Table 1 Checklist of actions to avoid disruption to end-users of financial services at the end of the transition period

This checklist reflects the risk of disruption to end-users including households and companies if no further arrangements are put in place for cross-border trade in financial services for the end of the transition period on 31 December 2020. The risk assessment takes account of progress made in mitigating any risks. It assesses risks of disruption to end-users of financial services in the UK and, because the impact could spill back, also to end-users in the EU.[(a)]

Risks of disruption are categorised as low, medium or high. Blue text represents additional considerations now that the UK has left the EU with a Withdrawal Agreement and entered a transition period.

The checklist is not a comprehensive assessment of risks to economic activity arising from the end of the transition period. It covers only the risks to activity that could stem from disruption to provision of cross-border financial services.

	Risk to UK	Risk to EU	
Ensure a UK legal and regulatory framework is in place			The passage of the EU (Withdrawal) Act 2018 and secondary legislation has ensured that an effective framework for the regulation of financial services will be in place, and that EU financial services companies can continue to serve UK customers. Some secondary legislation is still required to implement the domestic state aid framework and to ensure new EU legislation and provisions coming into force in 2020 can operate effectively following the end of the transition period.
Insurance contracts			The UK Government has legislated to ensure that the 16 million insurance policies that UK households and businesses have with EU insurance companies can continue to be serviced after the end of the transition period. UK insurance companies have restructured their business in order to service the vast majority of the £60 billion of EU liabilities. They plan to continue to progress restructuring of the £5 billion liability remaining through 2020. The European Insurance and Occupational Pensions Authority (EIOPA) published recommendations to national authorities last February supporting recognition or facilitation of UK insurance companies' continued servicing of EU contracts. EIOPA has confirmed that these recommendations should apply at the end of the transition period.
Asset management			Co-operation agreements between the Financial Conduct Authority (FCA), European Securities Markets Authority (ESMA) and EU National Competent Authorities have been agreed. This enables EU asset managers to delegate the management of their assets to the UK. The UK Government has legislated for EU asset management firms to continue operating and marketing in the UK. And to operate in the EU, the largest UK asset managers have completed their establishment of EU authorised management companies.
Banking services			The UK Government has legislated to ensure that UK households and businesses can continue to be served by EU-based banks after the end of the transition period. EU authorities have not taken similar action. As a result, major UK-based banks are transferring their EU clients to subsidiaries in the EU so that they can keep providing services to them. All material subsidiaries are now authorised, fully operational and trading. Firms continue to build the capacity of their EU entities. On average, about two thirds of clients, including larger clients which represent a greater share of activity, of major UK-based banks have now completed the necessary documentation to enter into derivative trades with the EU entities. The number of clients actively trading in the new entities is materially lower. Some operational risks therefore remain, including if many clients seek to migrate to the EU entities in a short period of time. These could amplify any other disruption in the market. If the EU deems the UK's regulatory and supervisory regimes as equivalent to their own for the purposes of Markets in Financial Instruments Regulation (MiFIR) and other regulations, this would allow for material cross-border access for investment services which could further reduce the residual risk of disruption.

(a) In most cases, the impact on EU end-users will apply to the wider European Economic Area (EEA).

OTC derivative contracts (uncleared)			Certain 'lifecycle'[b] events may not be able to be performed on UK/EEA uncleared derivative contracts after the end of the transition period. This could affect £17 trillion of uncleared derivative contracts between the EU and UK, of which £10 trillion matures after 31 December 2020. In the absence of mitigating actions, this could compromise the ability of derivatives users to manage risks. The UK Government has legislated to ensure that EU banks can continue to perform lifecycle events on contracts they have with UK businesses. The European Commission has not reciprocated for UK-based banks' contracts with EU businesses. As a result of the UK leaving the EU with a Withdrawal Agreement, many temporary national regimes which had sought to address this risk will not be available at the end of the transition period. Some EU member states have permanent national regimes which could enable lifecycle events on certain contracts to be performed. If the EU deems the UK's regulatory and supervisory frameworks as equivalent for the purposes of MiFIR and other regulations, this would mitigate risks of disruption to lifecycle events on the majority of contracts.
OTC derivative contracts (cleared)			The UK Government has legislated to ensure that UK businesses can continue to use clearing services provided by EU-based clearing houses. There are currently £59 trillion of derivative contracts between UK central counterparties (CCPs) and EU clearing members, £37 trillion of which is currently due to expire after December. To continue servicing EU clearing members after the end of the transition period, the UK and UK CCPs will require either permanent or temporary equivalence and recognition. Without clarity on prospective EU action by September, UK CCPs would need to begin closing out or transferring derivative contracts with EU clearing members, in order to mitigate the risk of material market disruption and to respect notice periods in CCP rulebooks.
Personal data			The UK Government has legislated to allow the free flow of personal data from the UK to the EU after the transition period. The European Commission will undertake an assessment of the adequacy of the UK's data protection standards. If the EU does not deem the UK's data regime adequate, both UK and EU households and businesses may be affected due to the two-way data transfers required to access certain financial services. Companies can add standard contractual clauses (SCCs) into contracts in order to comply with the EU's cross-border personal data transfer rules in the absence of adequacy. UK firms are generally well advanced in implementing these clauses. An ongoing case before the Court of Justice of the European Union could impact the validity of SCCs. The FPC notes that the Advocate General's opinion, published in December, recommended SCCs should remain valid.

(b) These lifecycle events include amendments, compressions, rolling of contracts or exercise of some options.

Table 2 Other risks of disruption to financial services

These risks could cause some disruption to economic activity if they are not mitigated and there are no further financial services arrangements in place at the end of the transition period. The FPC judges their disruptive effect to be somewhat less than that of those issues in its checklist.

Access to euro payment systems	The Single Euro Payments Area (SEPA) schemes are currently used by UK payment service providers (PSPs, including banks) to make lower-value euro payments such as bank transfers between businesses, mortgage and salary payments on behalf of their customers. The European Payments Council (EPC) has stated that the UK would retain SEPA access after its withdrawal from the EU subject to continued compliance or functional equivalence with established participation criteria. Once the UK becomes a third country, processing some payments — notably direct debits — will require additional information to be included for the payment instructions to meet regulatory requirements. Firms continue to put the necessary information in place where possible, but may not resolve all information gaps in time. This could result in disruption to both EEA and UK customers and businesses seeking to make and receive payments. UK firms will also need to maintain access to TARGET2 to use it to make high-value euro payments. UK banks intend to access TARGET2 through their EU branches or subsidiaries or correspondent relationships with other banks.
Ability of EEA firms to trade on UK trading venues	EU-listed or traded securities are traded heavily at UK venues which offer deep liquidity pools for a range of securities traded by UK and EU firms. The EU's Trading Obligations require EU investment firms to trade EU-listed or traded shares and some classes of OTC derivatives on EU trading venues or venues in jurisdictions deemed equivalent by the EU. The UK will also have analogous trading obligations when it leaves the EU. Firms and venues are taking action to ensure they can trade securities and affected derivatives in both the EU and UK and other equivalent jurisdictions after the end of the transition period. However, the process of adjustment might pose operational risks. And it would fragment liquidity across jurisdictions and venues. The EU and UK could deem each other's regulatory frameworks as equivalent for the purposes of MiFIR and other regulations, thereby mitigating risks of disruption.
Servicing banking and insurance customers	Major UK banks' and insurers' continued actions to prepare their EU subsidiaries will enable their provision of new services to many EU customers after the end of the transition period. However, depending on the scope and availability of national regimes, the loss of passporting might also impact the ability of UK banks and insurers to provide some services to existing customers resident in the EEA.
Financial market infrastructure	After the end of the transition period, UK financial market infrastructures (FMIs) will no longer be protected under EU law against payments or transfers being revoked, or collateral being clawed back, in the event that an EEA member enters insolvency. EEA countries accounting for almost all the EEA members of UK FMIs have implemented national legislation intended to provide settlement finality protection in the event of insolvency of local firms using financial market infrastructure in non-EU countries. However, because the UK has left with a Withdrawal Agreement, a number of member states will need to amend their domestic legislation to maintain settlement finality protection. The UK Government has legislated to allow central securities depositories (CSDs) based outside the UK to provide CSD services in the UK for a time after the transition period. However, for UK CSDs to continue to provide certain services to issuers in respect of securities issued under EU law after the end of the transition period, the UK and UK CSDs will require either permanent or temporary equivalence and recognition.
Increased prudential requirements	From the end of the transition period, EU regulations will subject EU banks' and insurance companies' UK exposures to stricter capital and liquidity requirements. Some restrictions might also be imposed for EU Money Market Funds and institutional investors on holdings of UK-managed or located exposures. The UK would similarly subject UK-authorised firms to stricter requirements on EU exposures. Legislation in place in the UK would allow regulators to delay the impact for UK-based firms. If the EU and UK were to deem each other's regulatory and supervisory regimes as equivalent, this would avoid the application of some of these requirements.
Credit rating agencies (CRAs)	EU rules will prevent some banks and insurance companies in the EU from calculating prudential requirements using ratings issued by UK CRAs unless the ratings are endorsed by an EU CRA after the end of the transition period. A co-operation agreement exists between ESMA and the FCA, and UK CRAs have EU entities to endorse UK ratings. EU and UK authorities have also completed assessments to facilitate such endorsements. The decision to endorse ratings ultimately lies with the CRA.