

8 August 2018

Dear CEO,

Cross-Border Booking Arrangements

The UK's withdrawal from the EU has necessarily resulted in firms needing to put into place contingency plans which when executed will impact current business models, legal entity strategies and booking arrangements. The FCA appreciates the information you have already provided on your plans. It is important that your firm continues to provide us with all necessary information and does not take decisions without first speaking to the FCA.

The FCA has an important statutory objective in respect of the integrity of financial markets in the UK. The duties that we have gained from the implementation of EU Directives and Regulations, such as the Markets in Financial Instruments Directive (MiFID) II and the Market Abuse Regulation (MAR), will continue, as will our responsibility for conduct of business in financial markets. As we have stated publicly, we do not intend to restrict market access using regulatory or supervisory tools. Such an approach would be inconsistent with our objectives as it would result in a fragmented market, impose costs on clients and consumers and increase the risk of financial instability.

If you are expanding your presence elsewhere in Europe, the structures you put in place must enable us to supervise the conduct of your UK business effectively and ensure that you continue to meet our threshold conditions. When designing the structures you should assess whether the proposed changes are in the best interests of your clients.

We are aware that some authorities elsewhere in Europe have set out specific requirements as regards business models. We are open to a broad range of legal entity structures or booking models. This includes those making use of back-to-back and remote booking, providing their associated conduct risks are effectively controlled and managed. Our starting point is therefore not to restrict business models but to

understand the principles and practice involved and how the conduct risks that arise from them are managed. As such, booking models should comply with the following principles:

- Firms should set out a clear rationale for their booking arrangements, document them and have them approved by the Board.
- Risk management should be appropriate for the firm's booking activities including hedging arrangements.
- There is a broad alignment of risk and returns at the entity level.
- Firms should have adequate systems and controls in place to ensure that booking arrangements are followed.
- Firms should consider whether responsibility for oversight of booking arrangements should be explicit in statements of responsibilities.
- Booking arrangements should not be an impediment to the firm's recovery and resolution.

We expect UK Boards and Senior Managers to ensure that effective governance is in place to identify and mitigate the potential harm which could arise from modified booking arrangements. Firms should also be able to demonstrate how the principles above have been observed and implemented. For dual-regulated firms, this approach, including the principles above, is consistent with the PRA's established approach to booking practices and we will continue to liaise closely with PRA colleagues on their implementation in the context of EU withdrawal.

We are always ready to discuss these issues.

Yours sincerely

Andrew Bailey

Chief Executive Officer