles aimed at fostering consistency in **authorisation, supervision and enforcement related to the relocation of entities**, activities and functions from the United Kingdom. The opinion covers all legislation referred to in the ESMA Regulation, in particular the AIFMD, the UCITS Directive, MiFID I and MiFID II. ESMA said it will establish a forum, the Supervisory Coordination Network, to allow NCAs to report on and discuss cases of relocating UK market participants and to help promote consistency in decisions taken by NCAs. ESMA intends to develop further guidance in areas such as asset managers, investment firms and secondary markets to provide sector specific details on the aspects described in the general opinion.

Capital (including stress testing and macro prudential)

The BoE [published](#) data showing the indicative **minimum requirements for own funds and eligible liabilities (MREL)** targets for the largest UK banks. Final MREL targets range from 21.6% to 25.9% of RWAs, and total loss absorbing capacity requirements (which include regulatory capital buffers) range from 25.2% to 29.3% of RWAs. The BoE also disclosed an average target for eight smaller UK banks, but without publishing individual bank targets, although it said it may reconsider its disclosure policy for these banks in the future.

The European Banking Authority (EBA) [updated](#) its Implementing Technical Standards (ITS) on **benchmarking of internal approaches for credit and market risk**. The update reflected more precise reporting instructions and definitions, as well as updates to the benchmarking portfolios. It was intended to ensure a better quality of submitted data and to maintain relevance for future benchmarking exercises.

The EBA [announced](#) that it would publish the results of its fourth annual **EU-wide transparency exercise** in December 2017. The transparency exercise provided a semi-annual time series of financial information for more than 130 EU banks. All significant balance sheet and P&L items will be disclosed, including risk-based capital ratios, leverage ratio, risk exposure amounts and provisioning levels.

The EBA [published](#) an opinion expressing its views on a number of aspects related to **capital requirements** in the context of the European Commission's proposal to amend the Capital Requirements Directive and Regulation.

In particular, the EBA called for a possible strengthening of its role in assessing issuances of CET1 instruments. The opinion also elaborated on restrictions on distributions and suggested a general anti-circumvention principle be introduced.

The EBA [published](#) an updated list of **eligible CET1 instruments**. It assessed two new forms of CET1 instruments in Austria and declared them compliant with the Capital Requirements Regulation. For the first time, the EBA also [published](#) a report providing some background to the monitoring work, including clarifications on the implications of including or excluding capital instruments from the list.

William Coen, the Secretary General of the Basel Committee on Banking Supervision (BCBS), [gave](#) a speech on **regulatory equivalence** and the progress being made in finalising outstanding elements of Basel III. Among other things, he announced that the BCBS had agreed on applying an 'output floor' at the aggregate balance sheet level, instead of at the risk type or portfolio level. He confirmed, however, that negotiations on the calibration of the output floor were still ongoing and gave no indication when a final agreement might be reached.

Danièle Nouy, Chair of the Supervisory Board of the ECB, [gave](#) a speech on achieving a balance between standardised and internal model approaches to **calculating capital requirements**. In particular, she said that the two approaches should be complemented with other measures, such as the leverage ratio and the 'output floor'. She also said that the reliability of internal models was subject to a comprehensive assessment through the targeted review of internal models (TRIM).

The European Insurance and Occupational Pensions Authority (EIOPA) [launched](#) its second European-wide **stress test for occupational pension schemes**.

The exercise included all countries with material IORPs and focused on IORPs' resilience to a 'double hit' scenario of lower risk-free interest rates and falling asset prices. The exercise will also be used to assess the impact on the real economy and financial markets.

EIOPA [calculated](#) the **ultimate forward rate** (UFR) for 2018. The calculated UFR was 3.65%. For the euro, the UFR was previously set at 4.2% but as the annual change of the UFR has been limited to 15 basis points, the applicable UFR was set at 4.05%. This rate will be applicable for the first time for the calculation of risk-free interest rates on 1 January 2018.

Liquidity

ESMA [consulted](#) on the **Money Market Funds Regulation** (MMFR). The consultation contained technical advice, in particular on the liquidity and credit quality requirements applicable to assets received as part of a reverse repurchase agreement, and ITS concerning the information that managers of MMFs are required to submit to national competent authorities. It also contained guidelines on the scenarios to be included in stress tests.

Governance and risk management (including remuneration)

The Financial Conduct Authority (FCA) [published](#) a policy statement on **Remuneration in CRD IV firms**, aligning the FCA's rules with the EBA's Guidelines on sound remuneration policies. Included in the document were changes to the FCA's existing proportionality guidance and new non-Handbook guidance addressing frequently asked questions on remuneration.

The Prudential Regulation Authority (PRA) [updated](#) its statement of policy on **conditions, time limits and variations of approval in relation to the Senior Mangers Regime**. It confirmed, among other things, that individuals appointed by firms to provide cover for a PRA Senior Management Function, will not need pre-approval by the PRA as long as the appointment is for less than twelve weeks in a consecutive twelve-month period.

The EBA [consulted](#) on the extension of the scope of its **draft guidelines on connected clients**, beyond the large exposures regime. The EBA argued that such an extension would ensure consistency in the application of the concept of connected clients across the CRR and the harmonisation of institutions' practices. It asked for feedback from stakeholders on the possible impact of this change.

The ECB [published](#) final guidance outlining its **supervisory expectations regarding leveraged transactions**, and the ongoing monitoring of both syndication risk and the fundamental credit quality of leveraged exposures. The ECB noted that while all significant credit institutions should make the guidance an integral part of their internal policies, implementation should be consistent with the size and risk profile of institutions' leveraged transactions relative to their assets, earnings and capital. It also encouraged a wider application of its supervisory expectations by firms to other types of transactions, where relevant.

Conduct of Business (including MiFID)

The FCA [published](#) disclosure rules in relation to the **Packaged Retail Insurance-based Investment Products (PRIIPs) Regulation**. It confirmed that firms will not be required to provide a simplified prospectus for professional clients when they have the option to produce either a non-UCITS retail scheme (NURS) Key Information Document (KID) or a KID for retail clients that invest in a NURS. It also outlined how firms should present and explain information on charges, past performance and risks.

The FCA [published](#) its report on “The Assessing Suitability Review – Results”, regarding the **pensions and investment advice market**. It found that the vast majority of advisors were offering the right advice to their clients but that only half of advisors “provide acceptable disclosure”, with 41.7% of intermediaries providing “unacceptable disclosure”. The “overwhelming issues”, according to the FCA, were firms’ disclosing charging structures with wide ranges, and firms using hourly charging rates failing to provide an indication of the number of hours for the provision of each service.

The FCA [confirmed](#) that it will **require all firms offering guaranteed quotes on annuities to retail clients to provide information prompts**, as part of pre-sale disclosures, by 1 March 2018. The FCA highlighted that it had made some key changes in its final rules, which included amending the information prompts templates so that they each incorporate a clear and prominent statement that customers might be eligible to purchase an enhanced annuity.

The FCA [launched](#) a guidance consultation on its approach to the **review of Part VII insurance business transfers under FSMA 2000**. The FCA noted that while the PRA leads the Part VII process, the FCA also has an active role. It highlighted its expectation that firms proposing a Part VII Transfer explain why they are diverging from the FCA’s guidance (set out in the consultation), where this is relevant to a particular transfer.

Christopher Woolard, Executive Director of Strategy and Competition at the FCA, [spoke](#) in China on competition and innovation in financial services. Given the FCA’s “almost unique” duty towards competition in the interests of consumers, Woolard explained the **UK regulator’s approach to using its competition powers**, including through the promotion of innovation, where he cited the example of the FCA’s Project Innovate initiative.

The PRA [published](#) a policy statement on **strengthening individual accountability in banking and insurance**. The statement modified some of the final rules relating to the amendments to the Senior Managers & Certification Regime (SM&CR), including the draft definition of the new Chief Operations Senior Management Function. Amendments were also made to the SM&CR and Senior Insurance Managers Regime (SIMR), including the application of certain conduct rules and conduct standards to non-executive directors not serving Senior Management Functions. Accordingly, the PRA updated its supervisory statements on strengthening individual accountability in [banking](#) and [insurance](#).

ESMA [published](#) a follow-up report on the actions undertaken by ten National Competent Authorities (NCAs) in addressing deficiencies identified in the 2014 **Peer Review on MiFID Conduct of Business rules** relating to fair, clear and not misleading information. ESMA found that NCAs from six countries had addressed all of the previously identified deficiencies in areas such as supervisory approach and thematic work.

ESMA [published](#) an opinion **clarifying the concept of “traded on a trading venue” (TOTV)** for OTC derivatives under MiFID II/MiFIR. ESMA specified that only OTC derivatives sharing the same reference data details as the derivatives traded on a trading venue should be considered to be TOTV, and therefore be subject to the MiFIR transparency requirements and to transaction reporting.

ESMA issued **two opinions determining third-country trading venues** for the purposes of [transparency](#) and [position limits](#) under MiFID II. The opinions clarified that, where non-EU trading venues meet a set of objective criteria, EU market participants concluding transactions on these trading venues do not have to make those transactions public in the EU under MiFIR, and that commodity derivative contracts are not considered as economically equivalent to over-the-counter contracts for the purpose of the position limit and position reporting regimes under MiFID II.

The ECB [published](#) its **guide on “Fit and Proper” assessments for the boards of credit institutions**. The ECB set out six principles that guide the assessment process, specific assessment criteria, the role of interviews, and considerations for the assessment and decision making process and the removal of members of the management body. The ECB noted that the guidelines are in line with the EBA’s and ESMA’s draft guidelines on suitability assessments.

The Council of the EU [adopted](#) the **Prospectus Regulation**, which will replace the Prospectus Directive and apply from mid-2019. The regulation sets out rules around administrative obligations to publish prospectuses aimed at ensuring investors are well informed. In particular the regulation will simplify the prospectus rules, aimed at enabling small and medium enterprises to raise capital on EU securities markets.

ESMA and the Financial Services and Markets Authority (FSMA) of Belgium [issued](#) a joint statement regarding the **Euribor benchmark**. Following the European Money Markets Institute's (EMMI) "pre-live verification" exercise of the methodology developed to ground Euribor entirely in transactions (Euribor+), as well as a consultation with FSMA, the EMMI decided not to pursue a transition to the proposed Euribor+ methodology in the short term. The college of Euribor will continue to engage with the EMMI on alternative plans for Euribor reform and transition.

The Financial Stability Board (FSB) [published](#) a stocktake of **efforts to strengthen governance frameworks to mitigate misconduct risks**, ahead of a final report scheduled for March 2018. The report covered areas for further work for supervisors and firms, including the implementation of "responsibility mapping" for the board and senior management and the examination of how governance mechanisms might mitigate misconduct risks posed by a firm's culture.

The Foreign Exchange Working Group (FXWG) under the Bank for International Settlements (BIS) [published](#) the **Global Code of Conduct for the wholesale FX market**. The FXWG also [published](#) a report on adherence to the Code and [released](#) a Statement of Commitment that market participants could use to demonstrate their commitment to the Code. The Code is organised around six principles: ethics, governance, information sharing, execution, risk management and compliance and confirmation and settlement.

Crisis management (including special resolution, systemically important firms, and business continuity)

The EBA [consulted](#) on draft regulatory technical standards (RTS) which provided further guidance on the criteria that must be met in order to be subject to simplified obligations as part of **recovery and resolution plans**. According to the RTS, national authorities should first base their assessment of eligibility for simplified obligations on quantifiable indicators and then verify whether the identified institutions also met other qualitative standards.

Regulatory perimeter

The BoE [published](#) its blueprint for a **renewed Real-Time-Gross-Settlement (RTGS) system**, i.e. the platform providing final settlement of Sterling central bank reserves for transactions between banks. Key design features of the new generation RTGS include: higher resilience, broader access, wider inter-operability, improved user functionality, and strengthened end-to-end risk management of the HVPS.

The Financial Policy Committee (FPC) [published](#) the record of its latest policy meeting during which it discussed the future operating model of the **High Value Payment System (HVPS)**. It identified a number of risks associated with the current delivery model, including its vulnerability to a cyber attack. As a result, the FPC said the Bank of England (BoE) should take over full responsibility for delivering the HVPS.

The Payment Systems Regulator (PSR) [published](#) a delivery plan for the **consolidation of three payment systems operators**: Bacs Payment Schemes Ltd (BPSL), Cheque and Credit Clearing Company (C&CCC) and the Faster Payments Scheme Ltd (FPSL). The report proposed a three-stage process, identified risks with the transition project and proposed mitigating actions. The target for consolidation into a single entity is the end of 2017. The single entity's responsibility will include taking the New Payments Architecture (NPA) forward.

The PSR and the BoE published a [joint statement](#) on the **Payment System Operator Delivery Group's (PSODG) report**, setting out expectations on next steps for the proposed PSO consolidation. The statement extended the PSODG's remit to establish the new PSO corporate entity; and the PSODG is expected to hand over responsibility for execution of the implementation plan to the NPSO by the end of July 2017.

The PSR [published](#) a call for input from payment service providers (PSPs) on **authorised push payment (APP) scams**. The project focused on APP scams that target consumers, and the systems that consumers use for push payments (CHAPS and FPS). The objective is to consider whether it would be effective and proportionate for PSPs to play a greater role in preventing and responding to APP scams. PSPs have until 30 June 2017 to respond.

The European Parliament's Economic and Monetary Affairs (ECON) committee [adopted](#) a draft report calling on the European Commission to develop a **comprehensive FinTech Action Plan** and make cyber security a top priority. Policies proposed included the clarification of conditions for outsourcing RegTech solutions and cloud data services, regular reviews of operational standards covering ICT risks, licenses for KYC applications, and the provision of a standardised set of APIs for open banking. MEPs in the rest of the European Parliament will vote on the adoption of the report in a plenary session on 31 May.

The European Commission published a first set of legislative amendments to the **European Markets Infrastructure Regulation (EMIR)**, which addressed the suspension of clearing obligations; reporting requirements; risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty (CCP); registration and supervision of trade repositories (TRs); and requirements for TRs. The Commission also published a Communication in advance of a second EMIR legislative proposal on the withdrawal of the UK from the EU and third country CCPs, which is due to be published on 13 June. The Commission's Communication [discusses](#) third country CCPs. The Communication discussed possible steps to ensure the safety and soundness of CCPs, including the possibility of putting in place "enhanced supervision at EU level and/or location requirements".

The ECB [consulted](#) on its future **RTGS service**. The proposals seek to improve the operational and technical features of the settlement system for high-value payments and securities. The proposals also introduced a multi-vendor approach for connectivity that no longer relies on proprietary features of a specific service provider as well as international messaging standard ISO 20022.

The EBA [consulted](#) on draft Guidelines on security measures for operational and security risks under the revised **Payment Services Directive (PSD2)**. The guidelines covered governance of the operational and security risk management framework, risk management and control models, outsourcing, and protection of the integrity of data, systems and confidentiality, among other subjects. The draft Guidelines proposed requirements to the monitoring, detection and reporting of security incidents and risks, business continuity management, the testing of security measures, and situational awareness.

The EBA [launched](#) a consultation on draft guidance for the use of **cloud service providers**, which builds on the existing guidelines on outsourcing and provides additional clarification on cloud computing. In particular, the proposals address five key areas: (1) security of data and systems, (2) location of data and data processing, (3) access and audit rights, (4) chain outsourcing (where outsourcing providers also outsource services), (5) contingency plans and exit strategies. In its follow-up work, the regulator will explore the possible application of these provisions to other types of regulated entities.

The European Parliament [passed](#) a resolution defining a framework for **FinTech** in the EU, following the ECON Committee's recently published own-initiative report on "FinTech: the influence of technology on the future of the financial sector". The Parliament welcomed the recent creation of a FinTech Task Force, and also called for the Commission to draw up a comprehensive FinTech Action Plan as part of its Capital Markets Union and Digital Single Market strategies.

The European Systemic Risk Board (ESRB) [published](#) its **second "EU Shadow Banking Monitor"**, providing an overview of developments in the European shadow banking system. The report discussed that growth in broad EU shadow banking assets slowed markedly in 2016. Risks and vulnerabilities noted as requiring monitoring include liquidity and leverage risks for investment funds, and interconnectedness and contagion risk.

The FSB [published](#) the **Global Shadow Banking Monitoring Report 2016**. The report reflected data up to 2015 and covered 28 jurisdictions, including Belgium and the Cayman Islands for the first time; and may include Luxembourg from next year. The 2016 exercise deepened the analysis of the "economic function-based" narrow measure of shadow banking.

The FSB and the Committee on the Global Financial System (CGFS) [published](#) a **report on the market structure, business models and financial stability implications of FinTech credit**. The report concluded that compared to the traditional credit market, FinTech credit was currently relatively small in size and did not yet pose a threat to financial stability. Given its rapid growth, however, the report took the view that should FinTech credit grow to account for a significant share of overall credit it could present risks that will require better management and regulation.

Rethinking the domestic and international architecture for regulation

The ECB [published](#) their **annual report on financial integration in Europe** which, for the first time, included an analysis of the quality of financial integration. This suggested that risk sharing in the euro area remains low, caused in part by limited private financial risk sharing. Overall, the report signalled that there has been no progress in aggregate financial integration across euro area in the last year. The ECB concluded that these results highlight the importance of ongoing work to complete the CMU and Banking Union.

Danièle Nouy, Chair of the Supervisory Board of the ECB, [gave](#) a speech on **'Banking Union – safe and sound finance for Europe'**. Nouy stated that progress had been made to build a stable financial system in Europe since the crisis, demonstrated in part by the first of two pillars of the banking union, but there was more to be done now these are in place. In particular, Nouy said that "it is time to build the third pillar, a European deposit insurance scheme". Brexit had brought new uncertainty but the current high standards of supervision "will not be compromised to attract banks to the euro area" and whatever the outcome, the UK and EU financial sectors "will remain tightly linked".

Danièle Nouy also [gave](#) a speech focusing on **the development of regulation and supervision in Europe**. Nouy observed that devising global regulatory and supervisory standards has involved "many cooks. But contrary to popular wisdom, they did not spoil the broth": they were in fact necessary to create the strong and harmonized rules for Europe whilst avoiding fragmentation. However, more could be done, Nouy stated: the Single Rulebook needed to become truly single and must be supplemented "with supervisory flexibility" to ensure it kept pace with emerging risks.

Ignazio Angeloni, Member of the Supervisory Board of the ECB, [gave](#) a speech on **'common challenges for banks, regulators and supervisors'**. Angeloni focused on the repair of banks' balance sheets, assessment and oversight of business models, and efforts to promote an effective and balanced regulatory framework. He noted that the ECB was aware of the risks of compliance which could arise as the euro area economy improves, so it had been engaging with the Commission as part of the European banking legislation review to ensure that "measures to strengthen and harmonise the ECB's supervisory remit are undertaken".

Sabine Lautenschläger, Vice-Chair of the Supervisory Board of the ECB, [gave](#) a speech titled **'3-6-3: Banks and change'**. Lautenschläger emphasised the need for banks to change their business models to fit the new macroeconomic environment and meet the new demands of customers, which had arisen, in part, as a result of digitalisation. She noted that banks had to "keep pace", that there were "about two dozen larger banks in the euro area that are faring well" and notably, the cooperative banks had "made more progress than others" by embracing digitalisation and "saving sensibly".

The EBA [published](#) an **Opinion on the EU Commission's consultation on the operation of the ESAs**. Notably, the EBA used the Opinion to call for itself to have a stronger advisory role in the European legislation process and for some of its powers to be extended. It also called for a greater role in promoting supervisory convergence especially around consumer protection, the assessment of equivalence, reporting, and a role in ensuring the consistency of own funds.

Disclosure, valuation and accounting

The FCA [published](#) **reporting instructions for trading venues and investment firms submitting commodity position reports**. The instructions include detailed timelines for the submission of position reports to the FCA, which trading venues and investment firms will be able to submit via the FCA's new market data processing system. These reporting obligations will apply from 3 January 2018 under MiFID II.

The EBA [published](#) **final guidelines on credit institutions' credit risk management practices** and accounting for expected credit losses, as part of their work regarding the implementation of IFRS 9. The guidelines build on global guidelines published by the Basel Committee on Banking Supervision in December 2015 and cover compliance reporting obligations, principles of credit risk management practises, and supervisory approaches to evaluating credit institutions' risk practises in this area.

The EBA has [published](#) final RTS on **valuation in resolution**. Under BRRD resolution authorities can intervene in failing banks to protect the public interest. To prevent the costs of intervention falling on taxpayers an independent valuation must be carried out prior to or after resolution. These standards set out criteria and a methodology for the independent valuer to use with the intent of creating a consistent EU approach.

Information security and data privacy

The EBA [published](#) its **final guidelines on ICT risk assessment** under the supervisory review and evaluation process (SREP) which are required under the amended Capital Requirements Directive (CRD 4). The guidelines have been developed to assist authorities with their SREP ICT risk assessment, in particular the risks around market integrity and the viability of ICT, and include comments on how an institution's governance, strategy, risk exposures and controls on ICT should be assessed. No additional reporting requirements have been introduced as a result of the guidelines.

Financial Crime

The European Parliament [vetoed](#) the European Commission's proposal to amend Commission Delegated Regulation 2016/1675 supplementing the **fourth Money Laundering Directive** (MLD 4) for a second and third time. The Parliament rejected these amendments having deemed them "insufficiently autonomous" as the countries considered to have a high-risk of financial criminality (money laundering/terrorist financing) were an exact match to the Financial Action Task Force's own list. Additionally, the Parliament is of the view that there are some key countries missing from the high-risk list. It has called for the Commission to submit a new Delegated Act which adopts "a roadmap to come to an autonomous evaluation process"

The European Supervisory Authorities (ESAs) [published](#) a consultation paper on draft RTS under MLD 4 on the **measures credit institutions and financial institutions must take to mitigate the risk of money laundering and terrorist financing** where a third country's law does not permit the application of group-wide policies and procedures. Generally group-wide policies and procedures around money laundering and terrorist financing are permitted provided they are stricter than national requirements. However, some local laws may not permit the application of some or all parts of a group's policies, for instance if they are deemed to clash with data protection laws. In these cases, the policies must be applied as far as local law permits and institutions must take effective steps, such as enhanced reviews to ensure compliance with MLD 4. The deadline for comments is 11 July 2017.

Other

EIOPA [updated](#) its **Risk Dashboard**, a quarterly assessment of risks and vulnerabilities in the European Union insurance sector, based on fourth-quarter 2016 data. The overall conclusion was that the risk exposure of the insurance sector remained stable with some improvements: Solvency II ratios are stronger, volatility has decreased and inflation rates have slowly started to converge to desired target levels. However, the continuing low-yield environment and the fact that market fundamentals might not properly reflect underlying credit risk remain important concerns for EIOPA.

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