



Key Focus Areas

for UK-Regulated Financial
Services Firms in 2023


Focus Areas

This annual publication outlines some of the primary focus areas in 2023 for UK-regulated financial services firms. The topics covered in this year's publication reflect how the fundamental consideration of the direction of travel of UK financial services regulation has progressed.

Monitoring the progress of the Financial Services and Markets Bill and regulatory divergence between the UK and the EU will continue as a key theme for 2023. However, other familiar topics will play an important part in the regulators' agendas, such as conduct and culture, consumer protection and the new Consumer Duty, diversity and inclusion, and financial crime. Further, relatively new topics such as climate change and environmental, social, and governance (ESG) issues are increasingly significant for financial services firms, along with new developments in the areas of ephemeral messaging and plans for the regulation of critical third parties.

Scroll through or select a topic below

 *Regulatory change ahead*

 *Key stage in the regulatory change or implementation cycle*

 *Emerging trend*



1 ESG

The environmental, social, and governance (ESG) landscape shifted significantly in 2022, with legislative reforms starting to take effect and with an increasing focus in particular on greenwashing from regulators, investors, and third parties. This trend is set to continue into 2023 and beyond, as the regulatory change agenda in relation to ESG matters continues to gather pace, alongside an increasing amount of regulatory intervention focused on ensuring that disclosures in relation to ESG matters are clear, fair, and not misleading. These trends, combined with the difficulty global firms face in navigating a fragmented global landscape in relation to ESG regulation, means that ESG is high on the risk agenda for most firms.

In the EU, 2023 will mark the transition to the more detailed Level 2 requirements under the EU Sustainable Finance Disclosure Regulation (SFDR). This transition is likely to bring a significant shift in the market as firms in scope of the regime will become subject to significantly enhanced disclosure requirements, which in particular are likely to shine a light on the approach to Article 8 and

Article 9 strategies. In tandem, ESMA and the European Commission are looking to address issues that have been identified in the SFDR regime, for example through proposed changes in relation to restrictions on funds' names using ESG or sustainability-related terms and potential changes by the Commission to the parameters of the Article 8 classification. This poses a significant challenge for firms already subject to these requirements, which may need to adapt their strategy and fund documentation in order to be able to comply with updated guidance.

Data availability and credibility has been a persistent issue in relation to implementing ESG-related legislation, including SFDR and the EU Taxonomy Regulation. Legislative reforms have been put in place to address this issue, in particular the Corporate Sustainability Reporting Directive (CSRD), which, beginning in 2025 (in relation to data collected from the 2024 financial year) will introduce more detailed ESG reporting requirements in a phased manner, and ultimately ensure that large companies and

listed SMEs will be required to report on ESG-related matters including emissions, human rights impacts, and ESG governance processes. In the interim, however, particularly in 2023, data availability is expected to remain a central issue and firms that are subject to ESG disclosure requirements will need to continue to take steps to manage the risks that arise when they are required to make ESG disclosures, but have limited ability to access/verify the information needed to substantiate such disclosures (for example, we still see the majority approach of disclosing "zero" Taxonomy alignment as a result of this issue).

Also in 2023, we will likely see the market impact of the ESG uplifts that have been made to the MiFID II, AIFMD, and UCITS rules in order to require that sustainability considerations are embedded within the existing frameworks. In particular, the impact of the changes to the MiFID II suitability and product governance rules in relation to how products and services are "tagged" from an ESG perspective will be a key watch point.





1 ESG

continued

In the UK, the FCA is proposing to introduce a general “anti-greenwashing” rule applicable to all FCA-regulated firms requiring that any reference to the sustainability characteristics of a product or service is consistent with the sustainability profile of the product or service and is clear, fair, and not misleading. This proposal is intended to give the FCA an explicit rule on which to challenge firms that it considers to be potentially greenwashing in relation to their products or services, and take enforcement action against them as deemed appropriate. The FCA is also delivering on its objective to introduce mandatory TCFD disclosures across the market, and firms should expect continuing scrutiny from the FCA of these disclosures as they are phased in. In addition, the UK is consulting on the introduction of a Sustainability Disclosure Requirements (SDR) and investment labels regime. Firms in scope will

need to consider not only the direct impacts of this regime but also how any disclosures made under the UK regime will align with existing disclosure requirements that they may be subject to under other regimes (for example SFDR).

Globally, the diverging approach in the US to ESG matters is a further key risk matter for firms managing the intersection between different ESG regimes. On the one hand, the US Securities and Exchange Commission (SEC) is proposing ESG reforms, such as in relation to fund disclosure and naming requirements which aim to prevent greenwashing as well as proposed climate disclosure requirements. Meanwhile, certain states have taken a different approach, placing restrictions on certain firms that limit investment in areas such as fossil fuels and weapons on the grounds that such firms are not complying

with their fiduciary duty to maximise financial returns. This is a difficult balance for many firms to manage, not just within the US but also in relation to their ESG disclosures globally. We expect this trend of fragmentation to continue throughout 2023 as, whilst attempts at introducing standards with global application (such as the ISSB standards) are being developed, it is not guaranteed that these will be universally accepted by investors or regulators in all jurisdictions, and in any event it will take time to develop convergence. In the interim, 2023 looks set to continue the trend of an increasingly fast-paced regulatory change agenda in the ESG space.





2 Divergence and Rule Reform

Absent equivalence, regulatory divergence is an inevitability. The form that the divergence takes, however, is not. So far, the UK's approach has been somewhat patchy, focused on the battle between London and other financial services centres as a listing venue. Some important reforms have been tabled, and others remain under discussion. But there are a large number of untouched areas ripe for future consideration.

Remuneration is one, albeit a politically charged one. Whether 2023 sees bank bonus caps removed, or whether this proposal is buffeted by political headwinds, will be seen as an important sign of the state of relations between the City of Westminster and the City of London. However, the

application of many of the remuneration rules to smaller investment firms, which seems to retain the support of the FCA, is another area where a political intervention could help to improve the UK's competitiveness without making its financial centre significantly riskier.

Other areas of focus could be in respect of capital. For instance, it is not clear why the application of MREL requirements to smaller institutions significantly improves financial stability. A review of the capital treatment of foreign exposures, previously given preferential treatment at a European level, would also make sense. Too many rules designed to apply at G-SIFI level remain much more broadly applicable, and this may lead to scrutiny.

Finally, the way that any such reforms are enacted will require careful consideration. The Government managed seemingly to fall out with both its key regulators (PRA and FCA) and the key parliamentary committee (Treasury Committee) on its proposed call-in powers, first for proposing them, and then for its approach to parliamentary scrutiny of them, before dropping them altogether. The pace of change of rule reform will need to be acceptable to Parliament, the regulators, and the industry so that all can fully be engaged.





3

Consumer Protection and the Consumer Duty

“Firms have an important role in supporting consumers struggling with higher living costs.”

FCA

2023 has all of the hallmarks of the perfect regulatory storm for consumer protection compliance: the escalating cost-of-living crisis and the coming into force of the Consumer Duty. How firms approach the end-to-end journeys of their customers will be key to ensuring good outcomes for consumers and to avoiding any adverse regulatory interactions.

FCA has issued a number of statements and speeches urging firms to do what they can to help consumers during the current financial environment, and firms that ignore these do so at their peril. Firms should not assume that these are issues only for lenders or only for firms with individual retail customers, SME customers will also be impacted. While lenders may be seen to be at the forefront when faced with borrowers who may increasingly struggle to meet repayments, rising living costs and rising interest

rates impact customer choices on savings, investments, insurance, and pensions, and all firms must be alive to these issues. For example, a firm with customers already invested in a fixed-term investment product may think there is no focus on them, but what if a customer needs early access to their investment? Is this allowed? Will contractual exit penalties and fees be applied or waived? Firms should think of these issues in advance so they are ready when customers need answers.

The Consumer Duty amplifies these obligations on firms. It applies to new and existing products and services that are open to sale or renewal from 31 July, 2023 and to closed products or services from 31 July 2024. Despite the requests of many firms, the FCA has reiterated that these dates will not be moved.

In many ways, with the obligation on firms to deliver “good outcomes” for retail customers, the Consumer Duty should go a long way to helping customers during the cost-of-living crisis by ensuring that suitable products are available for all customers, representing fair value, which are designed and sold putting customer needs first. However, given the challenges of implementation and the risk of redress and enforcement for getting it wrong, there is a risk, in the short term at least, that firms will attempt to de-risk by withdrawing products from the market or only selling to those whose finances are not crunched. We would expect the FCA to be critical of this approach.





3

Consumer Protection and the Consumer Duty *continued*

“While the duty is not yet in force, firms should be stepping up now to support customers in these straitened times.”

Sheldon Mills, FCA Executive Director, Consumers and Competition

As firms grapple with implementation, the cost-of-living crisis provides real-life test cases for how effective new Consumer Duty frameworks are, and firms can expect the regulator to ask for live examples and detail on how consumer outcomes are improving. The FCA's website provides a wealth of information on the FCA's expectations in these areas and firms should regularly check for updates and factor these into both their approach to the cost-of-living crisis and their Consumer Duty implementation.

It is important to remember that the FCA intends to use its more assertive regulatory approach to supervise and enforce the Consumer Duty, brought to the forefront due to past financial scandals, political pressure, and the current financial environment, all of which provide the FCA with the impetus to swiftly bring high-profile action for non-or imperfect compliance with the Consumer Duty.





4 Conduct and Culture

We expect the FCA's concerted focus on and prioritisation of conduct, conduct risk, and culture to continue into 2023 and beyond. In particular, we anticipate ongoing FCA scrutiny in the following areas.

Conduct risk frameworks

Including the potential implications of the Consumer Duty in this context. Firms should be prepared for scrutiny of the design and efficacy of their conduct risk frameworks, including embeddedness. **ESG / greenwashing-related governance, risk, and control frameworks** will likely also attract significant regulatory focus, across both buy-side and sell-side institutions.

Efforts and initiatives in monitoring cultural trajectory

Including related governance and oversight. Firms should be ready, willing, and able to address FCA questions

in this area (in which demonstrable ongoing progress will be expected). Amongst other aspects, this would include diversity and inclusion, "psychological safety", and "listening up" (as well as "speak-up"). **Firms' approaches to, and handling of, non-financial misconduct** may well also be placed under the regulatory microscope — not least, to ensure that any "fitness and propriety" questions are being appropriately addressed. Two further areas likely to continue to attract FCA attention are **firms' conduct rule breach processes and outcomes and the overall quality of conduct rules training** (including relevance of content).

Much of the FCA supervisory focus in 2022 (including a significant proportion of the Section 166 exercises mandated) has related to conduct risk frameworks (or various aspects thereof); and we expect this to continue into 2023.

In 2023, we also expect to see continuations of the following emerging industry themes: increasing focus on behavioural skills and awareness training for managers at all levels; improved feedback provided following surveys and other employee engagement initiatives; enhancement of anti-retaliation monitoring and controls (in the whistleblowing context); refreshment of Senior Manager "reasonable steps" risk assessments; and associated control and oversight frameworks; increasing focus on rewarding and celebrating "above expectation" conduct; increasing focus on bystander intervention expectations; more systematic focus on values, ethics, and "moral compass" during recruitment processes; more systematic and culture-focused exit interview processes (as this is a potentially rich data source); further efforts to ensure that HR and compliance functions remain closely coordinated — for example, with respect to the filing of qualified form Cs and provision of related regulatory references — to ensure substantive consistency of narrative.





5 Changing Landscape of Overseas Persons

Timeline

- December 2020: HMT issued a Call for Evidence on the Overseas Persons Regime
- July 2021: HMT response to the Call for Evidence
- May 2022: IRSG published “The UK Regime for Overseas Firms”
- July 2022: FCA’s Perimeter Report

HMT launched its Call for Evidence on the Overseas Persons Regime two years ago to gather information on the related but distinct regimes of:

1. The overseas persons exclusion (OPE)
2. The Financial Promotion Order (FPO)
3. Recognised overseas investment exchanges (ROIE)
4. Overseas long-term insurers and investment services equivalence under the Markets in Financial Instruments Regulation (MiFIR)

The purpose of the review of the Overseas Persons Regime is to preserve the UK’s position as a global centre for financial services by maintaining its status as one of the most open to international firms in the world.

The resulting International Regulatory Strategy Group (IRSG) report suggested minor improvements in the access regimes to help make the UK more attractive to international firms.

FPO	Broadening of scope to allow for a wider range of financial promotions to be made into the UK
OPE	This exclusion will remain in place with minor changes to improve the clarity of interpretation of the exemption whilst not limiting its scope. However, FCA’s position is that the OPE is not intended to apply to firms wanting to run a UK-focused business. Further, FCA has made clear its desire for greater information requirements and powers along with greater visibility and oversight of firms using the OPE.
UK branches of overseas firms	Updates will include: <ul style="list-style-type: none"> • a clearer framework, particularly with regard to the scope of “deference” to the home supervisor of the overseas firms; • establishing better processes through which applications will be considered; • amending the factors for authorisation to introduce a requirement that the UK regulators “have regard to” the attractiveness of the UK as an inward investment destination, innovation, and applicable international standards; and • simplifying and improving the navigability of the regulatory requirements applicable to UK branches.
Thresholds for equivalence	The UK’s approach to equivalence will be based on the following: <ul style="list-style-type: none"> • An outcomes-based test (such as the concept of “deference”) rather than an EU-style detailed analysis of equivalence. • It should have procedural protections in place, to provide additional certainty to third-country firms and to the market generally. • If it is to be extended into new areas of financial services, it should be done only following proper analysis of the potential benefits. • The equivalence-style regimes should not take precedence over other means of access, and in particular, the existing situation in which firms that are within the scope of an equivalence-based regime are unable to rely on the OPR should be changed.





6 Anti-Money Laundering and Financial Crime

Firms' compliance with anti-money laundering (AML) and counter-terrorist financing (CTF) rules continues to be a key priority for the FCA, with recent enforcement action directed at firms, MLROs, and senior managers with responsibility for overseeing compliance with financial crime controls. Between December 2021 and the date of this publication, the FCA has issued fines against firms and/or individuals for breaches of AML and CTF rules and firm procedures, totalling approximately £73 million. The regulator's focus on AML and CTF is likely as a result of the Financial Action Task Force's 2018 review of the UK's financial crime framework, which criticised the UK's lack of enforcement as an effective deterrent to the UK's financial system being used for financial crime. Now is, therefore, a good time to review AML, CTF, and broader financial crime risk assessments, policies and procedures, training

programmes, and the terms of reference / statements of responsibility for the MLRO and/or SMF 17 (as appropriate) to check that firms have robust policies, procedures, systems and controls, and clear reporting lines in place.

Divergence between the UK's AML rules and those at EU level crystallised in 2022 and that gap will likely widen further over the next 12 to 18 months. In June 2022, the UK published the results of a limited post-Brexit review of the UK's implementation of the EU's money laundering directives, making various changes to the UK's regime that mean the UK and EU regimes no longer directly align. In addition, the UK has created a register of overseas entities that own UK property, requiring the registration of both the overseas vehicle holding the property as well as the vehicle's beneficial owners. Perhaps more significantly, the

EU has proposed a package of reforms that will, amongst other things, create a new pan-EU authority to combat money laundering and terrorist financing. The aim is for the authority to be established on 1 January 2023 and start its activities on 1 January 2024, although these dates are likely to slip back slightly pending completion of the EU legislative process. The EU has also proposed a new regulation setting directly applicable rules on client due diligence and beneficial ownership in Member States as well as revisions to the Transfer of Funds Regulation to include the travel rule for cryptoasset transfers (which will apply in the UK from 1 September 2023). A watchpoint for firms will be the potential for divergence between the EU's proposals and the outcome of the UK's continued, incremental reforms.





7 Diversity

“Driving change and working with industry to achieve a more diverse and inclusive financial services industry is a core part of the objectives set out in our Business Plan”.

Sheldon Mills, FCA Executive Director

Diversity, equity, and inclusion (DEI) remains a key area of focus for the regulators who have determined that, despite progress in this area, firms still need to do much more. In the UK, the FCA has confirmed that promoting DEI within financial services firms is a core part of its strategy and furthers its statutory objectives of protecting customers, making markets work well, and ensuring effective competition in consumers' interests.

In particular, the FCA has stated its view that firms should not lose sight of the importance of ensuring diverse representation in light of the heightened pressures from the cost-of-living crisis, and has encouraged firms to maintain and expand the momentum in relation to DEI. The FCA's most recent [Financial Lives Survey data](#) also found that certain demographic groups are nearly twice as likely to have difficulty keeping up with credit commitments and domestic bills.

In 2023, the FCA and the PRA will publish their long-awaited consultation paper on DEI (off the back of their [2021 discussion paper](#)). The FCA is also expected to publish its findings from a supervisory exercise and pilot data survey relating to DEI. Data collection and use, DEI strategies, inclusive cultures, and socio-economic diversity are expected to feature prominently in upcoming regulatory guidance.

The FCA regards collection and appropriate use of DEI data as essential for firms to assess the progress they are making in this area, and has stressed that firms have a duty to foster cultures in which staff feel safe to disclose diversity characteristics. Data collected should be used to focus firms' DEI strategies, which in-turn need to be executed, delivered, and measured, with accountability. To this end, the FCA has made clear that it believes that no DEI strategy can be effective without the creation of an

inclusive culture (see section 4 above), and that inclusivity needs to be systematically approached alongside diversity. Firms should therefore take practical steps to address the fundamental aspects of inclusivity to ensure that employees feel involved, valued, respected, and treated fairly. Finally, under the 2023 DEI regulatory agenda, socioeconomic diversity will likely receive increased regulatory attention.

Firms have long been taught that strong DEI performance has an overall positive effect on an organisation, reduces groupthink, and supports effective decision making. As regulatory scrutiny increases in 2023, they will need to consider how they can demonstrate focus on and progress in DEI to the regulators.





8

Ephemeral Messaging in a Hybrid World

In September 2022, the [SEC](#) and the [CFTC](#) announced a combined \$1.8 billion settlement with 11 major financial institutions for allowing their employees to conduct business on their mobile devices using third-party messaging platforms and “failing to honor their recordkeeping and books-and-records obligations”.

This landmark settlement further demonstrates that the SEC and other government regulators, including the FCA, are cracking down on bankers’ use of off-channel communications and ephemeral messaging platforms.

The use of messaging apps for business communications has increased significantly in recent years, partly as a generation more familiar with communicating in this way has joined the workplace. This trend was exacerbated by the COVID-19 pandemic and associated work-from-home restrictions. In its [Market Watch 66](#) published in 2021, the FCA warned “the risk from misconduct may be heightened or increased by homeworking” and set out its expectations for firms on recording telephone conversations and electronic communications when

alternative working arrangements are in place, including increased homeworking. This position made it clear that any communications relating to in-scope activities need to be recorded and be auditable, and policies banning the use of privately owned devices for in-scope activities may be required if recording cannot be carried out by the firm.

The FCA reportedly has also sent information requests to a significant number of big banks over the frequency and content of staff exchanges through texting and messaging. This information request may be a precursor to enforcement against some or all institutions that are regarded as having failed to comply with their regulatory obligations.

While using text and ephemeral messaging apps may serve as an efficient means of communication in this continuing global remote work environment, regulated firms should ensure that their employees’ communications are compliant with relevant regulatory obligations. Key items for firms to consider in addressing this issue include close examination of policies and procedures around message retention and the use of personal devices, to ensure they

have a rigorous monitoring regime in place if business activities may be conducted outside the controlled office environment. Additionally, firms should consider providing enhanced or refreshed training to staff covering the use of personal devices for firm activities, and the conduct risks involved in such use.

Firms should also consider additional technological safeguards to ensure adequate oversight and surveillance of use of electronic communications and identify and mitigate any new risks a remote working environment may create.

Nonetheless, whatever safeguards are in place, there is no compliance measure that can stop an employee who wants to use a prohibited messaging device. Firms should therefore have in place appropriate frameworks to address any non-compliant behaviour, including violations of firm policies and procedures with tangible consequences being enforced. Ultimately, the best solution may be for employees to have two separate devices: one for personal use and the other for professional use to try and maintain the distinction between business and personal communications.





9 US Research

Compliance with MiFID II will significantly affect the US-EU market for investment research in 2023. Since the implementation of MiFID II, which required the unbundling of research costs from execution costs, EU asset managers must pay for research either: (i) directly from their own funds, i.e., hard dollar payments; or (ii) from a research payment account (RPA) funded by clients (and subject to strict operational requirements). Compliance with requests to unbundle research costs raises the concern that the receipt of a separate payment or special compensation for research could subject the broker-dealer to additional SEC regulation and oversight as an investment adviser.

In response to these concerns, the SEC staff issued a no-action letter on [26 October 2017](#), providing temporary relief that permitted US broker-dealers to accept hard dollar payments from EU asset managers (or their sub-advisers) without registering as investment advisers under the Advisers Act. The relief under the no-action letters is due to expire in July 2023, and SEC staff have [announced](#) that the relief will not extend beyond the current expiration date. Given the regulatory divergence that will persist due to the

lack of permanent regulatory relief, firms should promptly design and implement tailored solutions in advance of the July 2023 deadline.

Solutions to address the US-EU regulatory divergence in this area include: (i) Dual Registration: US broker-dealers may elect to also register as investment advisers or form a new registered investment adviser (RIA) affiliate to provide research services, or (ii) Research Payment Accounts (RPA) accounts: EU asset managers may pay for research through RPAs instead of hard dollars.

Existing solutions, however, are at best imperfect: US broker-dealers opting for a Dual Registration structure likely will need to renegotiate research agreements with asset managers over the coming year to address compliance under the new business structure and additional regulatory obligations. For clients seeking sales and trading commentary and/or trading services in addition to analyst research, the Dual Registration structure could require added layers of complexity in order to comply with the Advisers Act. Firms will also need to consider whether to

allocate to clients the added costs of providing the service.

Similarly, for those US broker-dealers that refuse to accept hard dollar payments altogether, EU asset managers will need to choose between loss of research from their preferred providers or switching to payment for research through RPAs, which are currently highly disfavoured due to the added administrative burden.

As firms adjust to the upcoming July 2023 deadline, we anticipate: (i) a continued increase in the provision of global research provided from and paid for in Europe; (ii) further consolidation of the industry; (iii) significant advocacy and continued regulatory uncertainty leading up to the July 2023 deadline, resembling the environment in the latter half of 2017; and (iv) a shift in research providers and distribution models dependent on the structure adopted by US broker-dealers.





10 Regulation of Critical Third Parties

Timeline

- Feedback to DP22/3 is requested by 23 December 2022.
 - Following the enactment of the UK Financial Services and Markets Bill, which was introduced to Parliament in July 2022, UK regulators will consult on proposed rules and guidance for CTPs. They will also consult on a centralised framework for collecting information on firms' outsourcing and third-party arrangements in 2023. Once the regulators have finalised their rules, HMT will begin designating CTPs.
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The FCA, PRA, and the Bank of England are currently discussing the introduction of a new regime for critical third-party providers (CTPs) to UK financial services firms.

It is expected that HMT will commence designating third parties as CTPs in 2023. The designation will be made in consultation with the regulators and other relevant persons as HMT considers appropriate, if it believes a failure in or disruption to the provision of those services (either individually or, when more than one service is provided, taken together) could threaten the stability of or confidence in the UK financial system and in accordance with:

- the materiality of the services provided, by any person, which aid the delivery of essential activities, services, or operations; and

- the number and type of authorised persons, relevant service providers, or FMI to which the person provides services.

Third-party providers to the UK financial services sector should review their existing and future arrangements with firms and FMIs and with entities in their supply chains to determine whether they have potential to be designated as CTPs. In the event designation seems likely, third parties should consider the regulator's areas of focus (mainly minimum resilience standards for services provided by CTPs to firms and FMIs to improve response and recovery when disruptions occur and a framework for resilience testing, including scenario testing, cyber resilience testing, and sector-wide exercises and skilled persons reviews of CTPs) and undertake an initial scoping exercise for future implementation projects, while also informing ongoing and future engagement with firms and FMIs in the UK.

The proposed regime will also impact contractual negotiations. CTPs will seek to impose certain requirements on firms and FMIs (e.g., in respect of cooperation, coordination, and information requirements) and will also need to flow down their new regulatory requirements on entities in their supply chains. Therefore, CTPs, firms, and FMI's will need to consider performing an early mapping of their current contractual arrangements and engage in dialogue early to ensure alignment with regulatory requirements and expectations.

CTPs will need to demonstrate compliance with the minimum resilience standards by providing "attestations and other relevant information" to regulators. Therefore, third parties should consider who is the most appropriate individual within the firm to sign the relevant attestation and how the individual would be able to comply or act in line with the attestation, given the serious obligations that will be imposed on the signatory.





10 Regulation of Critical Third Parties

continued

Regulators hope that the rules will strengthen the resilience of services provided by CTPs to the UK financial sector, and clarity on the regulatory expectations in overseeing and delivering these critical dependencies is no doubt positive. However, we expect CTPs to face significant costs due to new compliance and governance requirements, direct supervision, and close regulatory oversight and a period of complex negotiations between CTPs and firms as the scope of the regulatory lens starts to embed into service agreements¹.

¹ The supervisory authorities would not have any responsibility or powers for wider regulation and supervision of CTPs or for the resilience of the services they provide to other sectors. This service-based approach recognises that some potential CTPs may provide services to many other sectors besides financial services.



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