Financial Services: The year ahead

2020
Contents

Introduction 4

Global regulatory coherence 6

Diversity and culture, and the FCA’s approach to non-financial misconduct 8

China’s New Foreign Investment Law: The impact on financial institutions 10

The Dawn of the Open Era: Open Banking in Asia-Pacific 12

Vulnerable customers, duty of care and financial services: what does the future hold? 14

Open everything and improved security: Life after PSD2 18

Mexican FinTech Law 24

Anti-money laundering in the UK & U.S.: Looking ahead 28

Listening when sanctions regulators speak 30

Cryptoassets: Will 2020 bring a clearer view of their status? 32

Peer-to-peer lending: Out of the shadows? 34

Making it pay: Will the internet of things become the internet of payments? 36

New EU prudential framework for MiFID investment firms 38

Our commitment to innovation 42

Citizenship & diversity 44

Pro bono - making a world of difference 45

About Hogan Lovells 46
Disruption looks set to remain business as usual for the global financial services sector in 2020.

While the UK landscape continues to be dominated by Brexit, in this snapshot of developments in the pipeline, we start off by instead looking at the bigger picture of global regulatory coherence and the competing interests that need to be balanced for global regulatory standards to continue to thrive and shape the future of global regulation.

More than 10 years after the collapse of Lehman, regulators are continuing their work to make the financial world a safer place. We consider the increasing challenges that financial institutions face in meeting compliance requirements ranging from AML and sanctions, to diversity and culture. In the UK, fair treatment of vulnerable customers remains a hot topic, with the FCA contemplating whether or not to introduce an express duty of care on firms in the provision of services to consumers.

Challenges sit side-by-side with opportunities in financial services; we also discuss some of the encouraging signs that markets are opening up - from PSD2 in the EU to open banking in Asia-Pacific and the new Foreign Investment Law in China.

Technology and innovation continue to shape the sector, with regulators encouraging innovation both from FinTechs and from the more traditional banking sector. We explore changes in the Mexican FinTech ecosystem, which has evolved to become one of the most developed and dynamic in Latin America. Cryptoassets are continuing to challenge regulators, so what do we know about their regulatory status and the extent to which this is likely to be clarified in the year ahead? We also reflect on what 2020 holds for UK peer-to-peer (P2P) lending as it faces the introduction of new rules and more intrusive supervision, as well as the likelihood that the year will bring greater clarity on the UK’s post-Brexit direction. We also look at the growth of connected devices (the “Internet of Things”), why payments are so important to this growth and where it’s all headed.

The new EU prudential regime for investment firms will present further change for MiFID investment firms. We look at the regime and how it sets out new rules and requirements with respect to capital, liquidity, regulatory reporting, internal governance and remuneration.

This publication is a taster of what’s on the financial services horizon in 2020 and what it means for you. We hope to share further insights on these and other topics with you at our Financial Services Horizons Series of events and seminars over the next 12 months.

Emily Reid
Partner, London
T +44 20 7296 5362
emily.reid@hoganlovells.com
Global Regulatory Coherence

Interest is growing in the future of regulatory policy across the globe. Key impacts include financial stability, market fragmentation, regulatory arbitrage and national autonomy. In part, the future development depends on the extent of global regulatory coherence and what that might look like. What is the direction of travel in this respect?

The Bank of England and the UK Financial Conduct Authority (FCA) have stressed that the UK’s withdrawal from the EU should not be an opportunity to race to the bottom in regulatory standards. On the contrary, says FCA chair Charles Randell, “[w]e will need to redouble our engagement with our policymaking and regulatory colleagues in Europe and across the world, to continue to influence global standards of financial regulation”.

There has been increasing globalization of the financial sector over recent decades. The 2007-8 financial crisis led to a broad consensus for international regulatory standards and increased coherence to strengthen the global financial system. Initiatives are led by the G20, through international standard setters, such as the Basel Committee on Banking Supervision, the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS) and the Financial Stability Board (FSB). As expressed by the G20 in Japan last year, “An open and resilient financial system, grounded in agreed international standards, is crucial to support sustainable growth”.

However, the level playing field has not been as “levelled” as had been initially imagined, and there is often divergence in the implementation of international standards. To combat this, in the EU, the European Commission has moved away from the use of directives as the predominant method by which policy is enacted. Directives allow EU member states discretion in their method of implementation. The Commission increasingly implements policy by regulations, which impose identical laws on EU member states. Even then, disparities in interpretation can arise. In addition, as memories of the financial crisis fade, and in the current political climate, it remains to be seen to what extent international players will follow the ethos of coherence.

The tensions are summed up by the European Commission in a recent Communication on equivalence:

“The EU commitment to global regulatory convergence around international standards is unwavering. At the same time, these global frameworks have a general standard setting purpose and are not always fit for addressing concrete questions emerging in a specific bilateral context.”

This reality is unlikely to change in the foreseeable future. Indeed, both the FSB and IOSCO last year published research into market fragmentation (which can arise as a result of differences in international regulation and supervision) and cross-border regulation, in which they identify areas for further work to address the adverse effects of market fragmentation.

Currently, there are many different approaches to allowing access to jurisdictions based on acceptance of regulatory regimes in third countries. These include “equivalence”, “comparability” and “deference”.

“Equivalence” relies on a third country being assessed, by the European Commission, as having a regulatory framework equivalent to that of the EU. A positive equivalence assessment allows non-EEA “third countries” to access the EEA market. In making equivalence assessments, the European Commission is also taking a firmer stance. In addition, the political undertones behind the unilateral equivalence assessment are apparent in the European Commission’s acknowledgement that during the process:

“…the Commission also needs to consider whether equivalence decisions would be compatible with EU policy priorities in areas such as international sanctions, the fight against money laundering and terrorist financing, tax good governance on a global level or other relevant external policy priorities.”
Despite trends towards economic protectionism globally, in the US, J. Christopher Giancarlo, while Chairman of the Commodity Futures Trading Commission (CFTC), gave encouraging messages on its deference concept in relation to the derivatives markets:

“Mutual commitment to cross-border regulatory deference ideally should mean that market participants can rely on one set of rules – in their totality – without fear that another jurisdiction will seek to selectively impose an additional layer of particular regulatory obligations that reflect differences in policy emphasis, or application of local market-driven policy choices beyond the local market. This approach is essential to ensuring strong and stable derivatives markets that support economic growth both in the United States and around the globe.”

It remains to be seen if Giancarlo’s vision will be developed. In the same speech Giancarlo acknowledged that the CFTC should seek stricter comparability standards for requirements which address systemic risk. However, this appears to allow for a much narrower scope for protectionism than the wide range of policy issues that the EU permits to influence an equivalence assessment and addressing systemic risk is a global interest for financial markets, not only a domestic concern.

Post-Brexit, it is unknown whether and to what extent the UK and the EU will deem each other equivalent and to what extent their regulation will diverge from each other. The weight of global standards could mean a degree of consistency irrespective of the extent of positive equivalence decisions from the European Commission. We do know that each wish to retain sovereignty over their law making powers.

One concept which may ease the conflict of regulatory coherence while retaining sovereignty is an assessment based on outcomes, not rules, supported by Andrew Bailey, Chief Executive of the FCA:

“And, wherever possible, those outcomes should flow from global standards, which should always be the best test of equivalence. Our financial markets are global not regional.”

Despite the fading memory of post-crisis drivers and the rise in protectionism, it seems we have continuing support for global standards. Still, we are yet to see from a global perspective which will prevail. For global standards to continue to thrive, it is apparent that tensions must be balanced with the protection of global financial markets in a way that facilitates the increasing desire for countries to retain sovereignty over their law making powers.
Diversity and culture, and the FCA’s approach to non-financial misconduct

Over recent months, the FCA has been sending out a clear message to the financial services industry: diversity is no longer a “nice to have” but a “commercial imperative” - and firms need to listen and act in order to meet these challenges.

This messaging is part of the FCA’s on-going focus on culture within the financial services industry. Major strides have been made through introduction of the Senior Managers Regime and new rules on remuneration and incentives. However, rules can only go so far, and increasingly the FCA’s focus is on the steps firms need to take to “create and maintain healthy cultures where people do the right thing and take responsibility for outcomes”. In assessing a firm, the FCA pays close attention on four key drivers of behavior - the firm’s purpose, leadership style, approach to rewarding and managing people and governance.

The recent focus on diversity and inclusion builds on this approach. As the regulator points out, diversity makes good business sense: it brings different thinking styles, unique perspectives to problem-solving, avoids group think and fosters innovation, all of which can positively impact the bottom line. And of course, social justice requires that everyone should have a chance to develop and succeed according to their talents and ambitions, whatever their social background, gender, ethnicity or protected characteristics.

However, the FCA goes further. Going forward, diversity and inclusion will be a key supervisory question for the FCA, for example, in authorization interviews, supervisory assessments and in consideration of what drives a firm’s culture. An inclusive culture that values and encourages diversity is one that will have wider benefits for the organization and for the stability of markets and outcomes for customers. Equally, a culture which tolerates serious personal misconduct, bullying, racism, sexual discrimination or sexual misconduct is a toxic work environment which discourages individuals from speaking up or challenging decisions; such a culture can lead to bad outcomes for customers, staff, stakeholders and the firm.

This does raise interesting questions as to what action the FCA can or should take in relation to diversity. To what extent is it right for a financial regulator to police non-financial misconduct? The FCA says it does intend to pursue non-financial misconduct using its new senior managers and conduct regime. No disciplinary proceedings have been brought by the FCA so far in relation to non-financial conduct issues, but the FCA has confirmed, in response to a Freedom of Information Act request that, as at November 2019, it had seven open enforcement investigations into allegations of non-financial misconduct. Six of those investigations are into individuals and one is into a firm. Clearly, the FCA consider such matters as highly relevant to the fitness and propriety of senior individuals within firms: “from our perspective, misconduct is misconduct, whether it is financial or non-financial”.

Encouraging diversity, is therefore, something that firms need to take seriously, and will form a core part of the regulatory agenda in future. There are no easy fixes: in the FCA’s words: “deciding to incorporate, say, more women in your team, is not a silver bullet. Because if those women had similar upbringings, went to similar schools and had similar career paths, then it stands to reason that their thinking will be similar too”. Instead firms need to be thinking of diversity in terms of “varied life experiences – race, age, social background, sexual orientation, education, the list goes on... while strides have been made by some firms around, for example, gender, industry is falling down when it comes to social mobility”.

Firms, therefore, need to conduct a holistic review of their approach: for example, to re-consider their recruitment and retention strategies, set targets and establish ways to measure progress, review work methods, processes and structures, review training, consider the management of
remuneration and promotion decisions, review the physical work environment to remove barriers - with all these initiatives being led with the appropriate “tone from the top” in terms of senior management commitment and communication.

With regard to addressing non-financial misconduct, consideration should be given, among other things, to issues like updating HR and compliance policies, training, and appropriate messaging about the expectations in relation to non-financial conduct and warnings to staff in relation to these issues. Again, key to the success of such strategies is senior level leadership and commitment.
China’s New Foreign Investment Law: the impact on financial institutions

China’s new Foreign Investment Law (“FIL”) was passed by the National People's Congress (“NPC”) of the People’s Republic of China (“China” or “PRC”) in 15 March, 2019. The FIL will take effect from January 1, 2020, and the existing legislation that has formed the backbone of Foreign Direct Investment (“FDI”) regulation in China since the 1980s (currently scattered over three laws) will be repealed on the same day.

The most significant impact of the FIL is the shift of corporate governance structures and corporate actions from those set out in the laws currently governing foreign invested enterprises (“FIE Laws”) to those provided under the PRC Company Law (“Company Law”) or the PRC Partnership Law. The same basic premise applies to financial institutions. Historically, regulators have stipulated various rules on corporate governance which apply generally to the sector, but foreign-funded financial institutions (“FFFIs”) have often been carved out. Going forward, the FIL will require governance structures of entities formed under the FIE Laws to align over a five-year period counting from the effective date of the FIL with those under the Company Law, to be consistent with those of their domestic capital counterparts.

It is worth mentioning that the FIL also clarifies the position for FFFIs when there is uncertainty as to which prevailing rule should be chosen from several inconsistent applicable rules (the “Inconsistency Issue”). With the introduction of Article 41 of the FIL, and based on Article 218 of the Company Law, it is now clear that in case of inconsistency, industry rules (like the rules issued by the China Banking and Insurance Regulatory Commission (“CBIRC”)) applicable to FFFIs will prevail over the FIL, and the forthcoming implementing rules for the FIL and other rules applicable to FIEs will continue to prevail over inconsistent provisions of the Company Law.

In reality, taking foreign funded insurance companies (“FFICs”) as an example, after the FIL comes into force, given that the Foreign-funded Insurance Company Administrative Regulations (“FFIC Regulations”) and the Foreign-funded Insurance Company Administrative Regulations Implementing Regulations (“FFIC Implementing Regulations”) are basically silent on the issue of corporate governance, presumably the corporate governance provisions in the Company Law would apply to FFICs. However, the minimum registered capitalization provisions set out in Article 7 of the FFIC Implementing Regulations provide that equity joint venture (“EJVs”) and wholly foreign-owned enterprise (“WFOE”) insurance companies need to have a minimum registered capital of RMB 200 million (fully paid up in cash) would still apply. In other words, to the extent that those FFFI-sector laws are silent on a given issue, the provisions of the FIL (including the reference back to the Company Law as the main source of governance rules) will be the fall-back law for regulating FFFIs, leaving FFFIs as odd hybrids under the new FIL regime.

While the introduction of the FIL is a worthy attempt at streamlining the rules applicable to FIEs (including FFFIs), the legal regime applicable to FFFIs is still far from being comprehensive, cohesive or anywhere near systematic (the “Conclusive List Issue”). On the one hand, regulation in relation to many aspects, including market entry, commencement of business inspection and management differ between FFICs and domestically-
funded insurance companies (“DFICs”) as well as between foreign-funded banks (“FFBs”) and domestically-funded banks (“DFBs”). On the other hand, the regulatory distinction between FFFIs and domestically-funded financial institutions (“DFFIs”) is inconsistent with the way other types of foreign invested enterprise (“FIE”) are regulated under the FIE Laws. These leave us with a messy patchwork of laws applying to financial sector FIEs. Presumably, those issues will resolve gradually over time once we have “across the board” equal treatment with DFFIs (“National Treatment”).

Articles 3, 9 and 16 of the FIL, among other things, place greater emphasis on fair competition and equal treatment between foreign investors and Chinese domestic capital investors. This is consistent with the declared financial opening up policy of the Chinese government. On July 20, 2019, the People’s Bank of China officially issued 11 measures to further expand the financial sector’s opening up to the outside world, including encouraging FFFIs to participate in the establishment and investment of the wealth management subsidiaries of commercial banks, permitting foreign investors to contemplate investing into FFICs without being subject to the 30-year track record requirement, and fully liberalizing the 51 percent foreign shareholding restriction in a life insurance company in 2020 (which is one year earlier than originally planned).1

Although the liberalization measures set out above will bring true National Treatment a step closer, given the extent to which DFFIs are entrenched within their markets and have established extensive national subsidiary and branch networks, plus fierce competition from online banks and payment companies, it will still be a steep mountain for FFFIs to climb when seeking to compete with these. We believe improving product design and corporate governance are likely to be key battlegrounds for FFFIs in China.

To read the full article, please visit our website.

The Dawn of the Open Era: Open Banking in Asia-Pacific

Asia-Pacific region economies are often spoken of in terms of their rapid adoption of mobile communications and the run-away success of e-commerce platforms and mobile payments. It is no wonder then that lawmakers in the region have turned to evaluate “open” initiatives in financial services, whereby data will flow freely through an ecosystem of financial institutions, FinTechs and other players seeking to leverage technology to provide innovative new services.

UK Open Banking is often held up as the template for these initiatives, a regime that forces an opening of payment account data by leading financial institutions, primarily as a competition law and Payment Services Regulatory remedy directed at enabling consumers freer choice in financial services and an “unbundling” of the universal banking model. Banking under the UK model aims to be “open” in the sense of creating a fully interoperable environment, with standardized application program interfaces (“APIs”) that support the release of payment account information and enable the communication of consumers’ payment instructions to institutions through FinTechs.

In the APAC region, Australia has seen a similar movement, with the Australian Competition and Consumer Commission set to implement a Consumer Data Right that seeks to enable frictionless consumer choice to move their data from service provider to service provider across a wide range of sectors, with financial services being the first implementation. Notably, Australia’s open initiative is focused only on data, with no corresponding move to require institutions to accept transaction instructions delivered through FinTechs and other non-bank players. Like the UK, however, Australia’s focus is on improving competition and so amounts to a “forced opening” of institutional data.

Other jurisdictions in the region are more focused on encouraging technological innovation and FinTech investment than on directly addressing competition-related concerns about market inefficiencies. Hong Kong stands as a leading example on this score, with a contractual approach under its Open API Framework. The Hong Kong Monetary Authority (the “HKMA”) has not mandated API standards directed at achieving a fully interoperable ecosystem, and the regulator will not have general oversight of the collaboration space given that FinTechs are not generally regulated by the HKMA. Instead, financial institutions serve as gatekeepers carrying out due diligence on collaboration partners and entering into contracts that reflect institutions’ regulatory requirements in areas such as data protection, technology risk management and customer care. The HKMA has directed the banking industry to develop a set of minimum requirements for assessing and onboarding FinTechs, but decisions by institutions to collaborate will generally be left to risk-based assessments.

Singapore has taken an even less prescriptive approach, publishing an API Playbook that institutions may consult when evaluating API collaborations. There is no specific requirement that institutions open their data to non-bank competitors or collaboration partners. As is the case with the HKMA, Singapore’s Monetary Authority does not regulate the full range of FinTechs and so will not have general oversight of the environment. Other jurisdictions in the region are evaluating open banking initiatives and so we can expect further variations in the approach to regulation to emerge.
The “Open Era” is just dawning in financial services. We can expect to see lawmakers and regulators in the Asia-Pacific region continue to experiment with new approaches to regulation and refine approaches once they gain experience.

Whether implemented as part of a “forced opening” of institutional data or under a voluntary approach, API collaborations will succeed or fail on the strength of the underlying business model and the confidence consumers have in trusting their data to non-bank players. Getting the right balance will be key. This is an exciting new area for collaboration and, a competition between financial institutions and tech companies, and offers bank customers new ways of engaging with their accounts and account information. Protecting consumer interests and preserving the stability and integrity of the financial system are critical interests. But, a careful risk-weighting is needed in order to create space for innovation.

Mark Parsons
Partner, Hong Kong
T +852 2840 5033
mark.parsons@hoganlovells.com

Roger Tym
Partner, London
T +44 20 7296 2470
roger.tym@hoganlovells.com
A number of current FCA initiatives are designed – in varying degrees – to address the issue of fair treatment of vulnerable customers in the financial services sector. The FCA’s definition of a vulnerable customer is intentionally broad and it’s clear that “vulnerability” is not a static state of affairs; customers may move in and out of “vulnerability” as circumstances dictate. According to the FCA, half of UK adults (25.6 million people) display one or more characteristics of potential vulnerability. Vulnerable (or potentially vulnerable) customers are therefore likely to comprise a significant proportion of a firm’s customer base at any given time. With this in mind, what additional protections for vulnerable customers is the FCA contemplating and what can financial services firms expect in this area?

FCA consultation on fair treatment of vulnerable customers

In July 2019, the FCA published a consultation on draft (non-Handbook) guidance for firms on the fair treatment of vulnerable customers. The draft guidance sets out the FCA’s preliminary view on what the Principles for Businesses require of financial services firms to ensure the fair treatment of vulnerable consumers. Firms will want to review their policies and procedures against the draft guidance and address any gaps.

The FCA defines a vulnerable consumer as ‘someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care’ (Occasional Paper 8 on Consumer Vulnerability). It points out that consumers’ circumstances are constantly changing and, therefore, vulnerability can be both ‘actual’ and ‘potential’. It is dependent, to some degree at least, on the nature of a customer’s treatment by firms and the level of complexity of the products or services that a customer is engaging with as well as the customer’s personal circumstances.

The FCA’s draft guidance focuses on consistency of outcomes for vulnerable retail consumers across the financial services sector and when compared with outcomes for other (non-vulnerable) retail consumers. The draft guidance does not specify a checklist of required actions. Instead, it outlines ways in which firms can comply with the Principles and adapt their practices to the constantly changing landscape and consumers’ requirements. The guidance includes examples of good practice and case studies demonstrating good and poor practice, all developed from the FCA’s stakeholder engagement on vulnerability issues.

The draft guidance sets out the five Principles which underpin the fair treatment of vulnerable customers: Principles 2, 3, 6, 7 and 9. Principle 6 is singled out as being key to underpinning the need for firms to take particular care in the treatment of vulnerable customers.

The draft guidance underlines the importance of understanding vulnerable consumers’ needs in the context of a particular target market and customer base and translating that into practical action in terms of product and service design, customer service and communication. The FCA wants to see ‘doing the right thing for vulnerable consumers deeply embedded in the culture of firms’ and expects firms to ensure their staff have the right skills to deal with vulnerable consumers’ needs. The draft guidance explains what firms should be doing to treat vulnerable consumers fairly at different stages in the customer journey. Firms also need to incorporate a continuous improvement process into their practices, to monitor customer outcomes and implement any necessary updates.

Once finalized, the guidance will be used by the FCA – taking a ‘proportionate approach’ – to monitor firms’ treatment of vulnerable consumers and to hold them to account if they breach the Principles. While the guidance will not be legally binding, the FCA expects firms to take on board the guidance and apply it in a way that is compatible with other legal and Handbook requirements relating to how firms treat vulnerable consumers (for example, the Equality Act 2010).
The guidance will be consulted on in two stages. In the first stage, the FCA has sought feedback on three particular areas:

- whether the draft guidance covers the right issues and would provide firms with the right degree of clarity on what they should do to improve the outcomes for vulnerable consumers;
- how the guidance could affect firms’ costs and the extent of benefits to vulnerable consumers from changes triggered by the guidance;
- stakeholders’ views on whether the guidance, as part of the FCA’s regulatory framework, is sufficient to ensure firms take appropriate action to treat vulnerable consumers fairly, or whether additional policy interventions, such as additional rules, might be required.

In the light of the feedback to the first stage, the FCA plans to consult in a second stage on revised draft guidance, with an accompanying cost-benefit analysis. If the FCA considers further interventions are necessary, it would also consult on those in the second stage.

The first stage of the consultation closed on 4 October 2019. The FCA plans to issue a response during Q1 of 2020.
FCA work on duty of care

The FCA is currently considering whether to introduce an express duty of care on firms in the provision of services to consumers. The FCA’s Discussion Paper (July 2018) sought feedback to understand whether there was a gap in the legal and regulatory framework, and whether this related to the scope of that framework, the way the FCA applied it in practice, or both. The FCA also asked a number of questions about what form a new duty would take, and what impact it would have.

The FCA published a Feedback Statement in April 2019. Stakeholder feedback was divided: most respondents considered that levels of harm to consumers are high and there needs to be change to protect them. Some argued that there was no case for change, that the FCA’s current approach was working and should continue, or that recent initiatives, such as the SM&CR and the Fair Pricing discussion paper, need time to be embedded before the need for change can be evaluated. Neither the form of any new duty, nor the current “gaps” in the legal and regulatory framework, were specifically identified. However, the FCA seemed disinclined to introduce a new statutory duty and, as next steps, identified the following options that are, in its view, most likely to deliver a high degree of consumer protection:

- reviewing how the FCA applies the existing regulatory framework, particularly how it applies the Principles and how it communicates with firms about this; and/or
- new or revised Principles to strengthen and clarify firms’ duties to consumers, including consideration of the potential merits and unintended consequences of a potential private right of action for breaches of Principles.

The FCA intends to publish a further paper in early 2020 seeking detailed views on specific options for change. In the interim, there has been some interesting developments, indicating that there remains a wide range of opinions on this subject:

- In May 2019, the Treasury Committee recommended that, if the FCA was unable to enforce the correct behaviour under its current rule book, the Committee would support a legal duty of care - which the Committee defines as ‘an obligation to exercise reasonable care and skill when providing a product or service’ - creating a legal obligation for firms to act in their customers’ best interests;
- In a speech by Christopher Woolard (FCA Executive Director of Strategy and Compliance) in October 2019, the FCA indicated that it was exploring if there was more it could make of the Principles in order to be clearer about its expectations. An example given was in relation to Principle 7, which requires firms to communicate in a way which is clear, fair and not misleading: the FCA commented that this relates to the firm’s processes, rather than the outcome that the FCA wants to see, which is that of consumers understanding their options. Consequently, as part of the Principles review, the FCA will now consider ‘things like requiring firms to ensure consumer understanding’;
- On 9 January 2020, a Private Members’ Bill was reintroduced into the House of Lords (having first been introduced in October 2019, before the dissolution of Parliament), proposing that the Financial Services and Markets Act 2000 (FSMA) be amended to empower the FCA to introduce a duty of care owed by authorized persons to consumers in carrying out regulated activities under FSMA. The Bill proposes that a duty of care be defined as an obligation to exercise reasonable care and skill when providing a product or service. However, given the early stage the Bill is at, and the expected publication of the FCA’s specific options for change in early 2020, it remains to be seen what progress will ultimately be made with it.

The FCA’s duty of care consultation does not address vulnerable customers specifically – and, indeed, one might argue that the FCA’s current consultation on fair treatment of vulnerable customers may be one of the initiatives which should be given a chance to be implemented and embedded. However, any changes ultimately adopted by the FCA to increase consumer protection via any new duty of care will also have an impact on firms’ treatment of vulnerable customers and are likely to increase firms’ obligations to ensure that they tailor their practices, procedures and products to the particular needs of vulnerable customers in order to demonstrate that they have satisfied the required duty of care (whatever that will be) in serving vulnerable customers.
Other FCA initiatives

A number of other FCA initiatives are also relevant for firms’ treatment of vulnerable customers. For example:

- The FCA’s interim report in its market study of general insurance pricing practices, published in October 2019, outlined ‘significant concerns’ that the home and motor insurance markets ‘could work better and are not delivering good outcomes for all consumers’. The interim report also identified a clear link between poor pricing practices and customer vulnerability, finding that one in three consumers in the FCA’s consumer research who paid high prices showed at least one characteristic of vulnerability.

- The FCA’s review of access to travel insurance for customers with pre-existing medical conditions reported (in June 2018) that there was a lack of quality information on alternative cover options available to consumers with health conditions where they receive a high quote or are refused cover. In July 2019, the FCA launched a consultation seeking views on a new ‘signposting’ rule which would require firms to signpost consumers to a directory of travel insurance firms that have the appetite and capability to cover consumers with more serious pre-existing medical conditions. The consultation closed on 15 September 2019. The FCA is currently considering the responses to the consultation and will publish a policy statement along with final rules in due course.

What’s next?

The FCA’s continuing focus on ensuring fair treatment of vulnerable consumers in the financial services industry is welcome and will encourage and establish a more inclusive environment for vulnerable customers. However, there are various implementation challenges for firms, for example, the need to review existing terms and conditions in light of the need for flexibility to accommodate the changing needs of customers in vulnerable circumstances. With the on-going duty of care work in particular, there is no doubt more to come from the FCA in this area. But given the breadth of opinions on this issue, the practical impact of this development for financial services firms is difficult to gauge at this stage. Definitely one for firms to watch closely in the coming months.

Emily Reid
Partner, London
T +44 20 7296 5362
emily.reid@hoganlovells.com

Arwen Handley
Partner, London
T +44 20 7296 2810
arwen.handley@hoganlovells.com
Open everything and improved security: life after PSD2

PSD2 is a significant piece of legislation, aimed at disrupting the traditional banking and payment services market, improving competition and promoting innovation. One of the ways it does this is by forcing providers to allow access to customer accounts to disruptors who can offer new services to customers by exploiting the wealth of information which can be obtained through access to customers’ account information. Two years after PSD2 first came into force, how is this brave new era of open banking working out for both sides? What might the next 12 months bring? We provide a snapshot of the current state of play and some crystal ball gazing from our European and UK teams below.

It’s not just about disruption though. PSD2 also looks to protect consumers by imposing a higher level of security for online activity and card payments. This now requires “strong customer authentication” or “SCA”—involving 2 out of 3 elements of possession, knowledge or inherence— for example, confirming a card payment by typing in a one-time password sent to a mobile phone. Whilst the implementation date for these new requirements was set for 14 September 2019, it became apparent as the deadline approached that there was still a lot of work to do to ensure that the technical changes required were in place. There were potential issues at all stages of payment transactions, impacting retailers, card issuers, merchant acquirers and the major card schemes.

An EBA opinion in June 2019 provided a structure for national regulators to allow a degree of tolerance for delayed SCA implementation. However, approaches to this “supervisory flexibility” across the EU have not been uniform, so in October, the EBA issued another opinion announcing a harmonized migration period for e-commerce card transactions. Rejecting the industry call for an 18-month transition, the opinion sets a deadline of 31 December 2020 for completion of SCA migration plans, including testing by merchants. As will be seen from the below summary of the position on SCA delay in some of the major jurisdictions, the EBA’s further opinion has not resulted in consistency across the Member States.

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>What’s the current market approach to open banking? How might it develop in the year ahead?</th>
<th>SCA delay: what’s the plan? *</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>STET S.A., a French company owned by major French credit institutions (BNP Paribas, BPCE, Crédit Agricole, Banque Fédérative du Crédit Mutuel, La Banque Postale and Société Générale), has built and launched a PSD2 API aiming to provide a secure and easy-to-use set of services to be implemented by European account servicing payment service providers (ASPSPs) for access by third party providers (TPPs). French ASPSPs are generally expecting to rely on the STET API, although certain ASPSPs may have decided to rely on in-house API or web scraping solutions.</td>
<td>The French Central Bank considered that French payment service providers would not be able to comply in time because most were already relying on (and planning to continue to rely on) the EMV 3-D Secure communication protocol that the EBA’s June 2019 opinion classed as non-compliant with SCA. The Central Bank, therefore, proposed to ensure compliance with SCA on a gradual basis over a period of three years. It expects to have 60% of payments requiring SCA compliant with the RTS in December 2020 and 90% in December 2021. It will carry out an assessment of the situation in the French market by the end of each year until 2022. To date, there is no intention to accelerate this timetable in light of the EBA’s October 2019 opinion. The French banking supervisory authority (Autorité de contrôle prudentiel et de résolution) (ACPR) has not yet published any official position in response to the publication of the EBA’s June or October 2019 opinions.</td>
</tr>
<tr>
<td>Jurisdiction</td>
<td>What's the current market approach to open banking? How might it develop in the year ahead?</td>
<td>SCA delay: what's the plan?</td>
</tr>
<tr>
<td>--------------</td>
<td>------------------------------------------------------------------------------------------</td>
<td>----------------------------</td>
</tr>
<tr>
<td>Germany</td>
<td>Open banking has been the subject of much discussion between the traditional banks and fintechs. The banks are offering one API standard, which many fintechs see as too sophisticated and complex to use. BaFin, the German regulator, has intervened and required banks to continue to offer customer interface access for third party providers (TPPs) as an interim measure until the APIs have been improved.</td>
<td>BaFin, the German regulator, has issued a circular which broadly reflects the position adopted by the EBA’s June 2019 opinion. BaFin is looking to grant greater flexibility to market participants when implementing SCA in relation to online card payments. BaFin has also published a statement saying that it will not enforce the 14 September 2019 SCA deadline. This only concerns e-commerce card transactions and issuers and acquirers are expected to comply. However, they can accept non-SCA transactions for the time being to ensure that there is no disruption to card acceptance. BaFin has pointed out that, (i) strict liability in accordance with PSD2 applies and (ii) best efforts to implement the changes are expected from market participants. BaFin has also confirmed that it will apply the EBA deadline of 31 December 2020 for e-commerce card transactions and that it will apply all milestones as set out in the October 2019 opinion.</td>
</tr>
<tr>
<td>Italy</td>
<td>In June 2018, the first open banking platform was launched in Italy. It is a financial ecosystem enabling and promoting collaboration between banks, corporate and fintech companies in order to create innovative solutions for customers. Also, it aggregates, integrates and coordinates APIs and services developed by participants in the ecosystem. Since September 2018, a significant number of banks have relied on an external service provider, CBI Globe - Global Open Banking Ecosystem. No further guidelines have been provided on open banking in Italy.</td>
<td>On 1 August 2019, the Bank of Italy published a first communication providing for the possibility to request additional time for the implementation of SCA requirements for online card payment transactions. The communication indicates that the maximum term of the extension will be established by the EBA and subsequently communicated to the market. In order to take advantage of the extension, relevant entities will need to submit a detailed migration plan to the Bank of Italy which must also include initiatives in terms of customer preparedness and communications toward both merchants and cardholders. The Bank of Italy also pointed out that during this migration period, payments executed without SCA are subject to the liability regime under the national implementing legislation for PSD2. Afterwards, following the EBA Opinion of 16 October 2019, the Bank of Italy issued a second communication indicating 31 December 2020 as the final deadline for the adoption of SCA in relation to online card payment transactions. The Bank of Italy is to approach relevant payment service providers for a detailed migration plan, to be completed by 31 December 2020 at the latest. This plan must also include initiatives toward customers.</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>Luxembourg has a global and standardized platform named LUXHUB which is used by many large, both public and private, Luxembourg banks. LUXHUB’s website provides a “catalog” of API providers which include, but are not limited to, the Banque de Luxembourg, Banque Raiffeisen, BGL BNP Paribas, Spuerkeess and Post Luxembourg. As from 14 June 2019, LUXHUB is available to third party providers (TPPs). It is also interesting to note that another large Luxembourg bank, the Banque Internationale à Luxembourg (BIL), has developed its own open banking platform (apparently open to developers) via a first API, giving access to account information (balance and transactions) and enabling payments. It is not yet clear if any TPPs are already using the API. It will be interesting to see how this develops in the following months and to have feedback on the existing platforms.</td>
<td>The Luxembourg supervisory authority (Commission de Surveillance du Secteur Financier) (CSSF) published a press release on 30 August 2019 extending the deadline for SCA compliance beyond 14 September 2019 for e-commerce card payment transactions. The CSSF published a further press release on 6 December 2019 announcing that it will take the expected actions set out in the new timetable proposed by the EBA in its October 2019 opinion. Those payment service providers that need the additional time should migrate gradually to SCA for e-commerce card payment transactions in order to be fully compliant with the SCA rules by 31 December 2020. The CSSF will monitor the progress of the Luxembourg market to ensure compliance with this new deadline. The CSSF reminds payment service providers that the liability regime of Article 74 PSD2 applies without delay.</td>
</tr>
<tr>
<td>Jurisdiction</td>
<td>What's the current market approach to open banking? How might it develop in the year ahead?</td>
<td>SCA delay: what's the plan? *</td>
</tr>
<tr>
<td>--------------</td>
<td>------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>A significant number of Dutch banks have made API services available in recent months. The Dutch Central Bank (De Nederlandsche Bank) (DNB) describes in its brief guidance that the Dutch banking sector is opening up via (i) outsourcing to third parties, (ii) partnerships with FinTech parties, and (iii) customer contact (as banks are obliged to share payment data with third parties if customers give their consent, these new third parties that are under DNB’s supervision, will interact with the customers). As of 2019, Dutch banks must report material cloud outsourcing, and as of mid-2019 Dutch banks must also report other material outsourcing arrangements to DNB. The next steps as to the exercise of supervision on open banking include amongst others the following: (i) DNB will perform an in-depth policy research into banking revenue models and data utilization by Dutch banks, and (ii) DNB will consider, in consultation with other Dutch financial and non-financial supervising authorities, whether an extension of existing or additional legal provisions and cooperation agreements is necessary.</td>
<td>Although the vast majority of payments in the Netherlands meet the new SCA requirements, some credit card payments are not yet compliant. DNB will grant limited additional time to market participants who were unable to prepare for the introduction of SCA for credit card transactions on time. The DNB defers to the EBA’s approach which – following publication of the EBA’s October 2019 opinion – suggests a deadline of 31 December 2020 for the introduction of SCA for credit card transactions. In line with the EBA’s opinion, payment service providers wishing to make use of the extended SCA migration deadline for online payment transactions must draft and implement migration plans in 2019 and complete the migration process by 31 December 2020. The Dutch Payments Association (Betaalvereniging Nederland) has taken the initiative to draft general migration plan templates that meet the DNB’s requirements and coordinate the monitoring of the migration plans.</td>
</tr>
<tr>
<td>Poland</td>
<td>The Polish Bank Association (ZBP), which unites commercial and cooperative banks, launched the PolishAPI project in the first half of 2018. However, the project itself goes beyond the banking sector and also includes: cooperative savings and credit unions (SKOK), the Polish Organization of Non-banking Payment Institutions (PONIP) together with its associated members, the Polish Chamber of Information Technology and Telecommunications (PIIT), the Polish Insurance Association (PIU), National Clearing House (KIR), Loan Information Office (BIK), and Polish Payment Standard (PSP). The project is aimed at developing an interface enabling third parties to access payment accounts. From time to time updated versions of interface specifications are released, the latest one being issued in July 2019. In addition, KIR is developing HUB PSD2, which is going to facilitate the implementation and functioning of PolishAPI, through the integration of the systems of all entities which use and will use it in the future. Even though PolishAPI is perceived as a tool to standardize the approach of Polish banks to open banking solutions and reduce the costs of PSD2 implementation, it should be noted that it will not be used by the whole sector. Some banking groups are already developing their own standards and it is expected that Polish subsidiaries will be forced to use them too. In addition, some banks view the possession of their own API as a way to create a competitive edge, giving them a chance to distinguish themselves from competitors. Taking into account the June 2019 EBA opinion and data gathered and analyzed by the Polish regulator, the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) (PFSA), it considered that some Polish payment services market participants were not sufficiently prepared for such implementation. The PFSA adopted the solution proposed by the EBA and granted limited additional time to allow migration of the current authentication approaches to those that are fully compliant with the SCA rules. However, this solution was applied only in relation to online payments based on payment cards and to contactless payments executed at payment terminals. In order to qualify for the grace period, a payment service provider needed to submit a “migration plan”, which had to be appropriate, realistic and agreed with the PFSA. If this has been done, no other supervisory measures relating to the failure to use SCA will be applied against the payment service provider. Media reports suggest that as at mid-September 2019, 17 commercial banks had notified the need for an additional grace period. From 14 September 2019, all the risks associated with the failure to comply with the SCA rules are fully borne by payment service providers.</td>
<td></td>
</tr>
</tbody>
</table>
**Financial Services: The year ahead 2020**

In September 2019, the Bank of Spain published an information note indicating flexibility for e-commerce but not in relation to TPPs (payment initiation service providers or account information service providers). This supervisory flexibility is available under the condition that payment service providers have set up a migration plan, have agreed the plan with their competent authority, and execute the plan in an expedited manner.

On 18 October 2019, the Spanish regulator announced that payment service providers’ migration plans should be completed by 31 December 2020, pursuant to the EBA’s October opinion.

---

| Jurisdiction | What’s the current market approach to open banking? How might it develop in the year ahead? | SCA delay: what’s the plan? *
|--------------|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------
| Spain        | Entry into force of Spanish regulation transposing PSD2 in Spain has sparked the initiation of open banking in Spain. This new legislation allows authorised third party providers (especially entities in the fintech area) (TPPs) to gain access to customer data, and promote greater competition in the industry. Banks are reluctant to collaborate and open their core data to these TPPs. Following 14 September 2019, the TPPs have still not received much information from the banks about how they can access core data. | In September 2019, the Bank of Spain published an information note indicating flexibility for e-commerce but not in relation to TPPs (payment initiation service providers or account information service providers). This supervisory flexibility is available under the condition that payment service providers have set up a migration plan, have agreed the plan with their competent authority, and execute the plan in an expedited manner. On 18 October 2019, the Spanish regulator announced that payment service providers’ migration plans should be completed by 31 December 2020, pursuant to the EBA’s October opinion.

| United Kingdom | The Competition and Markets Authority’s Retail Banking Market Investigation Order 2017 (applicable only to the “CMA9”, the 9 largest current account providers in the UK) established the Open Banking Implementation Entity (OBIE) as a central standards body and mandated use of specified APIs to provide open access to current account data of retail and small business customers. The OBIE’s open banking standard is largely being adopted as the common UK standard for PSD2 compliance and is being used by the CMA9. While it’s still early days, an Open Banking progress update in autumn 2019 stated that 188 regulated providers now offer open banking services, made up of 123 third party providers (TPPs) and 65 account providers; 58 of these entities have at least one proposition live with customers. The UK regulator, the Financial Conduct Authority (FCA), is looking at expanding open banking into the wider concept of open finance, to apply to other financial products. The OBIE is planning to set up “Premium APIs” to sit above the mandatory “Regulatory APIs” with the aim of providing a commercial incentive for banks to improve API performance and extend the open banking system, as well as providing additional functionality sought by TPPs. | The UK regulator, the Financial Conduct Authority (FCA), has announced the following:  
- E-commerce card transactions: an 18-month plan to extend the timetable for SCA implementation up to 14 March 2021. This was announced before the EBA’s October 2019 opinion, but there is no indication that the UK timetable will be accelerated in light of the opinion. The FCA will not take enforcement action against firms which do not comply with SCA from 14 September 2019 in areas covered by the plan, as long as there is evidence, they have taken steps to comply with it. After the 18-month period, it expects all firms to have made the necessary changes and be able to apply SCA.  
- Online banking: phased implementation of SCA by 14 March 2020. It is unclear how this relates to the ‘adjustment period’ mentioned below. It has also been reported that the FCA will be applying a six-month ‘adjustment period’ for access interfaces. This suggests that it will not be taking action against either account servicing payment service providers or TPPs for breach of the Payment Services Regulations 2017/SCA Regulatory Technical Standards before March 2020. However, it will keep things under review and may shorten the period if ‘sufficient progress’ is made.

---

* Reflects the position as at 18 December 2019
Mexican FinTech Law

Over the last few years, the financial services industry in Mexico has experienced innovation and disruption with the emergence of financial technologies.

In Mexico, the FinTech ecosystem has evolved to become one of the most developed and dynamic in Latin America. The Mexican market represents strong opportunities for FinTech companies due to the low penetration of financial services and the existence of a young and tech-savvy consumer base.

In the next few months, all operating FinTechs in Mexico will become formally regulated under the Financial Technology Institutions Law (“FinTech Law”) and the secondary regulation. This will bring important challenges and opportunities in the evolution and consolidation of Mexico as a global FinTech hub.

This document will briefly describe the FinTech ecosystem, legal framework and the upcoming deadline for operating FinTech companies in order to introduce a broad picture of the latest FinTech developments in Mexico.

The Mexican FinTech ecosystem

The FinTech ecosystem in Mexico has grown rapidly over the last few years, making Mexico the largest FinTech hub in Latin America with more than 394 operating FinTech companies, only slightly ahead of Brazil, with 380 FinTech companies and startups.¹

Mexico’s FinTech sector is comprised of companies and startups from all segments, ranging from payments and remittances, crowdfunding, lending, digital banking, insurance, trading and capital markets, wealth management, corporate financial management, and personal financial management, among others.²

According to different media sources, there are approximately 20 to 25 FinTech companies in the process of obtaining authorization before the National Banking and Securities Commission (“CNBV”) to comply with the Mexican FinTech legal framework.

The Mexican FinTech legal framework

The joint participation of the public and private sector has been fundamental in the evolution of the FinTech ecosystem. In particular, the private sector made important efforts to have legislation that promotes and drives FinTech development in Mexico.

On March 8th, 2018, Mexico became the first jurisdiction in Latin America to include a specific FinTech legal framework through the enactment of the FinTech Law and its secondary regulation issued on September, 10th, 2018.

The FinTech Law regulates two types of FinTech: (i) crowdfunding institutions, and (ii) electronic money and payment institutions. The FinTech Law also covers subjects such as cryptocurrencies, open banking and regulatory sandbox.

Secondary regulation and provisions such as the open banking rules, the outsourcing rules for e-money institutions rules, and the technological infrastructure guidelines, among others, have not been published yet.

It is crucial for the Mexican government to promote a legal framework that enables FinTech development, protects the financial users and does not present entrance barriers to innovative companies.

Deadline for authorization filing

FinTechs operating in Mexico must have filed for authorization before the CNBV prior to September 25th, 2019 to be able to continue their activities.

Afterwards, the CNBV and the Interinstitutional Committee\(^3\) has a term of six months to grant or deny the authorization filing. Such period can be extended for another three months depending on the information requirements from the financial authority.

The process for obtaining authorization requires entities to submit before the CNBV, among other information, the operation model, the business plan, the shareholders information, the capital and corporate structure, the board of director’s integration, the financial viability report. The required level of detail in all these documents is high.

Likewise, entities willing to operate as a FinTech in Mexico are required to be incorporated in Mexico, to fulfil the minimum capital requirements that range between $165,000 and $230,000 depending on the operations performed and to include in their bylaws the obligation to comply with the FinTech legal framework.

Furthermore, entities operating must submit their internal policies regarding compliance with AML/KYC regulation, operation, risk management, fraud prevention, electronic means of communication, user notification and protection, among others.

Conclusions

The next few months will be fundamental to the development of the FinTech ecosystem in Mexico. We are looking forward to the implementation of the FinTech Law and the secondary regulation as we are certain that regulation will promote FinTech investment, public support and more financial users involvement.

\(^3\) The Interinstitutional Committee is comprised of members from the CNBV, the Mexico Central Bank and the Ministry of Finance.
Anti-money laundering in the UK & U.S.: Looking ahead

UK

AML enforcement is high on the agenda of UK agencies and regulators. The FCA has again highlighted AML as one of its cross-sector priorities for this year. It has at least 60 ongoing AML investigations and its latest AML report indicates that it has “begun a small number of ongoing investigations into firms’ systems and controls where there may have been misconduct that might justify a criminal prosecution under the Money Laundering Regulations 2017”.

Where FCA specialist supervisors consider there are deficiencies in systems and controls we have seen a greater appetite to use early intervention powers to impose restrictions on firms onboarding of all new business or of certain types of higher risk business and a greater use of section 166 skilled persons reviews whether formal or ‘voluntary’. We also notice a stronger emphasis on the need for a more joined up approach to AML, anti-bribery and corruption and market abuse systems and controls.

Our clients have kept us busy thinking about: proceeds of crime in the context of investments in the Canadian cannabis industry; how to satisfy the competing demands of appropriate Customer Due Diligence and the desire to provide a frictionless customer experience; AI and transaction monitoring and how AML obligations apply in practice to crypto businesses.

Last Summer saw developments on the Suspicious Activity Reports (“SARs”) reform agenda, and we look forward to seeing the realization of the recommendations from the Law Commission’s June 2019 report and the Government’s three-year Economic Crime Plan. The proposals to issue clearer guidance on key statutory terms such as ‘suspicion’ and to replace the current SARs reporting website with sector-specific portals and intuitive fields for more targeted reporting, with better information available to firms to improve their own SARs reporting, are all welcome.

Assimilating the EU’s Supranational Risk Assessment (July 2019), FCA Thematic reviews and other guidance published last year, we highlight some key AML typologies and risks to focus on: Laundering through capital markets, financial products offering anonymity and non-face to face business relationships generally, trade-based money laundering and investor citizenship and residency schemes.

The EU’s 5th Money Laundering Directive came into force on 10 January 2020 by way of the Money Laundering and Terrorist Financing (Amendment) Regulations 2019 (which amend the Money Laundering Regulations 2017). As well as some new ‘obliged entities’ including letting agents, art and antiques dealers and intermediaries, virtual currency exchange platforms and custodian wallet providers, we will see the expansion of the UK’s trusts register and the introduction of a national register of bank account ownership.
Across the Atlantic, AML enforcement and scrutiny is also at high tide in the United States. Enforcement activity, civil and criminal, remains strong across all financial institution sectors, including banks and other depository institutions; securities brokers and dealers; money services businesses; and financial services industries. The Financial Crimes Enforcement Network (FinCEN), the U.S. government’s lead AML regulator, has also paid particular attention (both in regulatory guidance and in enforcement) to the nascent cryptocurrency industry and the unique illicit finance risks in that sector.

In addition to enforcement from the federal government, many individual states (especially New York) have commenced their own enforcement actions and investigations. And many enforcement actions and settlements involved multiple agencies in parallel/joint activities (for simultaneous resolution) or successive actions, subjecting financial institutions to multiple fines or other penalties for the same underlying conduct. Finally, with an aim to increase accountability and enhance deterrence, both civil and criminal enforcement agencies in the AML space have been willing to consider individual liability for corporate officers, directors, and employees who participate in the underlying violations.

Certain (though not all) types of financial institutions – banks and credit union, mutual funds, securities brokers and dealers, futures commission merchants, and introducing brokers in commodities – are also continuing to build out their systems and programs to comply with the Customer Due Diligence Rule, which went into effect on 11 May 2018. Among other things, the new regulation requires covered financial institutions to determine the beneficial owners of legal entity customers.

In late 2018, the U.S. Department of the Treasury issued various documents and advisories related to money laundering/illicit finance risks, including the National Money Laundering Risk Assessment, the National Terror Finance Risk Assessment, and National Proliferation Finance Risk Assessment.

More recently, in September 2019, FinCEN announced the creation of a new division, the Global Investigations Division, “responsible for implementing targeted investigation strategies” and especially focusing on foreign money laundering and terror finance threats. This new initiative, which replaces FinCEN’s Office of Special Measures, suggests greater emphasis for FinCEN’s use of its Section 311 authority and other unique authorities, and may signal more frequent use of FinCEN’s actions to designate individuals, entities, and jurisdictions as areas of “primary money laundering concern.”
Maintaining a robust sanctions compliance program requires vigilance and responsiveness to updated standards set by regulators. Compliance expectations may be discerned from enforcement action notices, and regulator statements can be a particularly rich source for understanding the areas of importance to regulators.

On 2 May 2019, the U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC) issued “A Framework for OFAC Compliance Commitments” (the “Framework”). On 1 February 2019, the UK Foreign & Commonwealth Office issued sanctions guidance in the event of a no deal Brexit. For entities subject to the jurisdictions of these regulators, the information contained in these pronouncements should inform sanctions compliance efforts.

OFAC’s Framework describes five “essential components” of an effective sanctions compliance program (SCP):

1. Management commitment;
2. Risk assessment;
3. Internal controls;
4. Testing and auditing; and
5. Training.

U.S. government expectations regarding effective SCPs should serve as a starting point for organizations looking to reassess or enhance their SCP. Having been identified by OFAC as “essential”, the failure to fully animate any of these components would be a serious omission that could have significant consequences in the event of a sanctions violation.

The Framework also highlights “root causes” of sanctions violations which include issues frequently encountered by non-U.S. companies that find themselves subject to U.S. sanctions laws. For example, many non-U.S. entities have violated U.S. sanctions laws by processing transactions that involve a sanctioned country or person through U.S. financial institutions (almost all of which have been denominated in U.S. dollars), even if there is no other U.S. nexus to the transaction. These “root causes” form a list of potential compliance pitfalls against which a compliance plan should protect.

A number of OFAC enforcement settlements, starting in December 2018, incorporate the elements of the OFAC Framework and, therefore, should serve as an additional resource. Accordingly, organizations should review their sanctions compliance policies and procedures in light of the OFAC guidance and these enforcement actions for a “roadmap” to sanctions compliance.

Regulator statements are particularly valuable when companies are operating in an uncertain regulatory environment. Brexit presents unique sanctions compliance challenges in part due to the question as to how it will be achieved. The UK Government has provided some guidance on UK sanctions policy in the event of a no-deal Brexit (the “Guidance”).

Currently, the UK implements and enforces sanctions, regimes agreed by the UN Security Council and the EU through EU regulations and associated domestic legislation. The Guidance states that, in the event of a no-deal Brexit, the UK Government will look to carry over all EU sanctions at the time of departure. New sanctions regimes are implemented through regulations made under the Sanctions and Anti-Money Laundering Act 2018 (the “Sanctions Act”). The UK Government intends to put as many of the proposed new regulations as possible before Parliament prior to the UK’s departure. Last year, new sanctions regulations were passed under the Sanctions Act in respect of Iran, Russia and Venezuela amongst several others. Parliament has also approved regulations transposing the EU Blocking Regulation into UK domestic law. Any sanction regimes contained in EU regulations not addressed through new UK regulation at the time of departure will continue as retained EU law under the EU (Withdrawal) Act 2018.
While the Guidance suggests seamless sanctions continuation, it also explicitly cautions against assuming that all aspects of existing EU sanctions will be replicated. Although, the new UK regulations are intended to have substantially the same effect as EU Regulations, there may be differences in technical implementation. This is apparent in certain aspects of the new Iran, Russia and Venezuela regulations. For example, the test for “ownership and control” for asset freezes is not exactly the same and includes more detail than in EU regulations. Furthermore, whilst the EU regime does not provide for general licenses allowing multiple parties to carry out activity otherwise prohibited by sanctions, the new UK regulations provide for the issuing of general licenses.

Further, in May 2018, the UK passed a so-called “Magnitsky amendment” to the Sanctions Act to give the UK government the power to place visa bans and asset freezes on anyone deemed responsible for human rights abuses, including torture. The amendment reflects the U.S. Magnitsky Act, which was passed in 2012 in the U.S. and imposed sanctions on Russian officials linked to the death of lawyer Sergei Magnitsky.

The amendment establishes a new Human rights sanctions regime in the UK, diverging from what the EU currently implements. It is worth noting, however, that in early December 2019 the Council of the EU also announced that it was looking to implement an EU Human rights sanctions regime which would address human rights violations as a legal basis for sanctions listings.

Sanctions compliance planning for different Brexit scenarios should incorporate ongoing assessments of UK legislation and regulations to carefully determine the scope of restrictions. Further attention must be applied to determine whether there may be an applicable exemption to cover the activity in question.

Regulator statements related to sanctions compliance should serve as a starting point for benchmarking sanctions compliance efforts. The challenge for companies is to accept such guidance and then to craft sanctions compliance programs that both anticipate and respond to regulator concerns and are tailored to their sanctions risk assessment.

Beth Peters
Partner, Washington, D.C.
T +1 202 637 5837
beth.peters@hoganlovells.com

Aline Doussin
Partner, London
T +44 20 7296 2961
aline.doussin@hoganlovells.com

Louise Lamb
Partner, London
T +44 20 7296 5770
louise.lamb@hoganlovells.com
Cryptoassets: Will 2020 bring a clearer view of their status?

Libra may have added impetus for regulators to get on top of the regulatory status of stablecoins and other forms of cryptoassets but are we any closer to getting legal certainty? December saw the publication of two further papers seeking to bring greater clarity and January has seen the FCA take responsibility for AML compliance. Will 2020 be the year when firms and investors will at last have greater certainty of the regulatory status of their products?

The last decade saw an explosion in digital currencies, digital tokens and distributed ledger technology but like much innovation, the legal and regulatory status of these new assets is often murky. Our FinTech practice is now regularly asked to advise on the regulatory status of business models involving the use of crypto assets. As the decade drew to a close, two papers were published which may help to clarify the legal and regulatory framework of cryptoassets.

Legal Status of Cryptoassets

The first, a *Legal Statement on cryptoassets and smart contracts*, was published by the UK Jurisdiction Taskforce in November. Its aim was to create greater legal certainty on the legal status of cryptoassets but, importantly, it was not seeking to consider their regulatory status.

Its key findings were:

- Cryptoassets should be treated in principle as a form of property. They cannot be subject to bailment but can be subject to other forms of security which do not require possession.
- Smart contracts are capable of satisfying the requirements of an English law contract.

While clearly helpful in providing greater legal certainty on the legal nature of these assets, particularly for investors and market participants, this doesn’t add any further clarity on their regulatory status.

The current UK Regulatory Regime

The FCA has previously broken down the regulatory status of cryptoassets into three broad categories:

- Regulated security tokens
- Regulated e-money tokens
- Unregulated tokens, including utility tokens and cryptocurrencies.

Investment products (e.g. derivatives) that reference unregulated tokens could themselves be regulated.

In addition, since 10 January, businesses carrying on certain cryptoasset activities, including exchange providers, wallet providers and ICO issuers, are now in scope of the Money Laundering Regulations and subject to the FCA’s oversight in relation to AML/CTF risks.

While this provides some legal certainty, it allows a number of cryptoassets to remain outside the perimeter. As this potentially includes stablecoins which could be targeted at consumers and given the concern that a significant player such as Libra could create financial stability risk, the current regulatory framework was always going to come under further review.

The European Commission Consultation

To consider some of these issues, on 19 December, the European Commission published a consultation on the suitability of the existing regulatory framework for cryptoassets.

The consultation makes clear that it wants to consider the variety of different actors, including wallet providers, exchanges and trading platforms that play a particular role in the ecosystem. It is also concerned, that while “the crypto-asset market remains modest in size and does not currently pose a threat to financial stability, this may change with the advent of “stablecoins”, as they seek a wide adoption by consumers” and references the recent G7 report that if stablecoins reach global scale “they would raise additional challenges in terms of financial stability, monetary policy transmission and monetary sovereignty”.

Both the Commission and the European Council have declared that they “are committed to put in place the framework that will harness the potential opportunities that some crypto-assets may offer” and this consultation is intended to help them achieve that.
It asks a series of questions to understand:

- **The general public’s views:** including, have they used them and if so how, who was involved in the process, did they feel informed and did they make a profit or a loss?

- **The classification of cryptoassets:** should there be an EU level classification, should it distinguish between payment tokens, investment tokens, utility tokens and hybrid tokens, should any be treated as bank deposits for deposit guarantee scheme purposes?

- **Unregulated cryptoassets:** what are the opportunities and challenges for cryptoassets that currently fall outside the regulatory perimeter, what risks do they present and should there be a regime to deal with them, is regulation needed in relation to service providers who provide trading or intermediation services, what issues are there for market integrity, AML/CTF, consumer/investor protection and supervision and oversight of service providers?

- **Regulated cryptoassets:** general questions on the use and benefits of security tokens, how existing legislation applies or should apply to security tokens, how existing legislation applies or should apply to e-money tokens?

The deadline for comments is 18 March 2020. Following comments, the Commission will consider whether or not legislative action is required. Any legislation is likely to take time to make its way through the legislative process and into law in the relevant member states but given the increasing focus on this area of innovation and the need for national regulators to issue guidance, there is likely to be political will to get things moving swiftly.

While 2020 is unlikely to bring us the final guidance we need from regulators, it should start providing greater certainty on the future shape of cryptoasset regulation. In the meantime, our teams advising clients on the deployment of services involving the use of crypto assets are continuing to develop our interpretation of the existing law in the context of the business models proposed for crypto assets, and we are more than happy to look at anything new that clients may propose!
As peer-to-peer (P2P) lending in the UK has grown over the past decade it has moved steadily into the mainstream but now faces new headwinds from increased regulatory scrutiny and the uncertainty of the position following Brexit.

The industry has come a long way since its inception in the 2000s and has developed rapidly from simple peer-to-peer lending structures to incorporating more complex structures and capital sources as platforms push for greater scale. However, this greater scale, together with publicity around platform failures and weaker credit performance in recent years, inevitably comes with greater scrutiny from regulators.

With the introduction of new rules and more intrusive supervision, as well as the likelihood that the year will bring greater clarity on the UK’s post-Brexit direction, 2020 promises to be an interesting year for the P2P sector.

Regulation and Supervision

In June 2019, the FCA published a new regulatory framework for P2P lending in Policy Statement PS19/14 which set out a number of rules and requirements for P2P platforms. The majority of these new rules came into force on 9 December 2019 (with the exception of those applying home finance products, which came into force on 4 June 2019) and in 2020 we should see these rules start to bed in.

PS19/14 makes clear the key areas the FCA will be focussing on, which are highlighted below.

- **Risk Management and Governance**
  PS19/14 introduced more explicit requirements on platforms clarifying the governance arrangements, systems and controls they must have in place to support the outcomes they advertise to customers. In particular, platforms must have appropriate policies in place for addressing risks and must align their fees, charges and profits with the overriding principle of treating customers fairly.
  The FCA has confirmed that governance is a key area it intends to focus on as part of its supervision of P2P platforms. It acknowledges the existence of rapidly evolving business models in the P2P sector and will seek to ensure that any diversification by platforms is accompanied by corresponding controls to mitigate any additional risks created by new structures.

- **Wind-down Arrangements**
  The FCA has strengthened its rules concerning arrangements for the wind-down of P2P platforms. These arrangements are intended to ensure platforms have sufficient financial resources and appropriate arrangements in place to enable ongoing administration of P2P agreements should the platform cease to operate for any reason.
  Again the FCA has confirmed this is an area it intends to scrutinize with particular vigour as inadequate wind down arrangements have the potential to cause significant consumer harm. These rules are important in the P2P sector where, given the relative newness of the sector, many firms remain loss making. The FCA addressed this issue in its March 2019 Dear CEO letter before strengthening the rules in June. This area is one the FCA can be expected to closely monitor throughout 2020 and beyond.
• Appropriateness Assessments

The FCA has introduced a requirement that an appropriateness assessment be undertaken by firms, where no advice has been given to the investor. Firms must assess an investor’s knowledge and experience of P2P investments in order to determine whether the product is appropriate for that investor. The FCA has provided specific guidance on the risk factors to be covered in this assessment.

• Financial Promotions

Finally, the PS19/14 indicates that the FCA will focus on financial promotions produced by platforms, ensuring borrowers and investors are not misled about products, particularly in relation to anticipated lender returns or risks.

Whilst in some of these areas, particularly governance and risk systems, many P2P platforms will already have processes and procedures in place, the new rules will impose detailed and specific formal requirements. All platforms should review their current arrangements to make sure they comply with these rules.

Brexit

Of course, no review of the year ahead would be complete without mentioning Brexit. In many ways, the P2P sector is one of the least impacted areas of financial services (at least in terms of direct legislative impact). This is due to its predominantly domestic focus and the fact P2P lending is not yet a harmonised regulated activity across Europe, meaning it is treated differently across EU member states and there is no formal passporting regime, so cross-border P2P is rare.

However, in March 2018, the European Commission adopted a proposal for a regulation on crowdfunding that would provide harmonisation of such activities across the EU. It is anticipated that, as happened in the UK, formal regulation will encourage growth and investment, leading to a boom in EU P2P activity. Established UK-based P2P platforms might have been expected to lead this boom but, unless there is an equivalence regime in place after Brexit, may find it difficult to do so. Asymmetric regulation will create uncertainty and cost for platforms wishing to passport their activities into or out of the UK.

James Black
Partner, London
T +44 20 7296 5898
james.black@hoganlovells.com

Charlie Middleton
Associate, London
T +44 20 7296 7353
charlie.middleton@hoganlovells.com
Making it pay: Will the internet of things become the internet of payments?

How does my fridge know I need milk and then order and pay for it? How does my car order and pay for my parking?

All around us, and increasingly with us, are devices that collect and transmit data, often with inbuilt sensors to detect whether pre-determined thresholds have been met and prompt automatic actions. These devices join together to form the “Internet of Things” (IoT) – a network of interconnected devices.

The IoT is growing at great pace. By 2025, there could be around 75 billion connected devices globally (Statista Research Department, November 2019). Most of those devices could incorporate payments functionality and the number that actually do will be limited only by the purpose of each device, rather than by the technical ability to include and support payments functionality.

We’re waiting for more innovation, but at the moment connected devices generally use exiting payment technology and infrastructure. So they could for example:

- link to a debit/credit card or e-wallet – tokenised card or wallet data could be generated and used by the device to initiate payments, much like payments are made from mobile phones and smart watches using Apple Pay or Google Pay; or
- link to a server – data could be sent to the supplier’s server, so that payment data is held there rather than on the device and the payment is initiated from the server. This is how Hewlett Packard’s printer ink refill service works. When the printer runs out of ink, it sends a signal to an HP server and the payment transaction is initiated by HP, using the customer’s payment information it already holds.

Big players in the financial services market are starting to develop and refine solutions that allow device manufacturers to embed secure payments functionality into the build of connected devices. The automotive industry in particular was quick to see the potential for the IoT in streamlining payments and has been producing connected vehicles for a number of years with the worldwide automotive IoT market forecast to grow to 470 million connected devices in 2020, a 24% increase from 2019 (Gartner, August 2019).

Use cases for payments within the IoT will vary on a country/region basis with innovations in smart metering for household utilities likely to see more uptake in the UK and the rest of Western Europe.

A question that we can’t yet answer is whether IoT payments will simply displace payments that would have been made in another way, or will increase the volume and nature of payment transactions.
If I want to pay for a parking space, right now I would typically use a card at a card reader at the car park or make a payment through an App on my phone. Once my car becomes an Internet of Things connected device, it might find me a parking space and initiate the payment for it, using tokenised card details. There is no new payment transaction, just a payment transaction initiated through a new medium.

On the other hand, new ways of making payments might lead to new payments. When my fridge orders milk for me, perhaps connecting to the server of a supermarket which stores my card details, this could lead to many smaller size payments than if the milk just formed part of my weekly shop with one overall payment. Or I could, for example, trigger micro-payments to an environmental charity each time I buy paper for my printer.

We are in the early stages of the IoT with the number of devices that can connect to the internet growing by the day. If it truly integrates with the cloud, big data, artificial intelligence, and biometrics, we could see a whole new Internet of Payments. This will inevitably give rise to multiple legal and regulatory issues, such as intellectual property, contract, data protection and data security, payments regulation and consumer protection law.

We’re likely to have some of the same debates we had over the introduction of the internet and then mobile payments; about whether the IoT requires new law/regulation or whether it just involves the application of existing principles to new scenarios. The answer is likely to be the same: there will be much that can be addressed by applying existing principles but there will be areas requiring development of the legal and regulatory framework to address new issues. We have yet to achieve technological neutrality in the law!
New EU prudential framework for MiFID investment firms

The current prudential rules that apply to MiFID investment firms are part of the wider EU prudential framework applying to banks set out in the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD). Recognising the fact that the current framework is largely focused on credit institutions and is not fully suited to all investment firms, in 2017, the European Commission proposed a new regime for investment firms, aimed to be more relevant and proportionate for them.

The new regime creating a prudential framework for investment firms takes the form of the Investment Firms Regulation (IFR) and the Investment Firms Directive (IFD), published in the Official Journal of the EU on 5 December 2019. It will apply to investment firms (with some transitional provisions) from 26 June 2021.

Investment firms should consider the new regime and engage, where necessary, with their regulator. For example, for some firms, an authorization application as a credit institution may be necessary; others may find there will be an increase in their capital requirements, new consolidated prudential requirements for groups, and governance and remuneration changes.

What is the impact of Brexit?

The IFR and IFD were included in the list of legislation that the government intended to “onshore” (that is, adopt into UK legislation) in the event of a “hard” Brexit, under the Financial Services (Implementation of Legislation) Bill 2017-19. This Bill fell when Parliament was prorogued, so the government’s intention is currently unconfirmed.

In its 2019/20 Business Plan, the FCA indicated its intention to publish a consultation paper on introducing a new prudential regime for MiFID investment firms aligned with the IFR and IFD, once the IFR and IFD were finalised.

Therefore, while the UK may not be required to implement the regime if it has left the EU by the implementation date, it seems likely that it will be implemented in the UK in some form, regardless of the status of the UK’s ongoing relationship with the EU. In addition, firms within EU groups are likely to be impacted by the rules at group level.
Categorization of firms under the EU regime

The new EU prudential regime applies to MiFID firms only. However, some firms, that deal on own account and/or carry out underwriting or placing financial instruments on a firm commitment basis with assets above a certain threshold are considered to be systemically important and will be subject to the CRD/CRR.

For the purpose of the new regime, MiFID firms are broadly (as there are also intra-group considerations) allocated to new prudential categories as follows.

<table>
<thead>
<tr>
<th>Category</th>
<th>Threshold</th>
<th>Prudential regime</th>
</tr>
</thead>
<tbody>
<tr>
<td>Systemically important “bank-like” firms (Class 1)</td>
<td>Assets more than €30bn</td>
<td>Required to convert to credit institutions under CRD/CRR</td>
</tr>
<tr>
<td>Article 1(2) investment firms that also deal on own account or underwrite/place on a firm commitment basis, but are not systemically important (Class 1(a))</td>
<td>Assets more than €15bn, or more than €5bn and national competent authority (NCA) nominates it as an Article 1(2) firm</td>
<td>Not required to convert to a credit institution but subject to CRD/CRR</td>
</tr>
<tr>
<td>Investment firms (Class 2)</td>
<td>Non-systemic investment firms that do not fall within Class 1A or 1B or the definition of small and non-interconnected investment firms</td>
<td>IFR/IFD applies in full</td>
</tr>
<tr>
<td>Small and non-interconnected investment firms that do not trade or hold client money (Class 3)</td>
<td>• AUM of less than €1.2bn  • Balance sheet total less than €100m  • Annual gross revenue from investment services less than €30m  • Client orders less than €100m a day for cash trades or €1bn for derivatives</td>
<td>IFR/IFD applies on a limited basis</td>
</tr>
</tbody>
</table>
Initial capital requirement

The implications of these reclassifications should not be underestimated. Class 1 firms, for example, must apply to become authorized as credit institutions and will be subject to the prudential requirements set out in the CRR/CRD, giving them a large increase in initial capital requirement from €730,000 to €5 million. In addition, such firms within the Eurozone will be subject to supervision by the European Central Bank under the framework of the single supervisory mechanism. Class 1(a) firms will continue to be authorized as investment firms under MiFID and their permanent minimum capital (PMC) determined under the IFR. However, they will be subject to prudential requirements set out in the CRR/CRD.

All investment firms will find their initial capital requirement (now re-named PMC) increases as, depending on their activities, thresholds will change from €50,000, €125,000 and €730,000 to:

<table>
<thead>
<tr>
<th>PMC</th>
<th>€75,000</th>
<th>€150,000</th>
<th>€750,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activities</td>
<td>Reception and transmission of orders, execution of orders on behalf of clients, portfolio management, investment advice, placing not on a firm commitment basis</td>
<td>Operation of a multilateral or organised trading facility (MTF or OTF)</td>
<td>Dealing on own account or underwriting or placing on a firm commitment basis (including for operators of OTFs to deal on own account)</td>
</tr>
</tbody>
</table>

In addition, it will no longer be possible to replace the initial capital requirement with an amount of professional indemnity insurance.

Class 2 firms

Class 2 firms will be subject to new risk-based regulatory capital requirements. They must have capital that amounts to the highest of:

• their PMC;
• their fixed overheads requirement (25% of fixed overheads for the previous year); or
• their “K-factor” requirement – the sum of a number of measurements of risks specific to investment firms presented by the firm to customers, the market and the firm itself.

The detailed monitoring of the K-factor measurements will be a new challenge for Class 2 firms.

Class 3 firms

The general capital requirement for Class 3 firms is simpler and is the higher of the PMC or 25% of their annual fixed overheads.

Other implications

There are many other potential implications for firms as a result of this new legislation. For example, there will be new reporting obligations, diligent internal monitoring will be necessary, investment firms may become subject to group prudential consolidation, and there are amended governance and remuneration requirements.

Michael Thomas
Partner, London
T +44 20 7296 5081
michael.thomas@hoganlovells.com
Our commitment to innovation

The face of financial services is changing. So are we. In tune with our clients’ priorities, we are always looking to enhance our mix of services and how we deliver them.

We create bespoke experiences, including collaborations to explore new technologies that result in efficiencies and improved processes, or provide defined sessions on topics such as “Legal Function Maturity”, “Smart Sourcing” and “Moving from Cost-Center to Value-Center.”

Here are some examples of the ways we are innovating in our service delivery for financial institutions clients.

Advanced technologies

Advanced technologies, such as artificial intelligence and machine learning, have advanced in recent years and banks and other financial institutions are exploring the potential applications of these. We know that technology, used well, can help us and our clients perform better. Across our practices we are applying advanced technologies to review documents, prepare litigation outcome assessments, help surface new insights, and realize other efficiencies.

A multi-disciplinary team including lawyers and technologists is constantly assessing the potential of such technologies to create value for our clients, and is available to share insights with them.

Tools and Partnerships with LegalTech

We have looked closely at the different suppliers of AI technology and what they have to offer. We have engaged with a number of different providers in the market, including EigenTech, Kira, Clocktimizer; Smartsheet and Cael, and other products like HighQ.

Global Teaming Agreement with FTI Consulting

Financial institutions are increasingly tasked with mining information from large volumes of contracts and other data stores to meet obligations, ensure compliance with data privacy legislation, navigate risks and gain business insights.

Our teaming agreement with FTI Consulting provides our clients with an exciting new contract intelligence and data governance offering that will provide both firms’ clients with broader, more cost-effective and strategic data tools.

For larger or more complex contract reviews, we have a managed services agreement with FTI Consulting, where we work with them to leverage Kira or other contract review tools together with their Contract Intelligence platform.

The FTI team manage the technology, while we provide the legal expertise, report writing and review. FTI’s and Hogan Lovells’ joint capabilities leverage Hogan Lovells expertise and FTI’s industry-leading AI and machine-learning tech-enabled contract process, to provide cost-effective and efficient services and analysis to clients.

Hogan Lovells Stream

Our solution to the challenge of keeping track of the key documents in dispute resolution procedures in an efficient and cost-effective way. It allows our clients to access, review and comment on key case documents on a portable tablet device via a secure private cloud-based platform.

DraftXpress

Computerized drafting of a set of template documents with recurring similar information to be inserted in several different places in the draft; the computer asks the drafting person a number of preset questions and produces a complete set of amended templates accordingly.

Alternative resourcing models

We understand that financial institutions are increasingly seeking timely, scalable and cost effective resourcing on projects, and we are committed to providing real value, seeking competitive pricing and rationalizing services.

To reduce costs and improve efficiency on matters, we can arrange to source some elements of our legal services in a range of ways.
Legal Project Management
Our full-service team of LPM professionals provides hands-on project management (for part or all of the matter), including assistance with delivery team structure, preparation of budgets and fee estimates, and tracking of time and costs on matters.

Our Legal Delivery Centre and Global Business Services Centres
Our Legal Delivery Centre, based in Birmingham, is a dedicated and scalable resource with a mixture of experienced qualified lawyers and forms part of our approach to continuously improve and extend the services we offer to our clients in a cost-effective way. Through a recent partnership, our Legal Delivery Centre and Cognia Law have joined forces, acting as one delivery team to provide a seamless end to end service, offering greater efficiency as well as shared best practices to our clients. Cognia Law is a next generation legal service provider to banks, corporations and law firms, headquartered in the UK with delivery operations based in South Africa.

Our Financial Services Regulatory Consulting practice
This combines both legal and consulting services and provides financial services companies with the ability to easily manage and integrate their combined legal regulatory strategy and compliance needs.

Elevate
Elevate is our flexible lawyering platform that leverages a pool of lawyers to deploy to meet our clients’ needs for additional resource during periods of intense demand to ensure service quality for all our clients.

Legal Function Consulting
Our Global Head of Legal Service Delivery offers sessions with our clients to discuss working efficiently and demonstrating the value of the legal function to the business.
Citizenship & diversity

Good citizenship means boldly striving to exceed the social and environmental responsibilities we have to our people, our clients, and our local and global communities.

As a truly global law firm, we recognize that our continued success owes much to the diversity of our people. Embracing our cultural differences and recognizing our strong local knowledge means we can deliver for our clients all over the world. This recognition of strength in diversity and a sense of togetherness permeates throughout the firm into all our practice areas; and so it is with our commitment to corporate responsibility (CR).

Our global CR strategy is aligned with the United Nation’s Sustainable Development Goals (SDGs): 17 goals designed to end poverty, fight inequality, and tackle climate change. This is the ultimate example of what can be achieved if we are willing to work together across sectors and continents on all levels.

Our lawyers and business services professionals are each asked to dedicate 25 hours per year to pro bono legal and skilled non-legal volunteering activities benefiting the world around them. This is delivered through a combination of our five CR strands of Pro Bono, Diversity and Inclusion, Community Investment, Charitable Matched Giving, and Sustainability.
Pro bono – making a world of difference

We challenged ourselves to focus our time, skills, and resources over the past three years on empowering, advancing, and protecting the rights of girls and women.

Through the firm’s Empowering Girls and Women Initiative and our Commitment to Action under the Clinton Global Initiative, we pledged to devote at least 56,000 hours of volunteer time and US$1 million in philanthropic contributions to support equality worldwide.

As 2018 came to a close, we went well beyond achieving the original three-year goals we’d set. But our commitment was never just about the numbers. Our people continue to be active and engaged in advocating for women and girls around the world.

We’ve delivered week long, comprehensive trainings to lawyers in the Balkans to equip them to tackle gender-based violence. We’ve worked with RAINN every year to review, research, and update six different databases covering all U.S. state laws that impact sexual assault victims and counsellors. We were the first private-sector sponsor for SPRING, a change accelerator for girls in East Africa and South Asia.

These are just a few examples of the many ways our lawyers mobilized in 2018 to bring about change and confront some of society’s biggest problems.

US$35+ million
The value of pro bono legal services devoted through the Empowering Girls and Women Initiative

75,000
Pro bono hours dedicated to Empowering Girls and Women initiative matters

50+
Formal partnerships with non-profits and the legal services

£733,370
Compensation secured in the UK for victims of gender-based violence and human trafficking
About Hogan Lovells

Lawyers by practice group globally

- Corporate: 32%
- Litigation, Arbitration and Employment: 16%
- Finance: 14%
- Global Regulatory: 29%
- Intellectual Property: 9%

Top numbers

- 45+ offices globally
- 24+ countries
- 2800+ lawyers
- 70+ languages
- 480+ lawyers ranked by Chambers & Partners
- 100+ years of history

Well-balanced across jurisdictions

- The Americas: 52%
- London and Central Europe: 41%
- Asia and Middle East: 7%

Sector-focused approach

- Aerospace, Defence, and Government Services
- Automotive and Mobility
- Consumer
- Diversified Industrials
- Education
- Energy and Natural Resources
- Financial Institutions
- Insurance
- Life Sciences and Health Care
- Real Estate
- Technology, Media, Telecommunications
Relied on by the world

Our LAE team advises 50 of the Fortune 100, 34 of the FTSE 100, and 17 of the DAX 30

More than 700 global M&A deals over three years with a total value in excess of US$500bn

Our finance team advises 46 of the top 50 banks listed in the Fortune 500

Our IP team represents more than half of the world’s top 100 brands

Rare ability to handle large, complex international trade matters in every major market

We offer

Straight talking and practical problem solving
Deep understanding of our clients’ issues
Strong relationships and a collaborative approach
Ambitious
Innovative
Supportive
Committed
Responsible

Our culture

Innovative

Top 10 most innovative law firms in North America, Europe, and Asia (Financial Times)
12th among “2019 Innovation Champions” (BTI Consulting Group)
Trend spotting: FinTech, cyber risk, mobile payments, GDPR compliance, connected cars, digital health, Internet of Things, 3D printing, blockchain, and more.

We use innovative legal service delivery (LPM) and exploring the latest technology (e.g., Artificial Intelligence)