EVIA European Venues & Intermediaries Association

LEBA London Energy Brokers' Association

EVIA & LEBA Compliance reference sheet

Regulatory Diary & Forward Outlook Grid plus Last Month Regulatory Activities & Conduct Initiatives

Wednesday 02nd August 2023

Summer ESG outcomes

This past month saw the release of the much anticipated ISSB standards, with the likes of Singapore already looking to embed these new standards. *Also, at long last, we've witnessed the warm embrace of ESG rating agencies by regulators as detailed in our "consultation round-up" below. A mid-year review of ESG trends here.*

- In other news, this month has been another big month for the blue economy, with it marking an important deadline for the International Seabed Authority (ISA) to finish its Deep-Sea Mining Code before it has to consider mining bids. The month has also seen great net zero momentum, with the International Maritime Organization (the UN organisation overseeing shipping) agreeing to reach net-zero *"by or around 2050"*, a marked improvement from its previous strategy, which aimed to reduce greenhouse gases (GHGs) by only 50% by 2050. Learn more about the exciting potential for growing the blue economy within our new global campaign: *Unlocking opportunity in sustainability*.
- BOOKS

1. *Pricing the Priceless* by Paula Diperna, Wiley (June 2023)

2. *Free and Equal: What would a fair society look like?* By Daniel Chandler, Allen Lane (April 2023)
3. *Blue Machine: How the oceans shape our world* by Helen Czerski, Torva (June 2023)

- REPORTS

1. *Global trends in climate change litigation: 2023 snapshot* by Joana Setzer and Catherine Higham. LSE Grantham Research Institute (June 2023)
2. *The Emperor's New Climate Scenarios: Limitations and assumptions of commonly used climate-change scenarios in financial services* by Sandy Trust, Sanjay Joshi, Tim Lenton, Jack Oliver. University of Exeter (July 2023)
3. *Carbon Markets: An introductory guide* by Climate Solutions in partnership with Simmons & Simmons (February 2023)

GLOBAL DEVELOPMENTS

1. ISSB issues IFRS Sustainability Disclosure Standards (multi-sector)

- What: On 26 June, the International Financial Reporting Standards Foundation (IFRS) - International Sustainability Standards Board (ISSB) issued IFRS S1 on General Requirements for Disclosure of Sustainability-related Financial Information; and IFRS S2 on Climate-related Disclosures, which are designed to create a global baseline for investor-focused sustainability reporting, that local jurisdictions can build on.
- The standards build on the work of the Taskforce on Climate-Related Financial Disclosures (TCFD) framework, covering sustainability-related topics across the areas of governance, strategy, risk management, and metrics and targets. The IFRS announced earlier this month that it will be taking over the monitoring of TCFD disclosures, signalling the consolidation of reporting initiatives. See our recent insights article for more details.
- Next steps: The standards are effective from 1 January 2024, but it will be for individual jurisdictions to decide whether and when to adopt them. We have seen Singapore already take action, proposing mandatory climate reporting aligned with ISSB standards for listed and large non-listed companies (see further information within our "*consultation round-up*" below).
- Our view: Given the support from global bodies such as International Organisation of Securities Commissions (IOSCO), adoption is expected in a number of jurisdictions and we expect that some public and private companies may voluntarily adopt these disclosure standards, in response to increasing investor or societal pressure.

2. Summit for a New Global Financial Pact in Paris (multi-sector)

- What: The Summit for a New Global Financial Pact (the Summit) was convened by France and India in Paris on 22 and 23 June, aiming to lay the foundation for a new financial system that addresses the shared challenges of fighting inequality, climate change and protecting biodiversity. There were high hopes for the Summit following the momentum at COP27 on the Bridgetown Initiative, aimed at expanding funding available for developing countries. Despite ambitions, many were left disappointed given the lack of concrete commitments or debt relief for developing countries.

- Key outcomes:
  - Publication of a *Roadmap for Delivery* highlighting upcoming touchpoints for progressing the agenda of the Summit.
  - Announcement by the IMF's managing director that countries have pledged $100bn in special drawing rights for lower-income countries, meeting a 2021 target set.
  - Announcement that the commitment by developed countries to contribute $100bn in climate finance annually by 2020, would be met this year.
  - Commitment by the World Bank and other lenders a catastrophe toolkit to support countries after natural disasters, including a pause on debt repayments.
  - Talks of introducing international taxes on the likes of shipping, aviation and financial transactions to raise funds, with no commitments finalised.
  - The launch of the UK- French Global Biodiversity Credits Roadmap.
  - The launch of GAIA, a $1.5 billion climate and blended finance platform by FinDev Canada, MUFG, and a consortium of United Nations partners and platform-based initiatives.
  - For further outcomes of the event can be found in the *Chair's summary of discussions*.
- Next steps: The next milestone to keep an eye out for are the upcoming G20 and SDG Summits in September on the road to COP28 later in Dubai this November.

EUROPEAN DEVELOPMENTS

1. European Parliament votes on the EU Nature Restoration Law (multi-sector)

- What: On 12 July the European Parliament adopted its position on the Nature Restoration Law (the Regulation) with the narrow vote of 336 in favour, 300 against and 13 abstentions. The outcome of the vote is a significant win for biodiversity, with the regulation set to introduce a framework of measures that restore at least 20% of the EU's land and sea by 2030 and all ecosystems in need of restoration by 2050. Specific targets within the Regulation cover: improvement and re-establishment of biodiverse habitats; reversing the decline of pollinating insect populations; maintaining green urban space; restoring drained peatland under agricultural use; and restoring marine habitats, among others.
- There was an active political effort to block the Regulation, with many attributed this to the strong commercial interests of agricultural and fisheries being challenged by the targets proposed. Despite opposition being hampered by the vote, concessions were made; for example, provisions containing targets to re-establish marine habitats and time-bound targets to re-establish terrestrial habitats were deleted from the final text. Notably, provisions on access to justice were also weakened, suggesting fewer routes to legal remedy to hold member states and others to account under the Regulation.
- Next steps: Parliament will now start negotiations with European Council on the final shape of the legislation. Once passed, member states will be expected to submit National Restoration Plans to the Commission within two years of the Regulation coming into force, showing how they will deliver on the targets.

2. EU Commission publishes competition law guidelines for sustainability agreements (multi-sector)

- **What:** On 1 June, the European Commission adopted and published its long-awaited guidelines on horizontal cooperation (Guidelines), together with its updated Horizontal Block Exemption Regulations on Research and Development and Specialisation Agreements. The Guidelines remain largely unchanged from the draft published on 1 March 2022, summarised in our earlier update.
- **Key details:** The most notable part of the Guidelines is Chapter 9 on Sustainability Agreements, which aims to assist businesses to assess the compatibility of their cooperation agreements with EU competition rules. The Guidelines define horizontal "sustainability agreements" broadly as any type of cooperation that pursues a sustainable objective. Four broad categories of such agreements are set out in the Guidance. Find out more about these categories and the Guidance in our insights article.
- The Commission also provides greater leniency towards sustainable agreements through the introduction of a "soft safe harbour" regime for sustainable standardisation agreements. This allows competitors to agree to phase out, withdraw or replace non-sustainable products or adopt other specified sustainability standards.
- **Our view:** The introduction of a dedicated section on sustainability agreements in the Guidelines marks a crucial milestone in the implementation of a "greener" competition policy. It also serves as another example of a competition authority seeking to facilitate collaborative efforts to meet sustainable goals within (clearly defined) boundaries of competition law.

3. Revision of the Waste Framework Directive (textiles sector)

- **What:** The EU Commission has proposed new rules to the EU's 2008 Waste Framework Directive (WFD) to make producers responsible for the full lifecycle of textile products and to support the sustainable management of textile waste across the EU.
- The proposed amendments will further clarify what is meant by waste and establish more stringent waste management principles with a focus on increasing the reuse and recycling of materials. This proposal supports the EU's move from a linear consumption model to a circular economy, as discussed in our article 'Green is the New It Colour'.
- **Implications for textiles producers:** The new rules will introduce mandatory and harmonised Extended Producer Responsibility (EPR) schemes for textiles in all member states, placing the financial burden on textiles producers themselves. How much producers will pay to the EPR scheme will be adjusted based on the environmental performance of textiles, a principle known as 'eco-modulation'. A strong emphasis will be placed on distinguishing what is reusable and what is not, with a particular focus on attempts to disguise waste as reusable materials.
- **Potential opportunities:** Whilst increasing costs for textile producers, there is an opportunity for businesses to benefit from the resulting boom in the second-hand textile market. There will be a greater focus on innovative waste-management technologies, and research and development.

4. ESMA launches CSA into disclosures and sustainability risks (financial institutions)

- **What:** On 6 July the European Securities and Markets Authority (ESMA) announced that it was launching a Common Supervisory Action (CSA) with EU National Competent Authorities (NCAs) on sustainability-related disclosures and the integration of sustainability risks.

- The aim of the CSA is two-fold:
    - to assess how asset managers are complying with the relevant provisions in the Taxonomy Regulation, the SFDR and applicable Level 2 measures; and
    - to foster convergence in how the NCAs supervise sustainability related disclosure, gathering further information on greenwashing risks in the investment management sector, and identifying any other supervisory or regulatory intervention needed to address the issue.
- **Next steps:** The CSA will run until Q3 2024. You can follow other ESMA sustainable finance developments using their recently published implementation timeline.

5. ICMA updates Q&As to the Green Bond Principles (financial institutions)

- **What:** In June 2023, the International Capital Markets Association (ICMA) updated their Green Bond Principles (GBP) to include an additional set of Q&As on secured sustainable bonds, which will be included in ICMA's Guidance Handbook. The additional Q&As complement Appendix 1 of the GBP, and are broadly split between questions relating to green, social and sustainable (GSS) and use of proceeds (UoP) bonds, and sustainability-linked bonds.
- **Key observations:** The Q&As address, in greater detail, questions on "double counting" of GSS bonds, and clarify that GSS bonds should not typically qualify as use of proceeds for a GSS bond, other than for temporary management of proceeds' purposes prior to allocation to eligible projects. This follows a concern that the impact of the same underlying projects may be reported both by the original GSS bonds issuer, and by the issuer of the subsequent GSS bond – thereby, double counting.

6. ESMA publishes statement on sustainability disclosure in prospectuses (financial institutions)

- **What:** On 11 July, the ESMA published a statement on sustainability disclosure in prospectuses. The statement sets out ESMA's expectations on how the specific disclosure requirements of the Prospectus Regulation (PR) should be satisfied when drafting a prospectus that contains sustainability-related disclosure.
- **Key observations:** ESMA expects material sustainability-related disclosure to be included in equity and non-equity prospectuses, as well as final terms in accordance with Article 6(1) of the PR. ESMA also reminds issuers and their advisors to consider sustainability-related matters when preparing prospectuses, to the extent that the effects of these matters are 'material'. The type of sustainability information required will depend on the materiality of the information to an investor.
- The statement also sets out further considerations for issuers of non-equity securities and for equity prospectuses, highlights the importance of consistency with non-financial reporting.

This is a significant statement which should be carefully reviewed against existing prospectus documentation, to identify any requisite changes.

UK DEVELOPMENTS

1. UK ASA Advertising Guidance - misleading environmental claims and social responsibility (multi-sector)

- **What:** On 23 June 2023, the Advertising Standards Authority (ASA) published updated guidance on misleading environmental advertising. The guidance follows recent regulatory action by the ASA in respect of greenwashing allegations against advertisers such as flight carriers Lufthansa and Etihad and the fossil companies Shell, Repsol and Petronas, who were criticised for making claims about their green credentials which gave an impression that did not reflect the reality of their high carbon business activities. Please see our recent update here for more detail.
- The ASA's approach has been criticised for forcing companies to choose between greenwashing and greenhushing (which occurs when companies avoid advertising their green credentials altogether out of fear of being sanctioned). However, the ASA denies that advertisers are faced with this binary choice, and has held instead that adverts promoting their sustainable products or services can easily achieve a balance by including straightforward, prominent text acknowledging the company's less-climate-positive aspects.
- The ASA's updated guidance aligns with the key principles of the CMA's guidance on environmental claims on goods and services, which aims to create a level playing field for businesses that genuinely invest in their environmental performance to communicate these efforts to consumers transparently.
- **Looking ahead:** The ASA's guidance will require many companies to adopt a frank approach when promoting their green credentials and qualify their sustainable claims in the context of their business as a whole.

2. FCA addresses banks after a review of the Sustainability-Linked Loans market (financial institutions)

- **What:** The Financial Conduct Authority (FCA) recently shone a regulatory spotlight on the sustainability-linked loans (SLL) market, highlighting concerns around integrity and greenwashing. Given growing market concerns, the FCA undertook a stakeholder engagement exercise and highlighted two key areas within its letter to banks sent at the end of June:
  - *Credibility, market integrity and greenwashing concerns:* The FCA concludes that there may be a case for strengthened expectations on Sustainable Performance Targets (SPTs) and Key Performance Indicators (KPIs), with clearer alignment to borrowers' published transition plans, and disclosure of these by borrowers.
  - *Conflicts of interest and weak incentives to issue SLL:* The FCA noted that smaller savings on margins for SLL may be outweighed by costs, negotiation times and increased scrutiny. It also noted that ESG financing targets and ESG-linked remuneration targets within banks may create conflicts of interest and encourage acceptance of weaker sustainability SPTs and KPIs.

- Next steps: The FCA have shown willingness to take a proactive and wide approach to their ESG strategy. Providers of sustainability-labelled instruments and products across financial markets should take note and ensure their governance and transactional instruments are ready to meet this growing regulatory scrutiny.
- We encourage those in the debt space to take note and respond to Engagement Paper 4, mentioned within the FCA's letter. The consultation has a section on "*Green, social or sustainability labelled debt instruments*" and is open for comment until 29 September.

MIDDLE EAST DEVELOPMENTS

1. New 'Sustainable Fintech Pledge' announced (FinTech)

- What: The Sustainable Fintech Pledge was announced at the end of last month by the UAE Ministry of Climate Change and the Environment (MOCCAE), and the Middle East and North Africa Fintech Association (MFTA). Integrating sustainability principles into the operations of Fintech companies is a key aim of the pledge, while also keeping in line with the climate crisis and UAE's Net Zero by 2050 initiative.
- Signatories of the pledge include organisations like the Abu Dhabi Global Market (ADGM), the Dubai International Financial Centre (DIFC), Mastercard and others, where they adhere to five main pillars: (a) embedding sustainable business operations; (b) maintaining transparency and accountability; (c) inspiring change beyond organisational boundaries; (d) unlocking climate innovation in finance; and (e) developing fintech products and services.

APAC DEVELOPMENTS

1. Project Savannah: digitising ESG credentials for MSMEs (multi-sector)

- What: At the end of June, the United Nations Development Programme (UNDP), Global Legal Entity Identifier Foundation (GLEIF), and Monetary Authority of Singapore (MAS) announced a partnership on an initiative to develop digital ESG credentials for micro, small and medium-sized enterprises (MSMEs) worldwide. This project, known as Project Savannah, will support MSMEs in navigating the ESG disclosure landscape on three fronts:
  - it will review and enhance capacity building initiatives with MSMEs to bolster MSME's efforts to report ESG data;
  - simplify reporting through the deployment of the ESGenome disclosure platform; and
  - leverage existing digital initiatives and allow MSME ESG data credentials to be housed in Legal Entity Identifier (LEI) records, which can then be easily shared by MSMEs to gain access to global financing and supply chain opportunities.
- Next steps: UNDP, GLEIF and MAS will consult regulators, financial institutions, and real economy corporations to refine the project's scope and execution. These engagements will culminate in a multi-jurisdictional proof of concept, expected to be launched at COP28 later this year.

ESG LITIGATION ROUND-UP

1. UK Government taken to Court over its net zero strategy (multi-sector)

- What: Last year, when deciding three claims brought by Friends of the Earth, ClientEarth and the Good Law Project against the UK government, the High Court ruled that the government's strategy for reaching net zero emissions was unlawful, on the basis that it did not provide detail as to how targets would be met. Accordingly, in March 2023, the UK government published its revised plan (the Carbon Budget Delivery Plan) which sets out its strategy for cutting greenhouse gas emissions and reaching net zero.
- That plan is facing three fresh High Court challenges, from the same three organisations, alleging that it is still "*not fit for purpose*". The organisations argue that the new plan is in breach of sections 13 and 14 of the Climate Change Act 2008, which requires the UK government to prepare and report on proposals and policies for meeting its legally binding carbon budgets. This is against the backdrop of a recent June report from the Climate Change Committee, an independent body formed to advise the UK government on climate change preparation, which stated the UK is "*no longer in a clear global leadership position on climate action*" and had backtracked against the progress made in 2022.
- The UK government is under ever increasing pressure to deliver on its climate change commitments with campaigners clearly intending to hold it accountable by whatever means necessary.

2. New case filed under the French Corporate Duty of Vigilance Law (multi-sector)

- What: Following the dismissal, for procedural reasons, of the claims launched in 2019 against TotalEnergies regarding the content of its vigilance plan (which were referenced in March ESG View), a new action has been launched against the multi-energy company, this time on the merits.
- 26 Ugandan citizens, as well as the five French and Ugandan NGOs that launched the first action (AFIEGO, Les Amis de la Terre France, NAPE/Amis de la Terre Ouganda, Survie and TASHA Research Institute) and Maxwell Atuhura (a human rights defender), issued proceedings on 27 June 2023 before the Paris first-level Court against TotalEnergies regarding its obligations under the French Corporate Duty of Vigilance Law.
- The claimants allege that they have suffered serious damages relating to their rights to land and food. They seek to hold TotalEnergies liable and request compensation for the human rights violations caused over the past 6 years in Uganda by TotalEnergies' Tilenga and EACOP projects. According to the claimants, their claim clearly demonstrates the causal link between the failures in the development and implementation of TotalEnergies' vigilance plan, on the one hand, and the damages they have suffered, on the other. They add that TotalEnergies failed to identify the risks of serious human rights abuses associated with its mega-oil projects, to act when TotalEnergies was alerted to their existence, and to implement corrective measures once the human rights violations had occurred.
- Looking ahead: Having been dealt the blow of the first claim against TotalEnergies being dismissed, campaigners (and many others) will be watching to see how this claim progresses in the French Courts.

3. Dutch government action to reduce flights (aviation sector)

- **What:** On 7 July, despite challenges from major airline carriers such as KLM, Delta and Easyjet, the Amsterdam Appeals Court ruled in favour of the Dutch Government's action to reduce the number of flights at Amsterdam's Schiphol airport, one of Europe's busiest hubs, from 500,000 to 460,000 per year. The Appeals Court overruled the lower court's decision in an interim proceedings that concluded against the government in April, holding that The Hague can reduce the number of flights at the airport between the end of the year and October 2024. The Amsterdam Appeals Court gave considerable weight to the interests of local residents as regards violations of noise standards.
- **Key observations:** The ruling follows similar ESG-related scrutiny the aviation industry has been facing recently, for example, as observed in June ESG view, the District Court of Amsterdam allowed environmental groups to bring a claim against KLM alleging that the airline mislead consumers regarding its sustainability credentials in its "fly responsibly" campaign. Last month also saw the launch of an EU-wide complaint to the European commission against 17 airlines to prevent airlines from making claims that give the impression flying is sustainable. Heightened focus on the ESG impact of aviation will likely prompt the industry to more closely consider its sustainable advertising claims and continue to prioritise investments in more fuel-efficient and sustainable aircraft.

ESG CONSULTATION ROUND-UP

- Some notable ESG policy consultations in flight across the globe are currently open for comment. Engagement is a great opportunity to influence the direction of travel for ESG matters.

1. ESMA call for evidence: sustainability preferences under MiFID 2 (financial institutions)

- **What:** On 16 June, ESMA published a Call for Evidence (CfE) on sustainability in suitability and product governance under MiFID 2.
- **Key details:** This CfE is a follow-up to the publication of ESMA's MiFID Suitability Guidelines and ESMA's MiFID Guidelines on Product Governance (together, the Guidelines). Those Guidelines were updated following the integration of various sustainability-related requirements into the MiFID 2 suitability and product governance regimes.
- **Timing:** The CfE is open until 15 September 2023. Contributions should be submitted online under the heading '*Your input - Consultations*'.

2. ESG DRWG consults on draft voluntary code of conduct for ESG ratings and data product providers (financial institutions)

- **What:** On 5 July 2023, ESG Data and Ratings Code of Conduct Working Group (DRWG), alongside the International Regulatory Strategy Group (IRSG) and the ICMA, published a consultation on a draft voluntary code of conduct for ESG ratings and data product providers. The code aims to enhance consistency, transparency and accountability of

ESG ratings and data. As the code is based on IOSCO principles, it is intended to be internationally interoperable.

- Read more about this development in our insight article.
- Next steps: The consultation for responses closes on 5 October. The DRWG is intending to publish the final code at the end of 2023.

3. Singapore's Sustainability Reporting Advisory Committee Consultation (multi-sector)

- What: On 6 July, the Accounting and Corporate Regulatory Authority (ACRA) and Singapore Exchange Regulation (SGX RegCo) launched a public consultation on the recommendations by the Sustainability Reporting Advisory Committee (SRAC) to advance climate reporting in Singapore.

- SRAC has made the following key recommendations, open for consultation:
    - Mandatory climate reporting from FY2025 for all Listed Issuers
    - Mandatory climate reporting from FY2027 for Large Non-Listed Companies
    - Prescribed reporting standards aligned with the ISSB requirements
    - External assurance requirements for companies subject to mandatory climate reporting.
    - Reporting and filing timelines.
- Timing: The public consultation will close on 30 September 2023. Responses can be submitted using this form.

4. Monetary Authority of Singapore proposes industry code of conduct for ESG ratings and data providers (multi-sector)

- What: On 28 June, the Monetary Authority of Singapore (MAS) launched a public consultation on a voluntary industry code of conduct (CoC) for providers of ESG ratings and data products. The CoC was created in alignment with IOSCO recommendations and the approach is similar to that already taken in Japan and the UK.

- MAS seeks views on:
    - The definitions, principles and best practices set out in the draft CoC and on the proposed Checklist.
    - The proposed "Comply or Explain" approach.
    - Third-party assurance or audit on self-attestations.
    - Proposal to bring ESG rating providers into the Capital Markets Services licensing regime under the Securities and Futures Act of Singapore.
    - Applicability to overseas ESG rating providers.
- Timing: Responses must be submitted by 22 August 2023 using this link.

5. Verra consultations on the Verified Carbon Standard (multi-sector)

- What: The Verified Carbon Standard (VCS) Program is the world's most widely used GHG crediting program and it is regularly updated to take into account the latest science and improve usability. The specific updates being proposed and open for input are:
    - Updated VCS safeguard and stakeholder engagement requirements.

  - Agriculture, Forestry and Other Land Use (AFOLU) Non-Permanence Risk Tool (NPRT) and minimum project longevity and crediting period requirements to reduce non-permanence risk.
  - Rules for when project construction emissions and upstream emissions increases must be included in VCS methodologies.
  - The process for revising standardised methods.
- Verra also has a separate consultation on a new methodology framework for carbon capture and storage (CCS) in the VCS Program, that closes 29 July 2023.
- Timing: The VCS consultation will close on 31 July 2023 and the publication of the VCS Program rule change is expected in late August 2023.

6. Australian Treasury issues second consultation on climate related financial disclosure (financial institutions)

- What: On 27 June the Australian government issued its second consultation on climate related financial disclosures, which build on the previous consultation which occurred between 12 December 2022 and 17 February 2023.
- Key details: Input is requested on the design and implementation of a mandatory climate-related financial reporting regime in Australia, which is broadly similar to the climate reporting standards that have applied in New Zealand since January (see May ESG view).
- The climate reporting standards will require firms in scope to disclose any climate-related financial information which if omitted or misstated could reasonably be expected to influence decisions of users. Firms must also report against four pillars (governance, strategy, risk and opportunities, and metrics and targets).
- Next steps: Market participants are invited to submit responses to this consultation up until 21 July 2023. Interested parties can view the Government's submission guidelines for further information on how to respond.

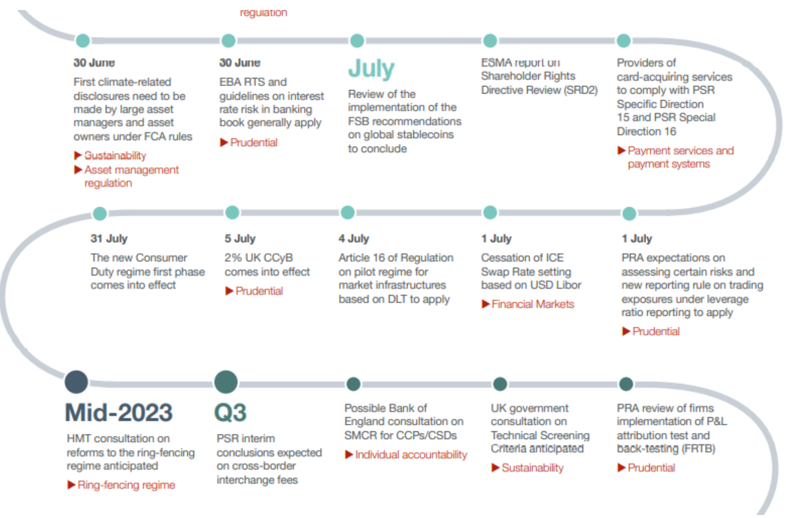
Recent Publications

- 2023: The year ahead. Half-year review: how ESG is leading the way to the New Normal (July 2023)
- Transfer Pricing and Environmental Taxation: Carbon Credits (13 July 2023)
- DRWG consults on ESG code of conduct (11 July 2023)
- ESMA launches a CSA into disclosures and sustainability risks (10 July 2023)
- SFDR data collection exercise on periodic disclosures (3 July 2023)
- Sustainability in the Commission's Revised Horizontal Guidelines (30 June 2023)
- ISSB issues IFRS Sustainability Disclosure Standards (28 June 2023)

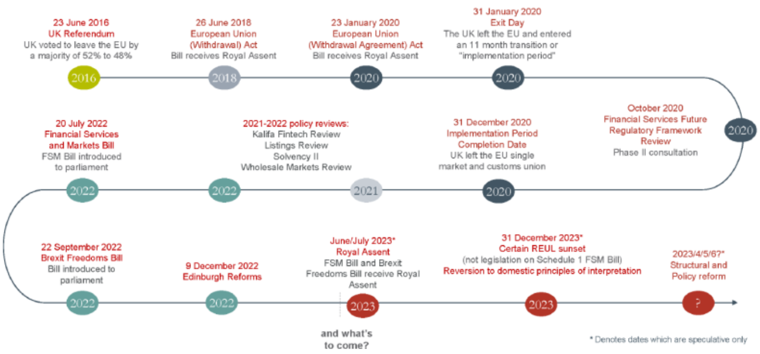
Reducing and preventing serious harm.	i. **Take more action against problem firms** — by prioritising action against riskiest firms, enhancing detection, intervening quicker and increasing the number of firms it takes action against. ii. **Improve appropriate and efficient redress** — by issuing new guidance for redress calculations, review FOS eligibility rules for SME firms and improve complaints reporting. iii. **Reduce impact of firm failure** — by introducing a new regulatory return requiring 20,000 of its regulated firms to more information about their financial resilience. iv. **Validate the enhanced oversight of Appointed Representatives (Aids)** — by testing that firms have embedded the new rules as well as improving its engagement with firms. v. **Reduce and prevent financial crime** — by increasing use of data to better identify which **firms** are more at risk whilst also developing new tools, undertaking more proactive assessments of firms' controls, and reviewing the oversight of firms communicating and approving financial promotions including qualifying cryptcassets (once regulated). vi. **Be more assertive on market abuse** — by improving its capability, being more coordinated, focusing more on prevention and increasing transparency and unlavirkil disclosure relating to its Persons Discharging Management Responsibility (PD R) regime.
Setting and testing higher standards.	i. **Put customers' needs first** — by consulting on changes to treatment of customer in financial difficulty, oversee regulation of BNPL firms and consulting on future of cash access. Additionally, specifically relating to Consumer Duty, FCA will create an additional Interventions team within Enforcement. This function will be ready from August 2023 to enable rapid action where immediate consumer harm is detected. ii. **Enable consumers to help themselves** — by introducing an application gateway for firms that want to approve financial promotions for unauthorised firms, preparing for the regulation of cryptoassets promotions, and increasing capability to identify illegal financial promotions faster. iii. **Deliver a strategy for ESG** — by consulting, when appropriate, on changes to Listing Rules to reference the final ISSB standards and providing a Feedback Statement to the Discussion Paper on ESG governance, incentives, and competence, including planned next steps. The FCA will also finalise and publish rules on Sustain-ability Disclosure Requirements and investment labels. iv. **Test operational resilience** — by assessing whether firms can work appropriately within their impact tolerances, (ahead of the 31 March 2025 deadline) and making it clearer to firms how they should report operational incidents to FCA.

Promoting competition and positive change.	i. **Implement the outcomes of the FRF** — by preparing for the replacement of retained al law with requirements in the FA's Handbook and by applying the changes to its objectives, regulatory principles and accountability arrangements agreed by Parliament. ii. **Strengthen the UK's position in global wholesale markets** — by updating the regulatory framework (including MiFIID2/MiFIR, asset management regulation, and Prospectus, Short Selling and Securitisation regulation), encouraging innovations via the FMI Sandbox and supporting evolving markets on digitalisation anciT+1 settlement as well as considering where it should enable retail access to capital markets. iii. **Shape digital markets to achieve good outcomes** — by continuing the range of activities started in 2022/23 including on BigTechs in retail financial markets, artificial intelligence and Open Banking and Finance.

Regulatory Outlook and Diary



Back to the future (regulatory framework)



Forward Regulatory Calendar: Updated 01 August 2023		
Q32023	Australia	Expected finalization of APRA FRTB and CVA risk (APS 116 and APS 180) frameworks
Q3 2023	Australia	Expected third consultation paper on over-the-counter (OTC) derivatives reporting and technical guidance by ASIC. Expected publication of final OTC derivatives reporting rules by ASIC
Q3 2023	Hong Kong	Consultation of Hong Kong's reporting rules on adoption of UPI and CDE.
Q3/ Q4 2023	EU	The European Commission (EC) has published the 3rd Capital Requirements Regulation (CRR III) proposal on October 27, 2021, which will implement the Basel 3 framework in Europe. The CRR III will transpose the market risk standards (FRTB) as a binding capital constraint, the output floor, the revised credit valuation adjustment framework, alongside operational and credit risk framework, amongst others. EU policymakers have agreed on a final trilogue deal on 27 June 2023. There will be technical work to finalize the agreed compromise wording over the summer. The European Parliament and Member States will have to endorse formally the trilogue deal which will pave the way for the publication in the Official Journal, now expected in Q3/Q4 2023. The date of implementation of the EU banking package is expected on 1 January 2025.
Q3/ Q4 2023	Japan	Pursuant to the amended Comprehensive Guidelines for the Supervision of Agricultural Cooperative Financial Institutions (which became effective as of July 1, 2023), the Norinchukin Bank and its group entities are required to incorporate contractual recognition of temporary stay under the Agricultural and Fishery Co-operatives Savings Insurance Act into existing and new non-Japanese law governed master agreements.

Q3/ Q4 2023	EU	Earliest expected start date for the Internal Model Approach (IM) reporting requirements under the CRR II market risk standard.
Q3/ Q4 2023	EU	Targeted BMR legislative proposal amending the scope of the third country regime.
August 21, 2023	US	Comment Deadline: Reopening of the comment period for the SEC's proposed rule "Position Reporting of Large Security-Based Swap Positions." (See 88 Fed. Reg. 41338- 41340 (June 26, 2023) and 87 Fed. Reg.6652-6706 (Feb. 4, 2022)).
August 28, 2023	US	Comment Deadline: CFTC Proposed Rule – Large Trader Reporting Requirements. (See 88 Fed. Reg. 41522-41540 (June 27, 2023)). Comment Deadline: CFTC Proposed Order and Request for Comment on an Application for a Capital Comparability Determination Submitted on Behalf of Nonbank Swap Dealers Domiciled in the French Republic and Federal Republic of Germany and Subject to Capital and Financial Reporting Requirements of the European Union. (See 88 Fed. Reg. 41774-41813 (June 27, 2023)).
August 29, 2023	Canada	Deadline to pay the new Derivatives Participation Fee under OSC Rule 13-502 and to file the form accompanying payment.
August/ September, 2023	US	Comment Deadline: CFTC advanced notice of proposed rulemaking on potential amendments to the Risk Management Program (RMP) requirements in CFTC Regulations 23.600 and 1.11 applicable to swap dealers and futures commission merchants.
September 1, 2023	US Australia Canada Hong Kong Korea	Under CFTC rules only, initial margin requirements apply to covered swap entities with material swaps exposure (average (month-end) aggregate notional amount from March, April, and May 2023 exceeding USD 8 billion). Australia: Initial margin requirements apply to Phase 6 APRA covered entities with an average (month-end) aggregate notional amount from March, April, and May 2023 exceeding AUD 12 billion. Canada: Under both OSFI and AMF guidelines, initial margin requirements apply to Phase 6 covered entities with average (month-end) aggregate notional amount from March, April, and May 2023 exceeding CAD 12 billion. Hong Kong: Initial margin and risk mitigation requirements apply to HKMA AIs and SFC LCs with an average (month-end) aggregate notional amount from March, April, and May 2023 exceeding HKD 60 billion. Korea: Initial margin requirements apply to financial institutions with derivatives exceeding more than KRW 10 trillion average (month-end) aggregate notional amount based on calculation from March, April, and May 2023.

	Singapore Japan Brazil Saudi Arabia	Singapore: Initial margin requirements apply to MAS covered entities with an average (month-end) aggregate notional amount from March, April, and May 2023 exceeding SGD 13 billion. Japan: Initial margin requirements apply to JFSA covered entities with an average (month-end) aggregate notional amount from March, April, and May 2023 exceeding JPY 1.1 trillion. Brazil: Initial margin requirements apply to financial institutions and other entities authorized to operate by the Central Bank of Brazil which have an average (daily) aggregate notional amount from March, April, and May 2023 exceeding BRL 25 billion. Initial margin requirements apply to covered entities belong to a group whose average (month-end) aggregate notional amount of non-centrally cleared derivatives from March, April, and May 2023 exceeds EUR 8 billion.
September 01, 2023	South Africa	Initial margin requirements apply to a provider with average (month-end) aggregate notional amount from March, April, and May 2023 exceeding either ZAR 15 trillion
September 18, 2023	US	Comments due: CFTC Advanced Notice of Proposed Rulemaking for Risk Management Program Regulations for Swap Dealers, Major Swap Participants, and Futures Commission Merchants (See 88 Fed. Reg. 45826-45836 (July 18, 2023)).
September 26, 2023	US	Comments due: CFTC Proposed Rule for Derivatives Clearing Organizations Recovery and Orderly Wind-Down Plans; Information for Resolution Planning (See 88 Fed. Reg. 48968- 49055 (July 28, 2023))
December 04, 2023	US	Swap data repositories (SDRs), swap execution facilities (SEFs), designated contract markets (DCMs), and reporting counterparties must comply with the amendments to the CFTC swap data reporting regulations found in Part 43, Part 45 and Part 49 by the compliance date of December 5, 2022; provided, however that SDRs, SEFs, DCMs, and reporting counterparties must comply with the amendments to §§43.4(h) and 43.6 by December 4, 2023.
December 04, 2023	US	Compliance date for CFTC Block and Cap reporting amendments. Expiry of relief in CFTC Staff Letter No. 22-03.
December 31, 2023	EU	The amended Benchmarks Regulation that entered into force on February 13, 2021 extends the BMR transition period for non-EU benchmark administrators until December 31, 2023 and empowers the European Commission (EC) to adopt a delegated act by June 15, 2023 to prolong this extension by maximum two years until December 31, 2025. It also enables the EC to adopt delegated acts by June 15, 2023 in order to create a list of spot foreign exchange benchmarks that will be excluded from the scope of Regulation (EU) 2016/1011.

December 31, 2023	UK	Expiry of the temporary Intragroup Exemption Regime (TIGER) from clearing and margin requirements. (*this will change subject to HM Treasury passing a statutory instrument to extend the instrument to December 31, 2026).*
December 31, 2023	Mexico	Deadline for entities and investment funds to comply with the margin requirements for uncleared derivatives under Banco de México's Circular 2/2023.
2024 / 2025	Singapore	MAS will defer implementation of the final Basel III reforms in Singapore between January 1, 2024 and January 1, 2025 to allow the industry sufficient time for proper implementation of systems needed to adopt the revised framework, including regulatory reporting. This aligns timelines with other major jurisdictions. MAS will monitor banks' implementation progress and finalize the implementation timeline for the final Basel III reforms, including the transitional arrangement for the output floor by July 1, 2023
January 1, 2024	US EU Switzerland UK	Under US Prudential Regulations only, initial margin requirements apply to covered swap entities with material swaps exposure (average (daily) aggregate notional amount from June, July, and August 2023 exceeding USD 8 billion) EU: Initial margin requirements apply to counterparties with an average (monthly) aggregate notional amount from March, April, and May 2023 exceeding EUR 8 billion. Switzerland: Initial margin requirements apply to counterparties whose average (monthly) aggregate notional amount from March, April, and May 2023 exceeds CHF 8 billion. UK: Initial margin requirements apply to counterparties with an average (monthly) aggregate notional amount from March, April, and May 2023 exceeding EUR 8 billion
January 1, 2024	Australia	Basel III: Expected implementation of FRTB framework.
January 1, 2024	EU	Application of the Delegated Acts (DAs) with respect to the four remaining environmental objectives on the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and the protection and restoration of biodiversity and ecosystem.
January 1, 2024	EU	Disclosure of Article 8 Taxonomy reporting KPIs and accompanying information for financial undertakings.
January 1, 2024	EU	The requirements under the EU taxonomy in relation to the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and the protection and restoration of biodiversity and ecosystems enter into force.
January 1, 2024	Hong Kong	Basel III: Locally incorporated AIs required to report under revised FRTB and CVA frameworks.

January 1, 2024	Hong Kong	Basel III: Expected implementation of revised credit risk, operational risk, output floor, and leverage ratio frameworks
January 2024	Australia	Expected effective date of APRA prudential standard for IRRBB (APS 117).
January 4, 2024	EU	The three-year derogation from margin rules in respect of non-centrally cleared over-the-counter derivatives, which are single-stock equity options or index option where no EMIR Article 13(2) equivalence determination is in place, was due to expire on January 4, 2021.
January 4, 2024	Hong Kong	Expiry of the SFC exemption from margin requirements for non-centrally cleared single stock options, equity basket options and equity index options.
January 4, 2024	UK	Expiry of the derogation from margin rules in respect of non-centrally cleared over-the counter derivatives, which are single-stock equity options or index options.
January 29, 2024	US	Compliance Date for registered entities and swap counterparties to use the Unique Product Identifier (UPI) for swaps in the credit, equity, foreign exchange and interest rate asset classes for P43 and P45 reporting.
February 12, 2024	EU	CCP R&R (Article 96): ESMA shall assess the staffing and resources needs arising from the assumption of its powers and duties in accordance with this Regulation and submit a report to the European Parliament, the Council and the Commission.
March 01, 2024	Australia US EU Australia Canada Hong Kong Korea Switzerland Singapore Japan Brazil Mexico	Three-month calculation period begins to determine whether the average aggregate notional amount of derivatives for an entity and its affiliates exceeds the lowest threshold for application or revocation of initial margin requirements as of the next relevant compliance date of either September 1, 2024 or January 1, 2025 (EU/UK/CHF/US Prudential). In the US, this calculation period only applies under CFTC regulations. In Mexico, the corresponding compliance date is December 31, 2025 Brazil is daily and all others are month-end for March, April, and May average aggregate notional amount.

March 01, 2024	South Africa	Three-month calculation period begins to determine whether the average aggregate notional amount of derivatives for an entity and its affiliates exceeds ZAR 8 trillion threshold for initial margin requirements as of September 1, 2024 (per amended rule pending finalization)..
March 15, 2024	Mexico	Deadline for entities and investment funds to amend their master agreements for the exchange of margin for uncleared derivatives under the Banco de México's Circular 2/2023
March 31, 2024	Japan	Basel III: Implementation of revised credit risk, CVA, market risk (FRTB) for international active banks and domestic banks using IMM, and the leverage ratio (based on the amendment published on March 28, 2023, the implementation date for ultimate parent companies of a broker-dealer (limited to those designated by JFSA) has been changed to March 31, 2025).
April 01, 2024	Japan	Go-live of revised JFSA reporting rules based on the CPMI-IOSCO Technical Guidance. JFSA finalized the Guidelines of the revised reporting rules on December 9, 2022.
April 01, 2024	India	The RBI published draft guidelines on minimum capital requirements for market risk as part of convergence with Basel III standards. Applicable to all commercial banks excluding local area banks, payment banks, regional rural banks, and small finance banks. Not applicable to cooperative banks.
April 29, 2024	EU	Go-live of EMIR Refit reporting rules
June 28, 2024	EU	As part of the review clause inserted in CRR II, the European Commission taking into account the reports by the European Banking Authority is expected to review the treatment of repos and reverse repos as well as securities hedging transactions through a legislative proposal.
June 28, 2024	EU	As part of CRR II, the European Banking Authority is to monitor and report to the European Commission on Required Stable Funding (RSF) requirements for derivatives (including margin treatment and the 5% gross-derivative liabilities add-on).
June 30, 2024	EU	The EC to review the application of the Article 8 Taxonomy Regulation including the need for further amendments with regards to the inclusion of derivatives in the numerator of KPIs for financial undertakings.
July 1, 2024	Singapore	With regards to the final Basel III reforms in Singapore, all standards, other than the revised market risk and credit valuation adjustment (CVA) standards, as required under the revised MAS Notice 637 on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore will come into effect from 1 July 2024. For revised market risk and CVA standards, only compliance with supervisory reporting requirements will come into effect from 1 July 2024. The output floor transitional arrangement of 50% will commence from 1 July 2024 and reach full phase-in (72.5%) on 1 Jan 2029.

July 12, 2024	US	Compliance date: CFTC Governance Requirements for Derivatives Clearing Organizations (See 88 FR 44675- 44694 (July 13, 2023)).
September 1, 2024	US Australia Canada Hong Kong Korea Singapore Japan Brazil Saudi Arabia	Under CFTC rules only, initial margin requirements apply to covered swap entities with material swaps exposure (average (month-end) aggregate notional amount from March, April, and May 2024 exceeding USD 8 billion). Australia: Initial margin requirements apply to Phase 6 APRA covered entities with an average (month-end) aggregate notional from March, April, and May 2024 amount exceeding AUD 12 billion. Canada: Under both OSFI and AMF guidelines, initial margin requirements apply to Phase 6 covered entities with average (month-end) aggregate average notional amount from March, April, and May 2024 exceeding CAD 12 billion. Hong Kong: Initial margin and risk mitigation requirements apply to HKMA AIs and SFC LCs with an average (month-end) aggregate notional amount from March, April, and May 2024 exceeding HKD 60 billion. Korea: Initial margin requirements apply to financial institutions with derivatives exceeding more than average (month-end) aggregate KRW 10 trillion based on calculation from March, April, and May 2024. Singapore: Initial margin requirements apply to MAS covered entities with an average (month-end) aggregate notional amount from March, April, May 2024 exceeding SGD 13 billion. Japan: Initial margin requirements apply to JFSA covered entities with an average (month-end) aggregate notional amount from March, April, and May 2024 exceeding JPY 1.1 trillion. Brazil: Initial margin requirements apply to financial institutions and other entities authorized to operate by the Central Bank of Brazil which have an average (daily) aggregate notional amount from March, April, and May 2024 exceeding BRL 25 billion. SA: Initial margin requirements apply to covered entities belong to a group whose average (month-end) aggregate notional amount of non-centrally cleared derivatives from March, April, and May 2024 exceeds EUR 8 billion.
September 1, 2024	South Africa	Initial margin requirements apply to a provider with average (month-end) aggregate notional amount from March, April, and May 2024 exceeding ZAR 8 trillion. (per amended rule pending finalization).
September 30, 2024	EU	Go-live of UK EMIR Refit reporting.

Q4 2024	Singapore	Expected go-live of the updated MAS reporting regime.
October 1, 2024	US	Expiration of temporary CFTC relief regarding capital and financial reporting for certain non-US nonbank swap dealers (See CFTC Staff Letter No. 22-10 and CFTC Staff Letter No. 21-20) *relief would also expire upon the Commission's issuance of comparability determinations for the jurisdictions in question.
October 21, 2024	Australia	Expected implementation of ASIC Derivative Transaction Rules (Reporting) 2024.
December 31, 2024	UK	The FCA direction under the temporary transitional powers allowing UK firms to execute certain trades with EU clients on EU venues (even though there is no UK equivalence decision in respect of those venues) expires at the end of 2024
December 31, 2024	Mexico	Annual compliance date for entities and investment funds to comply with the margin requirements for uncleared derivatives under Banco de México's Circular 2/2023 if average aggregate notional amount exceeds UDI 20 billion based on month-end calculation period from March to May 2023
January 1, 2025	EU	Expected implementation of FRTB and CVA risk under the CRR III proposal.
January 1, 2025	Australia	Basel III: Expected implementation of APRA FRTB and CVA risk (APS 116 and APS 180) frameworks.
January 1, 2025	US EU Switzerland UK	Under US Prudential Regulations only, initial margin requirements apply to covered swap entities with material swaps exposure (average (daily) aggregate notional amount from June, July, and August 2024 exceeding USD 8 billion). Initial margin requirements apply to counterparties with an average (month-end) aggregate notional amount from March, April, and May 2024 exceeding EUR 8 billion. Initial margin requirements apply to counterparties whose average (month-end) aggregate notional amount from March, April, and May 2024 exceeds CHF 8 billion. Initial margin requirements apply to counterparties with an average (month-end) aggregate notional amount from March, April, and May 2024 exceeding EUR 8 billion.
January 1, 2025	Singapore	With regards to the final Basel III reforms in Singapore, compliance with capital adequacy and disclosure requirements for revised market risk and CVA standards will come into effect from 1 January 2025. The output floor transitional arrangement of 55% will commence from 1 January 2025.

March 1, 2025	Australia US EU Canada Hong Kong Korea Switzerland Singapore Japan Brazil South Africa UK Mexico Saudi Arabia	Three-month calculation period begins to determine whether the average aggregate notional amount of derivatives for an entity and its affiliates exceeds the lowest threshold for application or revocation of initial margin requirements as of the next relevant compliance date of either September 1, 2025, or January 1, 2026 (EU/UK/CHF). In the US, this calculation period only applies under CFTC regulations. In Mexico, the corresponding compliance date is December 31, 2026. Brazil is daily and all others are month-end for March, April, and May average aggregate notional amount.
Q4 2024/Q1 2025	EU	Earliest expected start date for the Internal Model Approach (IM) reporting requirements under the CRR II market risk standard.
January 1, 2025	Australia	Basel III: Expected implementation of APRA FRTB and CVA risk (APS 116 and APS 180) frameworks.
January 1, 2025	UK	Expected implementation of the Basel 3.1 standards
January 1, 2025	UK	Expected implementation of the Basel 3.1 standards
March 31, 2025	Japan	Basel III: Expected implementation of revised credit risk, CVA, market risk (FRTB) for domestic banks not using IMM.
June 18, 2025	UK	End of the temporary exemption for pension scheme arrangements from clearing and margining under UK EMIR.
June 30, 2025	EU	The temporary recognition of UK CCPs (LME, ICE and LCH) under the EMIR 2.2 framework expires. Unless further addressed, following this date, EU firms could not have access to the UK CCPs and would need to relocate their clearing activities to EU CCPs. Under EMIR 2.2, ESMA has

		also performed its tiering assessment, with LME becoming a Tier 1 CCP whereas ICE and LCH are considered Tier 2 CCPs.
June 30, 2025	EU	The temporary exemption from clearing and margin requirements for cross-border intragroup transactions under EMIR expires.
September 01, 2025	US Australia Canada Hong Kong Korea Singapore Japan Brazil Saudi Arabia	Under CFTC rules only, initial margin requirements apply to covered swap entities with material swaps exposure (average (month-end) aggregate notional amount from March, April, and May 2025 exceeding USD 8 billion). Australia: Initial margin requirements apply to Phase 6 APRA covered entities with an average (month-end) aggregate notional amount from March, April, and May 2025 exceeding AUD 12 billion. Canada: Under both OSFI and AMF guidelines, initial margin requirements apply to Phase 6 covered entities with average (month-end) aggregate average notional amount from March, April, and May 2025 exceeding CAD 12 billion. Hong Kong: Initial margin and risk mitigation requirements apply to HKMA AIs and SFC LCs with an average (month-end) aggregate notional amount from March, April, and May 2025 exceeding HKD 60 billion. Korea: Initial margin requirements apply to financial institutions with derivatives exceeding more than average (month-end) aggregate notional amount of KRW 10 trillion based on calculation from March, April, and May 2025. Singapore: Initial margin requirements apply to MAS covered entities with an average (month-end) aggregate notional amount from March, April, and May 2025 exceeding SGD 13 billion. Japan: Initial margin requirements apply to JFSA covered entities with an average (month-end) aggregate notional amount from March, April, and May 2025 exceeding JPY 1.1 trillion. Brazil Initial margin requirements apply to financial institutions and other entities authorized to operate by the Central Bank of Brazil which have an average (daily) aggregate notional amount from March, April, and May 2025 exceeding BRL 25 billion. Saudi Arabia: Initial margin requirements apply to covered entities belong to a group whose average (month-end) aggregate notional amount of non-centrally cleared derivatives from March, April, and May 2025 exceeds EUR 8 billion.

September 01, 2025	South Africa	Initial margin requirements apply to a provider with average (month-end) aggregate notional amount from March, April, and May 2025 exceeding ZAR 8 trillion. (per amended rule pending finalization).
November 15, 2025	EU	The CRR 2 IMA reporting requirements for market risk will be applicable from November 15, 2025, in the EU. As things stand currently in the CRR 3 political process, these IMA reporting requirements may become obsolete as we are still looking at a January 1, 2025, start date for the capitalization of market risk in the EU. However, IMA Reporting could still become live if the European Commission decides to enact the two-year delay mentioned under the CRR3 Article 461a FRTB delegated act. As this may still evolve in the CRR 3 negotiations, ISDA will keep monitoring developments in this area.
December 1, 2025	US	Expiry of extension of relief concerning swap reporting requirements of Part 45 and 46 of the CFTC's regulations, applicable to certain non-US swap dealers (SD) and major swap participants (MSP) established in Australia, Canada, the European Union, Japan, Switzerland and the United Kingdom, that are not part of an affiliated group in which the ultimate parent entity is a US SD, US MSP, US bank, US financial holding company or US bank holding company. See CFTC Staff Letters No. 20-37 and No. 22-14.
January 1, 2026	Australia	Basel III: Expected implementation of APRA FRTB and CVA risk (APS 116 and APS 180) frameworks.
January 1, 2026	Singapore	With regards to the final Basel III reforms in Singapore, the output floor transitional arrangement of 60% will commence from 1 January 2026.
January 1, 2026	EU	Expiry of the suspension of the BMR rules allowing EU supervised entities to continue to use non-EU benchmarks.
January 04, 2026	UK	Expiry of the derogation from margin rules in respect of non-centrally cleared over-thecounter derivatives, which are single-stock equity options or index options
February 12, 2026	EU	CCP R&R (Article 96): The European Commission (EC) shall review the implementation of this Regulation and shall assess at least the following: • the appropriateness and sufficiency of financial resources available to the resolution authority to cover losses arising from a non-default event • the amount of own resources of the CCP to be used in recovery and in resolution and the means for its use • whether the resolution tools available to the resolution authority are adequate. Where appropriate, that report shall be accompanied by proposals for revision of this Regulation.
June 2026	EU	Commodity dealers as defined under CCR, and which have been licensed as investment firms under MiFID 2/ MIFIR have to comply with real capital/large exposures/liquidity regime under Investment Firms Regulation (IFR) provisions on liquidity and IFR disclosure provisions.

December 31, 2026	UK	Expiry of the temporary Intragroup Exemption Regime (TIGER) from clearing and margin requirements
January 1, 2027	Singapore	With regards to the final Basel III reforms in Singapore, the output floor transitional arrangement of 65% will commence from 1 January 2027.
August 12, 2027	EU	CCP R&R (Article 96): The Commission shall review this Regulation and its implementation and shall assess the effectiveness of the governance arrangements for the recovery and resolution of CCPs in the Union and submit a report thereon to the European Parliament and to the Council, accompanied where appropriate by proposals for revision of this Regulation.
January 1, 2028	Singapore	With regards to the final Basel III reforms in Singapore, the output floor transitional arrangement of 70% will commence from 1 January 2028.
January 1, 2029	Singapore	With regards to the final Basel III reforms in Singapore, the output floor transitional arrangement of 72.5% will commence from 1 January 2029.

Regulatory Calendar for Wholesale financial markets

Lead	Initiative	Expected key milestones	Indicative impact on firms	Dates
FCA	Accessing and using wholesale data; Market study assessing potential competition issues about benchmarks, credit rating data and market data vendors.	Launch of market study now planned for later in Q1 2023 to align with findings of trade data review. FCA published this update on timing on our external webpage.	H	Timing Updated Jan/Mar 2023 April / June 2023
FCA	Accessing and using wholesale data Trade data review; Assessment of potential competition issues and concerns about effectiveness of regulatory provisions in relation to trade data.	Feedback Statement published 11 January 2022 Trade data review launched June 2022 Publication of findings and next steps - planned for later in Q1 2023.	L	Timing Updated Jan/Mar 2023
BoE/ FCA/ HMT/ PRA	LIBOR Transition; Secure a fair, clear and orderly transition from LIBOR to robust, reliable and clean alternative risk-free rates	The FCA has compelled production of synthetic LIBOR for a limited number of settings and has been clear that these synthetic settings are only a temporary measure. Following FCA announcements in November 2022, end dates have now been announced or	H	Jan/Mar 2023 April / June 2023

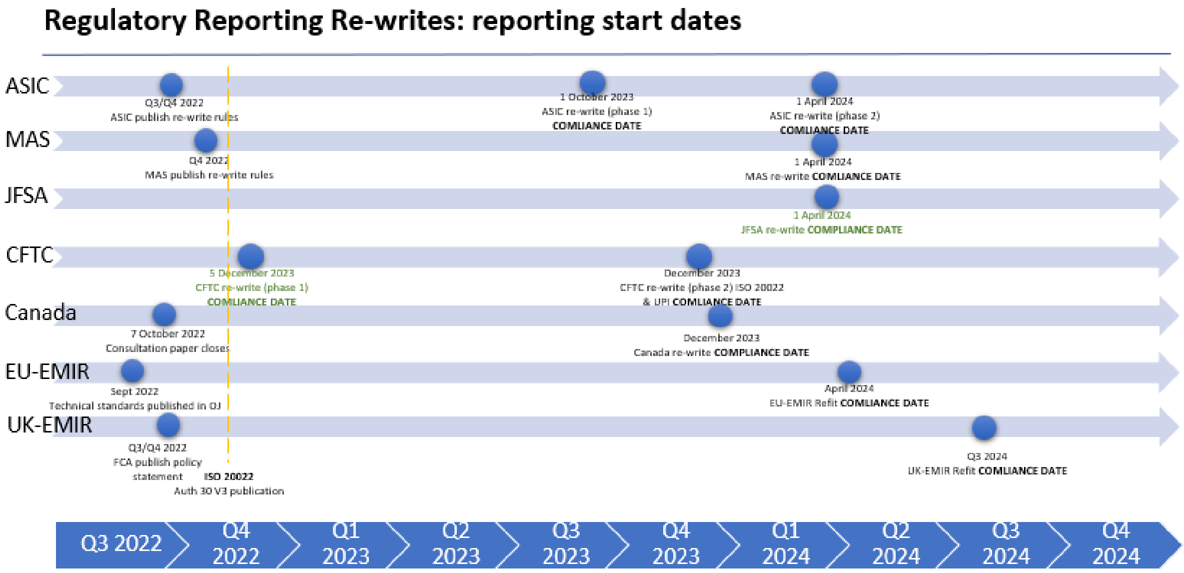
		proposed for all LIBOR settings. End-March 2023: Synthetic 1-month and 6-month sterling LIBOR will cease. End June 2023: Overnight and 12-month US dollar LIBOR will cease. UK authorities are and will continue to work closely with international counterparts to monitor any new use of US dollar LIBOR and remove dependency on it in legacy contracts. End-March 2024: Synthetic 3-month sterling LIBOR is intended to cease. End-September 2024: The FCA has consulted on a proposal to require publication of a synthetic US dollar LIBOR for the 1-, 3- and 6-month settings until September 2024. The consultation sought views on this and also on the FCA's proposed synthetic methodology, and which contracts could use these synthetic settings. However, market participants should not rely on the availability of synthetic US dollar LIBOR and should note that any potential synthetic settings would only be a temporary bridge to appropriate alternative risk-free rates. The FCA expects to announce its final decision in late Q1 or early Q2 2023.		
BoE/ FCA/ PRA	Operational Resilience; Implementation of new requirements and expectations to strengthen operational resilience in the financial services sector following publication of final policy in March 2021	In-scope firms had until 31 March 2022 to operationalise the policy framework. These firms will then have a further period to show they can remain within their impact tolerances for each important business service. They must achieve this by 31 March 2025 at the latest.	H	N/A
BoE/ FCA/ PRA	Oversight of Critical Third Parties (CTPs); The Bank, PRA and FCA published a joint Discussion Paper (DP) in July 2022. The aim of the DP was to inform future regulatory proposals relating to Critical Third Parties (particularly on technically complex areas, such as resilience testing) and to provide thought leadership from the Bank, PRA and FCA to UK cross-sectoral and international financial regulatory debates on CTPs. Subject to FSM Bill timetables, the supervisory authorities plan to consult on	Consultation Paper planned for 2023.	H	Oct – Dec 2023

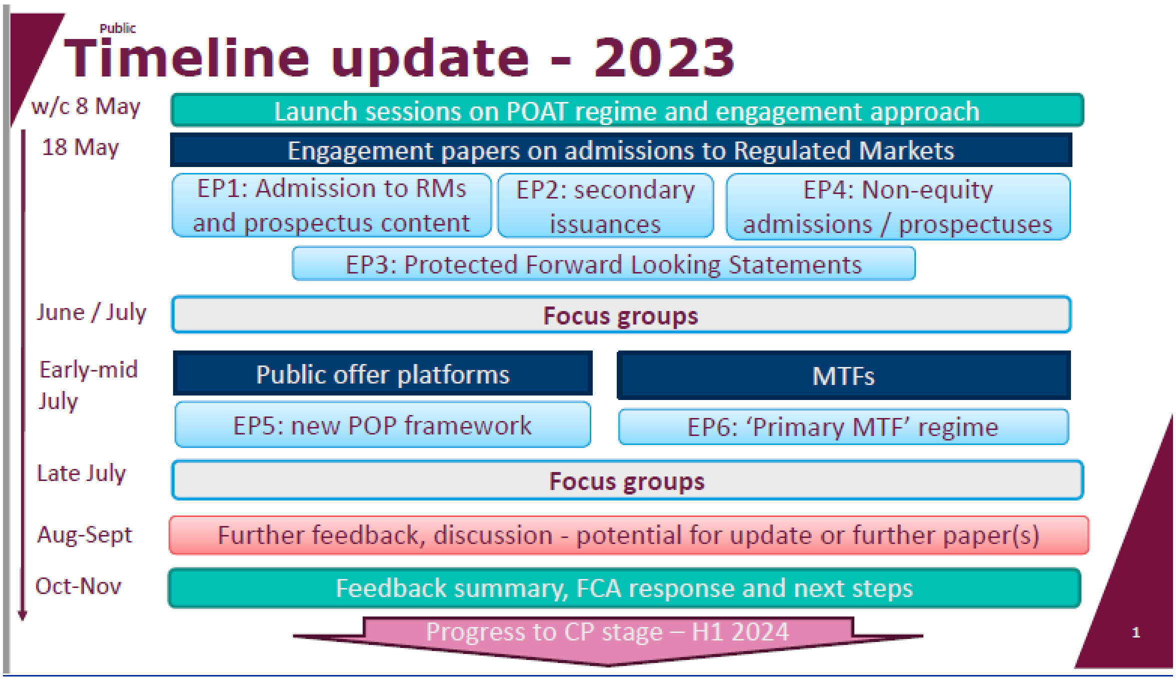
	proposals relating to the oversight of Critical Third Parties in H2 2023			
HMT	Review of the short selling regulation - including a Call for Evidence Repeal and replace the retained EU regulation of short selling to reduce burdens on market participants and ensure it is appropriate for UK markets	5 March 2023: Consultation closes	L	Timing Updated Jan/Mar 2023
HMT	Wholesale Markets Review; The Government introduced the Financial Services and Markets Bill on 20 July 2022. Subject to Parliamentary approval, the Bill will deliver the outcomes of the Wholesale Markets Review. The FCA consulted on improving equity markets (CP 22/12) in July 2022 and on the trading venue perimeter (CP 22/18) in September 2022. The FCA aim to publish the Policy Statements in Q1 and Q2 2023 respectively. The FCA plan to consult on changes to commodity position limits and the consolidated tape regime in Q2/Q3 2023. The FCA intend to consult on the transparency regime for bonds and derivatives in Q4 2023. The Government consulted on a number of amendments to ensure that the UK's wholesale markets regime works for UK markets in July 2021 as part of the Wholesale Markets Review (WMR). The consultation closed in September 2021. In March 2022 the Government published its response to the consultation. The proposals we consulted on as part of the WMR that are a priority have been included in the Financial Services and Markets Bill. Where industry supported changes but indicated that fast implementation is not paramount, the Government will use the FRF powers to deliver them.	Treasury consultation response published in March 2022. In July 2022 the Government introduced the Financial Services and Markets Bill which takes forward the most urgently needed WMR reforms. FCA Consultation Paper 22/12 on Improving Equity Secondary Markets published in July 2022. Publication of the Policy Statement in Q1 2023. FCA consultation on guidance on the trading venue perimeter published in September 2022. Publication of the Policy Statement in Q2 2023. FCA consultation on commodity derivatives and the consolidated tape in Q2/Q3 2023. FCA consultation on transparency for bonds and derivatives in Q4 2023.	L	Timing Updated Jul - Sep 2023 Oct – Dec 2023
HMT (with input from	**Future financial services regulatory regime for cryptoassets – consultation;** In April 2022 the Economic Secretary to the Treasury set regulatory out ambitious plans for the UK to harness the benefits authorities) of crypto technologies with several commitments including consulting on a future regulatory regime. The Consultation Paper sets out our	01 February 2023: publication of Consultation Paper. The consultation will close on 30 April 2023. The Government has now responded to this consultation. The Government has now introduced legislation - the Financial Services and Markets	H	Timing Updated April / June 2023

	initial policy proposals for regulating cryptoassets in the UK. UK regulatory approach to stablecoins; Treasury consultation on the broader regulatory approach to cryptoassets, including new challenges from so-called stablecoins. Further detail on the regime will be communicated in due course.	Bill - that will give effect to the measure. Treasury is consulting on a future regulatory regime for cryptoassets (see 'Future regulatory regime for cryptoassets - consultation' under 'Payments and cryptoassets').		
BoE/ FCA/ HMT	FMI Sandbox; Legislation to create a Financial Market Infrastructure (FMI) sandbox was introduced in the FSM Bill 2022. The sandbox will support firms which want to use new technology, such as distributed ledger technology, to provide infrastructure services in financial markets. It ill enable a more flexible and tailored approach to meeting requirements in current legislation, whilst appropriately balancing any risks to financial stability, market integrity and consumer protection. Treasury have started work with the Bank of England and the FCA on secondary legislation to deliver this.	The Government has published information on this initiative as part of its response the Call for Evidence on the Wholesale and Investment uses of Security Tokens. The FMI Sandbox will be up and running in 2023.	L	Oct -Dec 2023 (Not updated)
BoE/ FCA/ HMT	Amendments to derivatives reporting regime under UK EMIR; The FCA and the Bank plan to finalise amendments to the derivatives reporting regime under UK EMIR to align the UK regime with international standards as set by the Committee on Payments and Market Infrastructures and International Organization of Securities Commissions (CPMI-IOSCO) to ensure a more globally consistent data set and improve data quality.	Consultation Paper setting out changes to reporting requirements, procedures for data quality and registration of Trade Repositories under UK EMIR published Q4 2021 (closed February 2022). Policy Statement, validation rules and schemas to be published in Q1 2023.	L	Timing Updated Jan/Mar 2023 and post July 2024
BOE	Changes to the EMIR Derivatives Clearing Obligation The Bank has modified the scope of contracts which are subject to the derivatives clearing obligation to reflect the reforms to interest rate benchmarks, including LIBOR. No further changes are planned to be announced, but the implementation of the final change announced in 2022 will come into effect in April 2023	Policy Statement on the changes L to USD interest rate derivatives published in August 2022. SOFR referencing IRS added 31 October 2022; USD LIBOR referencing IRS removed 24 April 2023	L	April / June 2023
FCA	Primary Markets Effectiveness - UK Listings Review response The FCA has bought forward consultation and discussion items on reforms to improve the effectiveness of UK primary markets, which follows FCA policy review work and responds to Lord Hill's final UK Listings Review Report and recommendations published on 3 March 2021.	Consultation Paper on special L E l purpose acquisition companies (SPACs) - published 30 April 2021 (CP21/10), closed 28 May 2021. Policy Statement on SPACs - published 27 July 2021 (PS21/10). Consultation Paper on further Listing Rule changes- published 6 July 2021 (CP21/21), closed 14 September 2021. Policy Statement on	L	Timing Updated April / June 2023

		Listing Rules changes - published on 2 December 2021 (PS21/22). Discussion Paper (DP22/2) published 26 May 2022, closed on 28 July 2022. Potential Consultation Paper in Q2 2023, including feedback to DP22/2.		
FCA	Implementing ISSB disclosure standards into FCA listing or transparency rules; We expect the International Sustainability Standards Board to finalise international sustainability disclosure standards later in 2023. The FCA has previously indicated it will explore implementing those standards in its rules for listed companies once finalised, which would replace existing TCFD disclosure requirements. The FCA expects to consult towards the end of this year, with final rules in the first half of 2024 subject to feedback. Timing may be subject to the Government's response to the ISSB standards	Consultation Paper in Q4 2023 Policy Statement 2024	L	Oct -Dec 2023
HMT	Treasury consultation on power to block listings on national security grounds; This initial consultation asked for views on the scope of a proposed new targeted power to allow the Government to block a company's listings, if a listing presents a risk to national security. This power will reinforce that reputation and help us maintain the UK's status as a world-class destination for listings	This consultation closed on 27 August 2021. The Government responded to the consultation on 10 December 2021. This policy will require legislation to be enacted.However, more policy development is needed before that is possible. Treasury will continue to develop this power taking full account of the responses to this consultation	L	N/A
HMT	UK prospectus regime review outcome; This initial consultation asked for views on the scope of a proposed new targeted power to allow the Government to block a company's listings, if a listing presents a risk to national security. This power will reinforce that reputation and help us maintain the UK's status as a world-class destination for listings.	The Government will legislate to replace the regime currently contained in the UK Prospectus Regulation following the passage of the Financial Services and Markets Bill.	L	All dates applicable
DBT/ HMT	Secondary Capital Raising Review (SCRR) led by Mark Austin; The SCRR is intended to look into improving further capital raising processes for publicly traded companies in the UK. The review was started in October 2021 and reported in July 2022. The Government has accepted all the recommendations addressed to it and is considering how to take these forward	The Government has accepted all the recommendations addressed to it and is considering how to take these forward	L	N/A
HMT	Review of the Securitisation Regulation; Treasury has met its legal obligation to review the Securitisation Regulation and lay a report before Parliament. Treasury,	June - September 2021: Call for Evidence took place	L	Timing Updated

	FCA and PRA taking forward work in areas identified in the report.	December 2021: Treasury report on the review published and laid in Parliament July 2022: Based on the review, an equivalence regime for nonUK Simple, Transparent and Standardised (STS) securitisations has been included in the FSM Bill 2022. December 2022: A draft SI has been published, intended to demonstrate how Treasury may implement the outcomes of the FRF review for the Securitisation Regulation. This process will enable reforms in areas identified in the report to be taken forward. 2023 and 2024: The FCA and the PRA will plan to consult on the FCA and PRA rules to deal with the relevant firm-facing provisions in the Securitisation Regulation (and related technical standards) taking into consideration the reform areas identified in Treasury's Review of the Securitisation Regulation. Treasury plans to lay legislation to enable the introduction of these rules.		Jul - Sep 2023 Oct – Dec 2023





Benchmarks, RFRs & LiBOR Transition

Benchmarks Regulation: EU Commission adopts Delegated Regulation extending transitional period for third country benchmarks; *The EU Commission has adopted a [Delegated Regulation](#) extending the transitional period for existing benchmarks and non-EU benchmarks until 31 December 2025.*

- The Delegated Regulation extends the transitional period set out in the Benchmarks Regulation (BMR) by a further two years to allow non-EU benchmarks to continue to be used in the EU.
- The Commission considers it necessary to extend the transitional period, which is currently set to expire on 31 December 2023, in order to ensure continued access by market participants in the EU to most of the world's benchmarks.
- The Delegated Regulation follows the Commission's targeted consultation on the regime applicable to the use of benchmarks administered in a third country.
- The Delegated Regulation will enter into force on the third day following that of its publication in the Official Journal.

Transition to RFRs Review: First Half of 2023 and the Second Quarter of 2023; *The Transition to Risk-free Rates (RFRs) Review analyzes the trading volumes of over-the-counter (OTC) and exchange-traded interest rate derivatives (IRD) that reference selected RFRs, including the Secured Overnight Financing Rate (SOFR), the Sterling Overnight Index Average (SONIA) and the Euro Short-Term Rate (€STR).*

- **The Transition to RFRs Review will be discontinued after this publication following the cessation of US dollar Libor on June 30, 2023.**

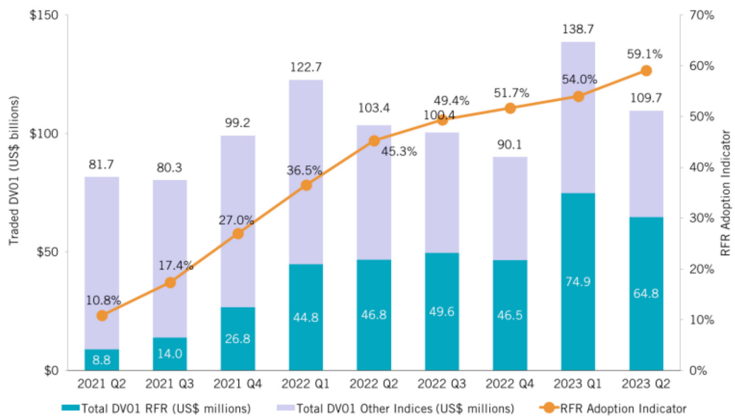
- Key highlights for the first half of 2023 include:
- The ISDA-Clarus RFR Adoption Indicator, which tracks how much global trading activity (as measured by DV01) is conducted in cleared OTC and exchange-traded IRD that reference RFRs in eight major currencies, rose to a monthly average of 56.2% in the first half of 2023 compared to 50.5% in the second half of 2022.

- Global RFR-linked IRD traded notional accounted for 52.3% of total IRD traded notional in the first half of 2023 versus 44.9% in the second half of 2022.

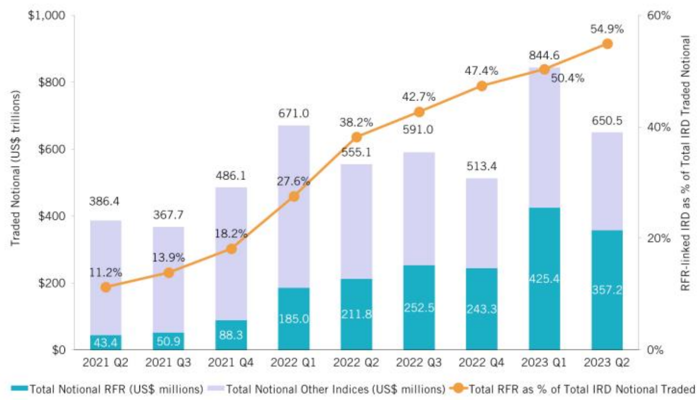
- US-reported OTC IRD traded notional referencing alternative RFRs increased by 49.1% to $89.5 trillion in the first half of 2023 compared to $60.1 trillion in the second half of 2022. RFR transactions accounted for 48.5% of total OTC IRD traded notional in the first half of 2023, up from 43.5% in the second half of 2022.

- US-reported OTC IRD traded notional referencing SOFR rose by 44.9% to $41.7 trillion in the first half of 2023 versus $28.8 trillion in the second half of 2022. SOFR transactions comprised 51.7% of US dollar-denominated OTC IRD traded notional in the first half of 2023 compared to 44.9% in the second half of 2022.
- To read the full report, click here.

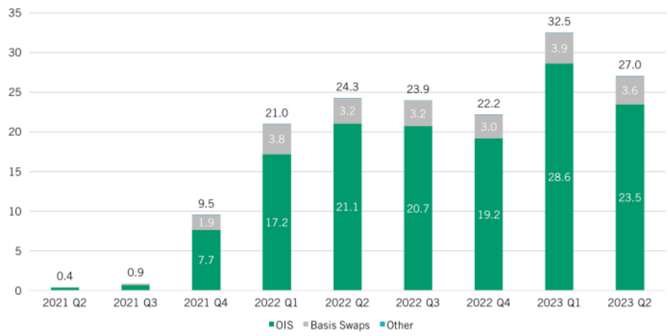
RFR Adoption Indicator: % of DV01 Transacted as RFR-linked IRD Products



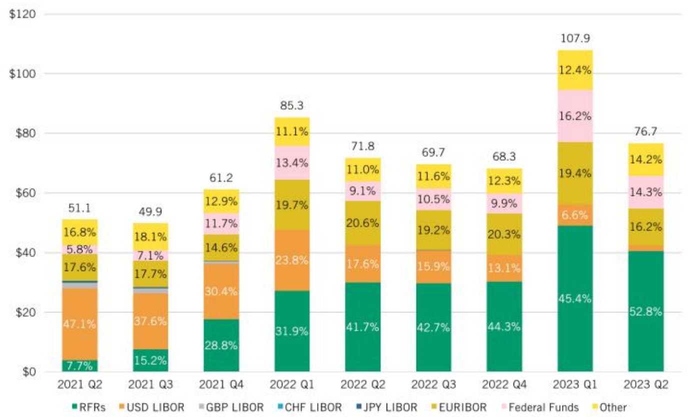
Global IRD Traded Notional (including OTC and ETD)



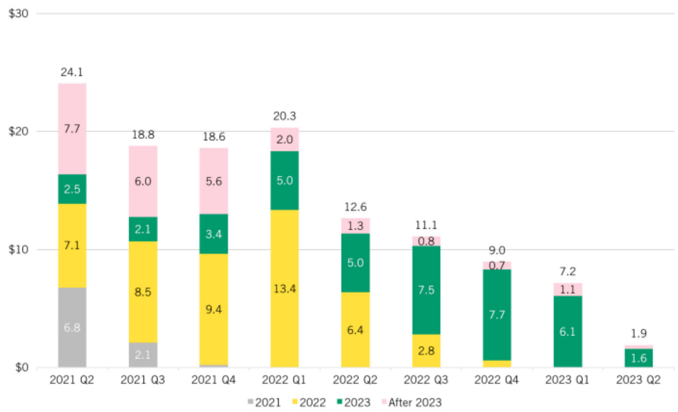
€STR Trade Count by Product (thousands)



IRD Traded Notional by Underlying Interest Rate Benchmark (US$ trillions)

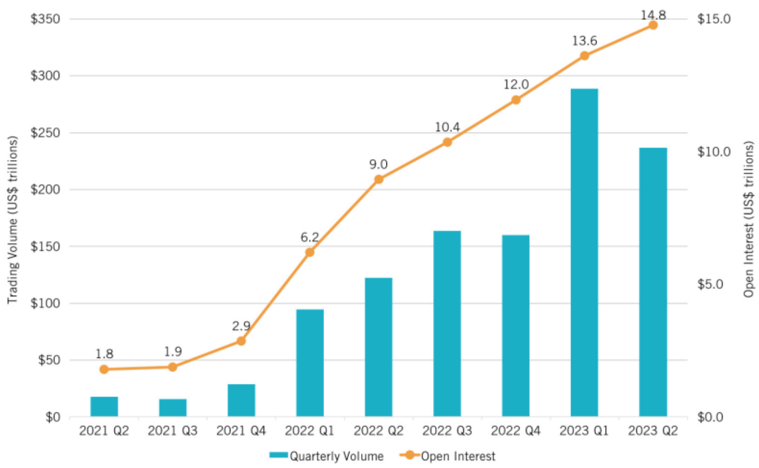


US dollar LIBOR IRD Traded Notional by Maturity (US$ trillions)



SOFR Futures Quarterly Trading Volume and Open Interest

(Implied Notional in OTC Equivalent)



FSB publishes final reflections on the LIBOR transition; *On 28 July 2023, the Financial Stability Board (**FSB**) published its final reflections on the LIBOR transition.*

- The end of June 2023 marked the end of the remaining USD LIBOR panel. Only three of the US dollar LIBOR settings will continue in a synthetic form after June 2023 and are intended to cease at end-September 2024. In addition, reform of other interest rate benchmarks and related transition efforts have either been completed or are near their planned conclusion.

- In the post transition landscape, the FSB would like to emphasise the following messages:
    - The FSB continues to encourage firms to consider their choice of reference rates and use benchmarks that are robust, suitable, sustainable, and compatible with relevant guidance and regulation.
    - Market participants should continue to incorporate robust contractual fallbacks.
- The FSB will continue to monitor the reference rate environment, including the ongoing use of Term risk-free rates and credit sensitive rates, with the benefit of ongoing insights from IOSCO.

EBA mulls tighter rules for stablecoin issuers using derivatives The European Banking Authority says it may impose more rules under the Markets in Crypto Assets regulation on stablecoin issuers whose reserves heavily rely on derivatives or covered bonds. "In order to address increased risks from significant [asset-referenced token] or [e-money token], the issuers of those tokens must comply with additional obligations and their supervision is partly or fully assigned to the EBA," notes the draft rule change. CoinDesk

New indices rapidly lose ability to outperform, study shows; Research demonstrates that back testing is a poor indicator of future returns, Morningstar finds; Newly constructed indices often flatter to deceive and rapidly lose the bulk of the ability to outperform they demonstrated in back testing, according to research from Morningstar. Based largely on backtested data, a typical new index outperformed its corresponding Morningstar category index by 1.4 percentage points a year during the five years before any fund started tracking it, the researchers found. But that excess total return declined to just 0.39 percentage points a year over the five years after the fund launched. Risk-adjusted performance followed a similar downward trend. /jlne.ws/43KHnny

Benchmarks Regulation: EU Commission adopts Delegated Regulation extending transitional period for third country benchmarks; *The EU Commission has adopted a Delegated Regulation extending the transitional period for existing benchmarks and non-EU benchmarks until 31 December 2025.*

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- The Delegated Regulation will enter into force on the third day following that of its publication in the Official Journal.

Capital Markets and Market Structure

Even More on Blocks and new rules for FX

- *CDX block sizes will more than double in December 2023.*
- *FX block sizes will increase by many multiples (50x in some cases) under the newly calibrated levels.*
- *New block sizes in products that have a MAT determination will likely attract the most amount of attention....*
- *...but there may be consequences for non-MAT products as well, particularly in FX.*
- *The review process will be interesting to follow.*

Current Block Trade Thresholds and Volume Cap Sizes for Interest Rate Swaps		
Currency group	**Tenor**	**50% Notional (millions)**
Super-Major (USD, EUR, GBP, JPY)	Tenor ≤ 46 Days	6,400
	46D < Tenor ≤ 3M	2,100
	3M < Tenor ≤ 6M	1,200
	6M < Tenor ≤ 1Y	1,100
	1Y < Tenor ≤ 2Y	460
	2Y < Tenor ≤ 5Y	240
	5Y < Tenor ≤ 10Y	170
	10Y < Tenor ≤ 30Y	120
	Tenor > 30Y	67
Major (AUD, CHF, CAD, ZAR, KRW, SEK, NZD, NOK, DKK)	Tenor ≤ 46 Days	2,200
	46D < Tenor ≤ 3M	580
	3M < Tenor ≤ 6M	440
	6M < Tenor ≤ 1Y	220
	1Y < Tenor ≤ 2Y	130
	2Y < Tenor ≤ 5Y	88
	5Y < Tenor ≤ 10Y	49
	10Y < Tenor ≤ 30Y	37
	Tenor > 30Y	15
Non-Major	Tenor ≤ 46 Days	230
	46D < Tenor ≤ 3M	230
	3M < Tenor ≤ 6M	150
	6M < Tenor ≤ 1Y	110
	1Y < Tenor ≤ 2Y	54
	2Y < Tenor ≤ 5Y	27

	5Y < Tenor ≤ 10Y	15
	10Y < Tenor ≤ 30Y	16
	Tenor > 30Y	15

Revised Block Trade Thresholds for Interest Rate Swaps

Revised Block Trade Thresholds for Interest Rate Swaps

Block Trade Thresholds	USD		EUR		GBP		JPY		CAD		AUD		BRL		CZK	
Tenor	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*
Tenor ≤ 46 Days	8,800	38%	7,800	22%	5,500	-14%	1,200	-81%	2,300	5%	3,400	55%	3,700	1509%	1,300	465%
46D < Tenor ≤ 3M	3,300	57%	3,100	48%	4,700	124%	1,900	-10%	1,300	124%	1,050	81%	550	139%	420	83%
3M < Tenor ≤ 6M	1,100	-8%	700	-42%	2,500	108%	1,800	50%	2,100	377%	280	-36%	500	233%	410	173%
6M < Tenor ≤ 1Y	1,600	45%	1,200	9%	1,300	18%	1,050	-5%	550	150%	400	82%	380	245%	120	9%
1Y < Tenor ≤ 2Y	850	85%	550	20%	360	-22%	450	-2%	290	123%	210	62%	350	548%	83	54%
2Y < Tenor ≤ 5Y	400	67%	270	13%	190	-21%	210	-13%	160	82%	130	48%	160	493%	47	74%
5Y < Tenor ≤ 10Y	290	71%	200	18%	150	-12%	180	6%	100	104%	59	20%	56	273%	31	107%
10Y < Tenor ≤ 30Y	210	75%	130	8%	98	-18%	94	-22%	39	5%	37	0%	34	113%	23	44%
Tenor > 30Y	260	2885%	56	-16%	56	-16%	42	-37%	22	47%	18	20%	0	-100%	0	-100%

Block Trade Thresholds	ZAR		KRW		INR		MXN		CLP		SEK		NZD	
Tenor	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*
Tenor ≤ 46 Days	0	-100%	0	-100%	250	9%	0	-100%	410	78%	0	-100%	2,000	-9%
46D < Tenor ≤ 3M	420	-28%	480	-17%	320	39%	700	204%	310	35%	950	64%	1,300	124%
3M < Tenor ≤ 6M	47	-89%	310	-30%	280	87%	370	147%	210	40%	110	-75%	500	14%
6M < Tenor ≤ 1Y	140	-36%	220	0%	200	82%	210	91%	120	9%	270	23%	270	23%
1Y < Tenor ≤ 2Y	84	-35%	120	-8%	140	159%	110	104%	57	6%	160	23%	140	8%
2Y < Tenor ≤ 5Y	50	-43%	68	-23%	74	174%	51	89%	37	37%	79	-10%	66	-25%
5Y < Tenor ≤ 10Y	31	-37%	38	-22%	35	133%	24	60%	17	13%	78	59%	48	-2%
10Y < Tenor ≤ 30Y	22	-41%	44	19%	0	-100%	25	56%	8	-50%	32	-14%	28	-24%
Tenor > 30Y	0	-100%	0	-100%	0	-100%	0	-100%	0	-100%	0	-100%	0	-100%

Revised Volume Cap Sizes for Interest Rate Swaps

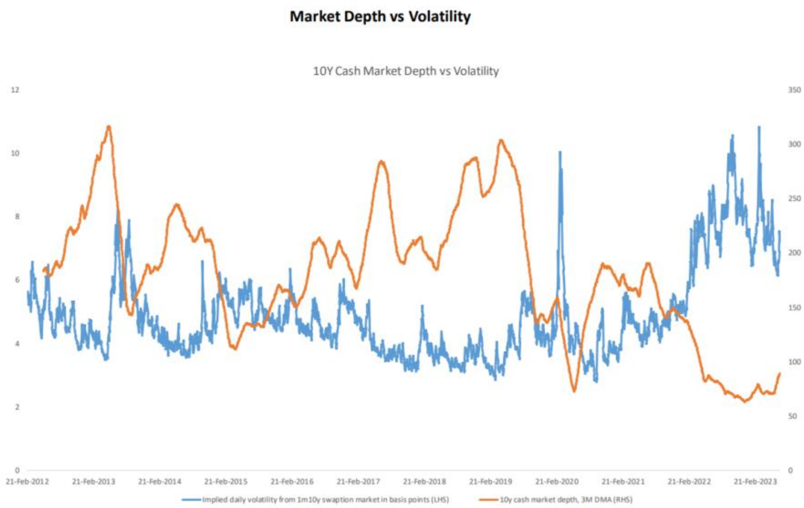
Volume Caps Sizes	USD		EUR		GBP		JPY		CAD		AUD		BRL		CZK	
Tenor	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*
Tenor ≤ 46 Days	13,000	103%	8,700	36%	6,000	-6%	1,200	-81%	2,300	5%	3,800	73%	4,900	1860%	1,300	420%
46D < Tenor ≤ 3M	4,100	95%	3,800	81%	5,200	148%	2,200	5%	1,600	176%	1,300	124%	850	240%	430	72%
3M < Tenor ≤ 6M	1,600	33%	900	-25%	3,000	150%	1,900	58%	3,200	627%	350	-20%	600	140%	420	68%
6M < Tenor ≤ 1Y	2,100	91%	1,500	36%	1,700	55%	1,400	27%	700	180%	550	120%	600	140%	140	-44%
1Y < Tenor ≤ 2Y	1,100	139%	650	41%	550	20%	600	30%	370	48%	260	4%	450	80%	120	-52%
2Y < Tenor ≤ 5Y	550	129%	350	46%	250	4%	270	13%	200	100%	170	70%	210	110%	59	-41%
5Y < Tenor ≤ 10Y	410	141%	260	53%	220	29%	230	35%	140	40%	71	-29%	73	-27%	36	-64%
10Y < Tenor ≤ 30Y	270	125%	190	58%	140	17%	150	25%	41	-45%	50	-33%	44	-41%	26	-65%
Tenor > 30Y	340	353%	73	-3%	75	0%	45	-40%	25	-67%	18	-76%	0	-100%	0	-100%

Volume Caps Sizes	ZAR		KRW		INR		MXN		CLP		SEK		NZD	
Tenor	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*	*New (millions)*	*Change (%)*
Tenor ≤ 46 Days	0	-100%	0	-100%	250	0%	0	-100%	600	140%	0	-100%	2,300	5%
46D < Tenor ≤ 3M	450	-22%	480	-17%	400	60%	900	260%	410	64%	1,050	81%	1,600	176%
3M < Tenor ≤ 6M	47	-89%	340	-23%	320	28%	600	140%	220	-12%	110	-75%	510	16%
6M < Tenor ≤ 1Y	160	-36%	250	0%	250	0%	260	4%	120	-52%	340	36%	300	20%
1Y < Tenor ≤ 2Y	120	-52%	140	-44%	170	-32%	130	-48%	72	-71%	220	-12%	160	-36%
2Y < Tenor ≤ 5Y	62	-38%	87	-13%	120	20%	62	-38%	43	-57%	99	-1%	81	-19%
5Y < Tenor ≤ 10Y	38	-62%	46	-54%	36	-64%	32	-68%	21	-79%	120	20%	67	-33%
10Y < Tenor ≤ 30Y	29	-61%	56	-25%	0	-100%	30	-60%	12	-84%	36	-52%	29	-61%
Tenor > 30Y	0	-100%	0	-100%	0	-100%	0	-100%	0	-100%	0	-100%	0	-100%

CFTC Global Markets Advisory Committee; Following up on my blog last week, there is now the recording of the CFTC's Global Markets Advisory Committee (GMAC) available on YouTube:

- GMAC Panel Ii: Swap Block Implications On Market Structure

- There are some interesting take-aways: The industry really needs to develop some type of [standard measure of liquidity]! Pimco highlighted that we are now in a "high vol, low liquidity" paradigm for the first time in ten years:

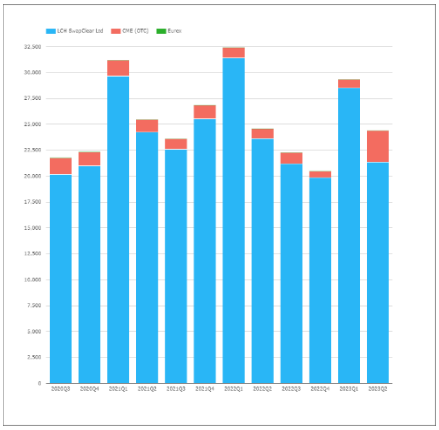


Source: JPM DataQuery

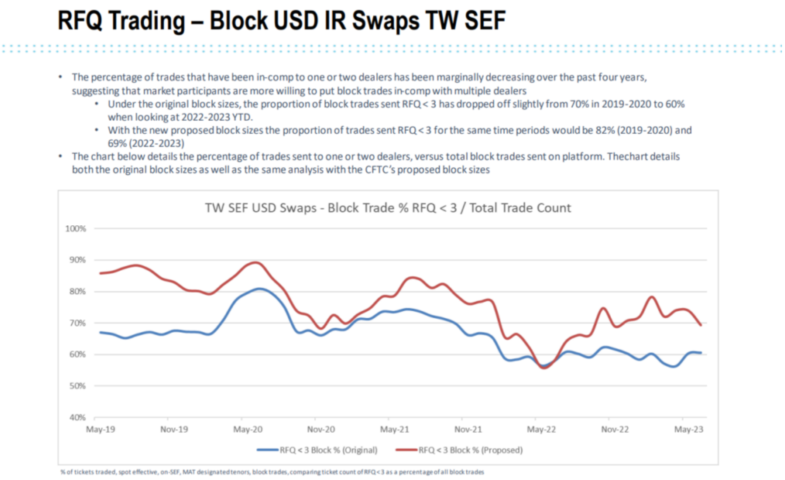
Market depth: cash market depth is the average of the top 3 bids and offers on hot-run Treasuries in the inter-dealer broker CLOB, averaged between 8:30am and 10:30am daily

Showing;

- The implied volatility in 1m10Y USD swaptions (in blue) versus the market depth of 10Y cash treasuries (USTs) for the top three orders in central limit order books.
- The chart shows that market depth has been at the lows since 2022 whilst volatility has moved to higher levels.
- As we know from Clarus data, this typically means that the **price of liquidity** has increased.
- There is still A LOT of volume transacting though! This is best shown by the rebound in volumes in USD swaps since Q4 2022 (in DV01 terms below):



- So liquidity might be more expensive but there are clearly plenty of people still willing to pay that price. (Does that equate to liquidity inflation or liquidity shrinkflation?).
- Elsewhere, Tradeweb and Bloomberg provided insights into the RFQ1 vs RFQ-to-many split amongst large trades. This is some really interesting data. The chart below shows that over 60% of block trades in USD IRS are sent to less than 3 dealers. With larger block sizes, over 70% (and even up to 90%!) of block trades would be sent to only 1 or 2 dealers:



- *(I assume that the 2022 & 23 data includes SOFR OIS, hence the reference to "MAT tenors" on the footnote).*
- I would love to know what that chart looks like when trades are grouped 1x, 2x and 3x block size.
- I wonder if there is any evidence that trades are beginning to be broken down into smaller packages?
- The peak in RFQ-to-less-than-3 was around the March 2020 market turmoil – relationships matter in times of stress people!
- And for those of you without regular access to Bloomberg, you might be interested to witness the level of pre-trade transparency that SEFs have introduced. It is really impressive to have reached this level within ten years of SEF trading. And if anyone knows what the "Auto Trade" option that is greyed out below does, please let me know!

New forms of Pre-Trade Price Transparency – Streaming Quotes

- The take-aways from the GMAC were:
  - ISDA stated that they have requested a **one-year delay** for the new rules to come into effect. I personally think we have had more than enough time to prepare since I first blogged on this 3 years ago!
  - Everyone who spoke supported "**more investigation**" into the proposed levels.
  - Everyone was far too polite to speak about specifics, such as why do the block thresholds increase so much at longer maturities for USD swaps?

- **CDS Index Blocks;** Happily, ISDA saved me a bit of Excel work this week! I will shamelessly copy their slide showing the block threshold changes for CDS Index trades (I am sure they won't mind):

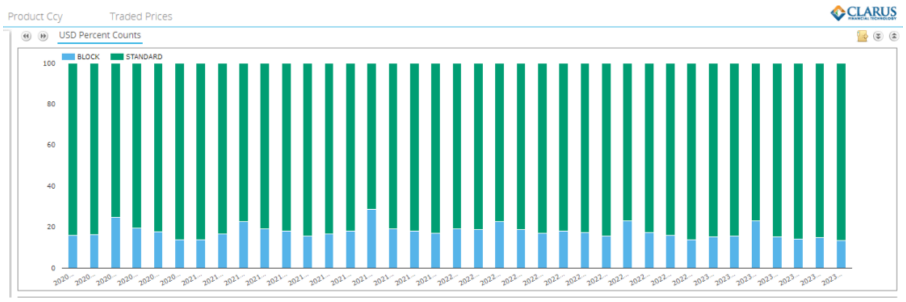
Current and Revised Block Trade Thresholds and Volume Cap Sizes for Credit Default Swaps

Block Trade Thresholds	Current (millions)	New (millions)	Change (%)
CDX IG	110	250	127%
CDX HY	26	75	188%
CDX EM	32	52	63%
iTraxx Europe	110	265	141%
iTraxx Crossover	26	69	165%
iTraxx Senior Financial	110	350	218%

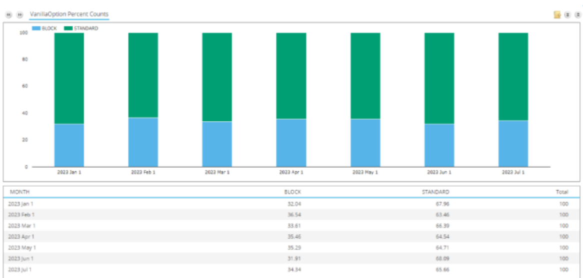
Volume Caps Sizes	Current (millions)	New (millions)	Change (%)
CDX IG	110	300	173%
CDX HY	100	100	0%
CDX EM	100	95	-5%
iTraxx Europe	110	386	251%
iTraxx Crossover	100	104	4%
iTraxx Senior Financial	110	510	364%

CFTC Global Markets Advisory Committee — ISDA Safe, Efficient Markets

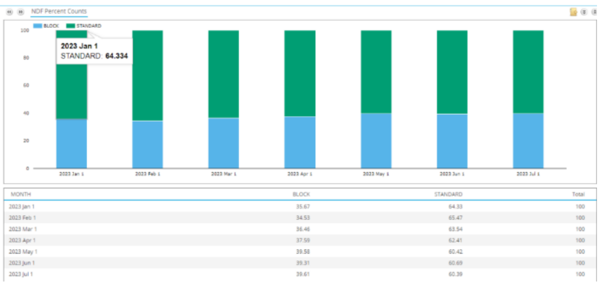
- **ISDA GMAC presentation. All of the content is** available here. Showing;
  - Block trade increases in CDS Index trades are much larger than for IRS.
  - This was somewhat anticipated because 15-30% of trades each month are currently designated as "Block" in CDX reported to SDRs:



- This is higher than the 4-6% that are reported as Blocks and Capped trades for Rates products.
- It will be interesting to see how these are received by the market – most of the attention has been on the Rates products so far, so I think it is well worth flagging here. Similarly….
- FX Block Sizes; *For FX Options reported to SDRs, over 35% of trades are currently reported as blocks in the major currency pairs – EUR, GBP, JPY, AUD & CAD vs USD:*



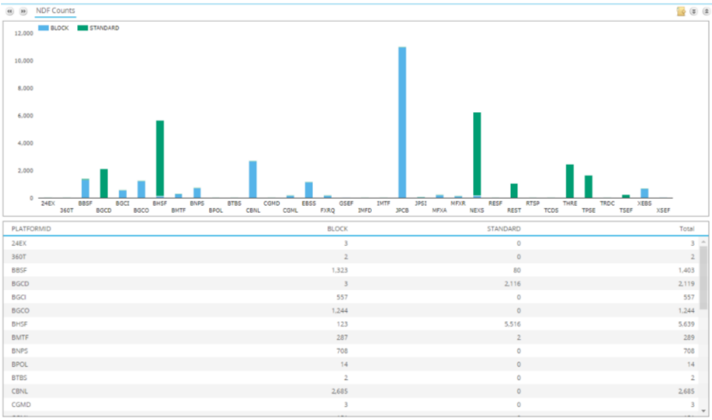
MONTH	BLOCK	STANDARD	Total
2023 Jan 1	32.04	67.96	100
2023 Feb 1	36.54	63.46	100
2023 Mar 1	33.61	66.39	100
2023 Apr 1	35.46	64.54	100
2023 May 1	35.29	64.71	100
2023 Jun 1	31.91	68.09	100
2023 Jul 1	34.34	65.66	100



MONTH	BLOCK	STANDARD	Total
2023 Jan 1	35.67	64.33	100
2023 Feb 1	34.53	65.47	100
2023 Mar 1	36.46	63.54	100
2023 Apr 1	37.59	62.41	100
2023 May 1	39.58	60.42	100
2023 Jun 1	39.31	60.69	100
2023 Jul 1	39.61	60.39	100

- And for NDFs, the data is similar, if a little higher. In CNY, INR, KRW & BRL vs USD 40% of trades were reported as block trades in the past three months.

- I believe that the high number of block trades in FX is intentional, because some currency pairs do not have any block limits set. Therefore, no matter what the size, any trade in INR or CNY can be treated as a block trade:
    - All swap transactions subject to part 43 in these unique currency combinations may be treated as blocks. The changes to § 43.6(b)(4) will significantly reduce the number of swap categories.
    - While not affording block treatment to all swaps in the FX asset class subject to part 43, these modifications will increase the number of currency combinations which will be eligible to be blocks, many of which have limited liquidity
- *CFTC, 17 CFR Part 43 Procedures To Establish Appropriate Minimum Block Sizes for Large*
  Notional Off-Facility Swaps and Block Trades; Final Rule
    - My understanding is that this means all FX trades in INR and CNY (for example) can be treated as Block trades, irrespective of size. And that is what we see in the data, where some platforms report all trades as block trades (data below for trades executed on-SEF in July 2023):



- This is, therefore, the first time that FX block thresholds have been truly calibrated. It will be interesting to see how the review process goes because most of the changes are many multiples of current levels:

CFTC "FX Swaps" Block Trade Thresholds	Current (millions)	New (millions)	Change (%)
ARS	-	17	-
AUD	7	160	2268%
BRL	1	160	14940%
CAD	10	170	1600%
CLP	-	43	-
CNY	-	160	-
COP	-	41	-
EUR	21	420	1936%
GBP	8	250	3025%
IDR	-	35	-
INR	-	51	-
JPY	13	310	2231%
KRW	5	75	1430%
MXN	3	150	5000%
MYR	-	21	-
NZD	3	110	3420%
PEN	-	31	-
PHP	-	32	-
RUB	1	76	5372%
TWD	-	51	-

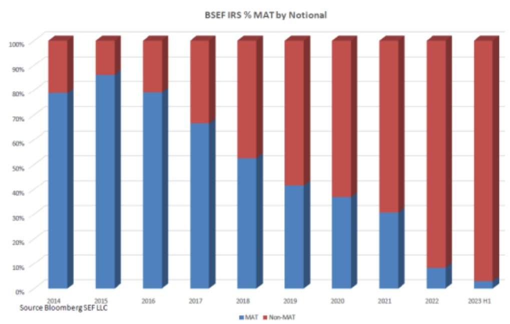
- MAT Determinations and Clearing Mandates; Whilst the changes in FX block levels are eye-poppingly large, the impact on the industry may be different because there are no MAT determinations or Clearing Mandates in the FX Asset Class.
  - However, it could have particular impacts on certain FX trading venues, who may have implemented minimum order sizes above the current block thresholds to simplify trade processing.
  - The review process will be interesting that's for sure!
- In Summary
  - Block sizes are changing in all the asset classes – Rates, Credit and FX (and even Commodities).

- The existence of MAT determinations and Clearing Mandates will likely mean that the impacts are most keenly felt in Rates and Credit markets.
- However, this is the first time that block sizes have been calibrated using market data for FX swaps (NDFs and FX Options).
- This has resulted in some huge increases and will likely attract further comment from industry review.

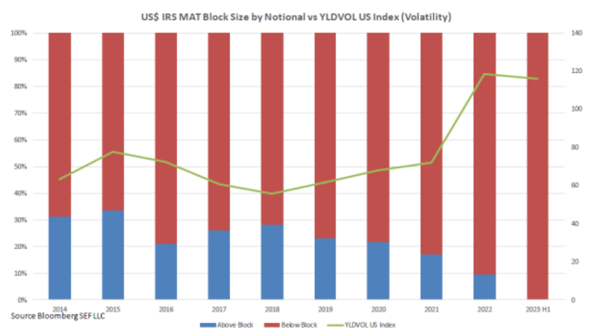
BSEF Conclusions to GMAC

1. Decrease in MAT IRS Activity as Percentage of Total Activity SEFs used for more than MAT
2. Downward Trend in Block Size IRS Activity as Percentage of Total Activity
3. Reduced Block Size Activity in IRS but increasing number of dealers in competition
4. Status of SOFR trading off facility (block and non-block) not yet easily observable versus SEF data. Difficult to predict impact of proposed threshold increase without knowing 'how' they're traded
5. Data in SOFR to become more readily available by SEF from August as MAT trade execution requirement enters into force to help understand behaviours

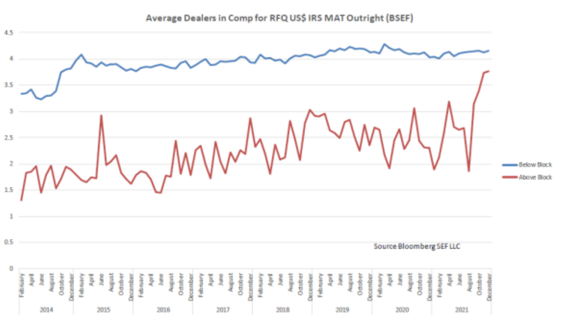
Made Available to Trade IRS BSEF Activity



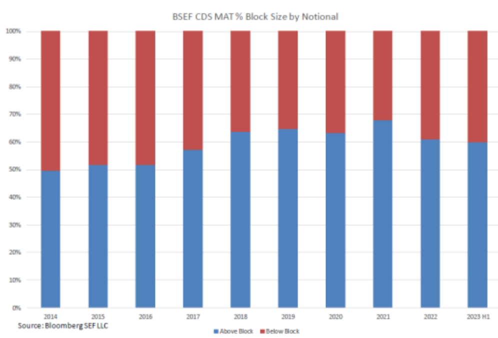
US$ IRS MAT Block Size Activity



Average Number of Dealers in Competition

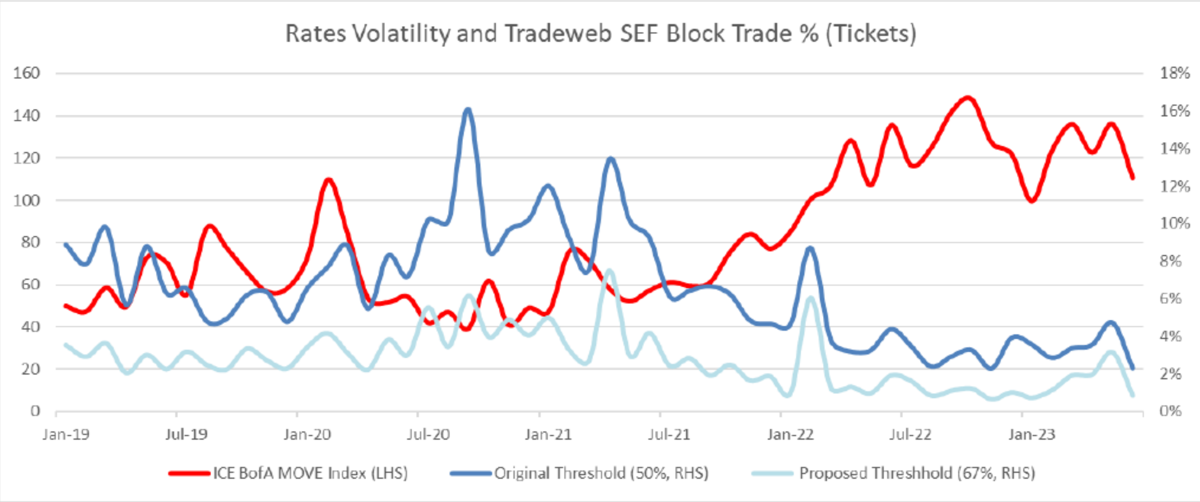


CDS MAT Block Size Activity

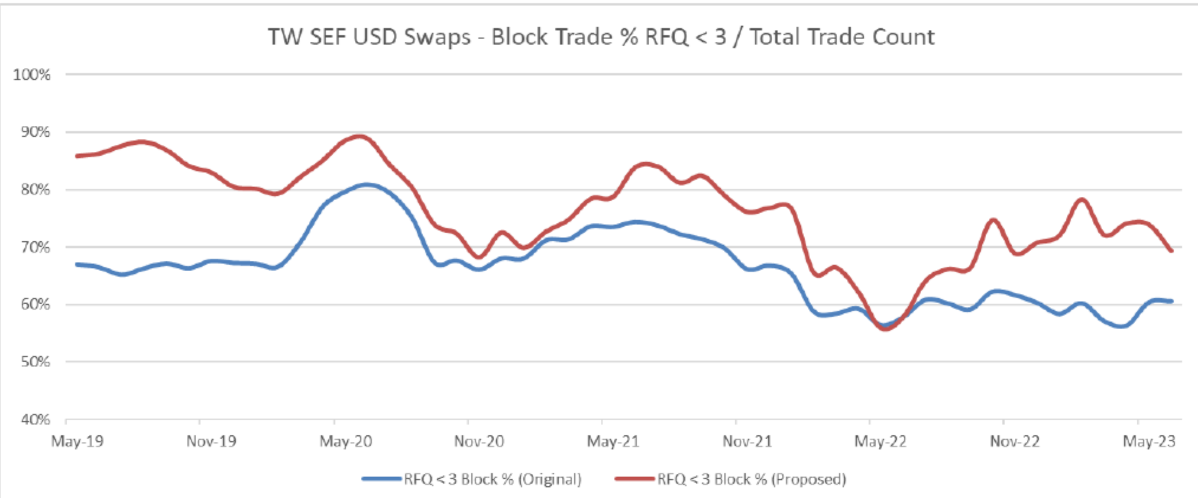


TradeWeb SEF Swaps Block Size Analysis

- In periods of sustained high volatility, the amount of block trades traded and processed on TW SEF is seen to decrease. From Jan 2019 Dec 2020, the average amount of block trades was 8% versus Jan 2022 Jun 2023 of 4%



- The percentage of trades that have been in-comp to one or two dealers has been marginally decreasing over the past four years, suggesting that market participants are more willing to put block trades in-comp with multiple dealersUnder the original block sizes, the proportion of block trades sent RFQ < 3 has dropped off slightly from 70% in 2019-2020 to 60% when looking at 2022-2023 YTD. With the new proposed block sizes the proportion of trades sent RFQ < 3 for the same time periods would be 82% (2019-2020) and 69% (2022-2023)



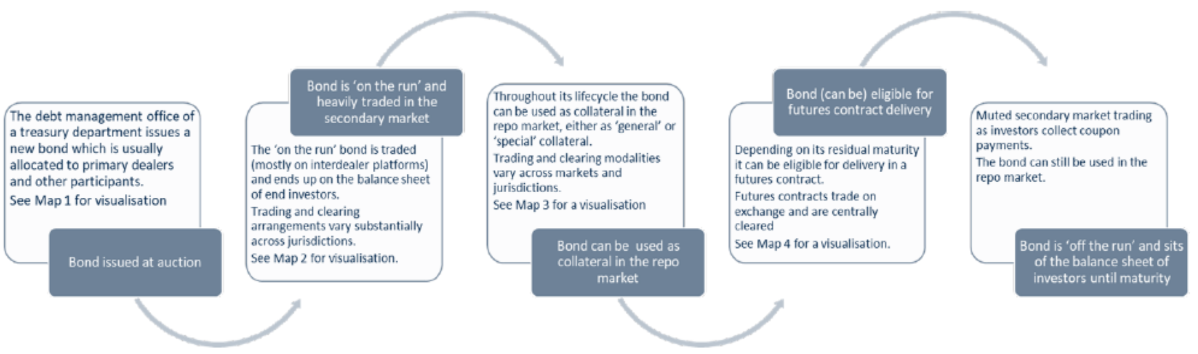
Effect of Trade Notional Size (y) on Optimal # of Dealers (CDX); *Our theoretical model of SEF trading emphasizes a fundamental trade off when the customer exposes his order to more dealers : competition versus the winner's curse.*

- In our model of the RFQ mechanism, contacting more dealers increases both competition and the winner's curse .
- Moreover, consistent with the winner's curse, dealers' spreads and customer's transaction costs in RFQs are also higher if the customer selects more dealers than expected , although the economic magnitude of the estimate is rather small.

FSB Paper on Liquidity in Core Government Bond Markets; *I recently took a first look at Central Clearing of Bonds and Repos and in that blog I mentioned a Financial Stability Board (FSB) paper on Liquidity in Core Government Bond Markets.*

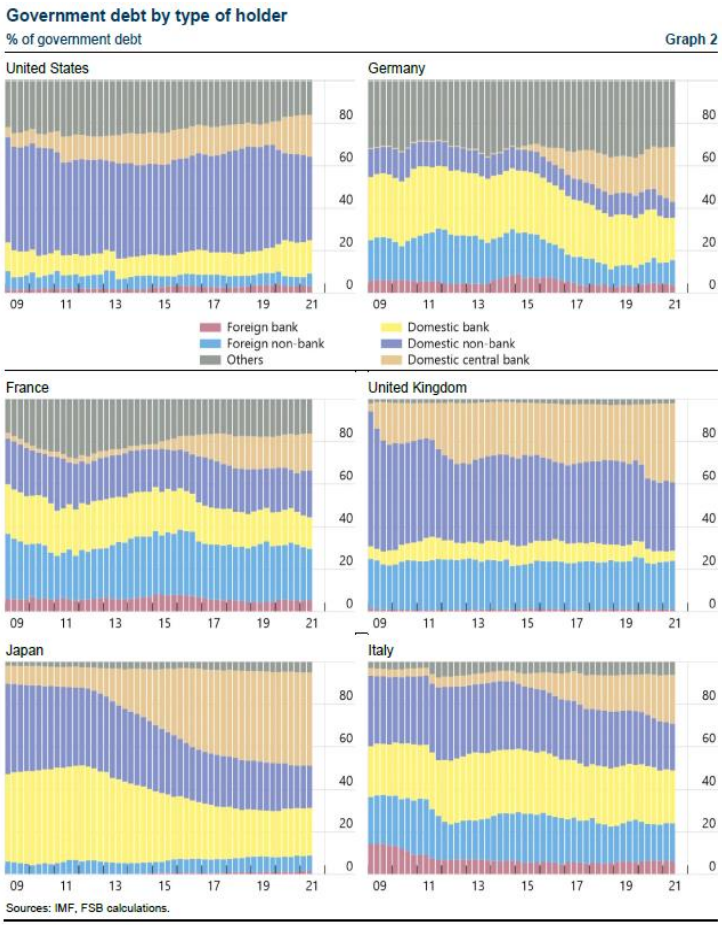
- This paper analyses the liquidity, structure and resilience of government bond markets, with a focus on the events of March 2020; characterised as "a flight to quality, followed by a dash for cash". In today's blog, I will pick out what I found interesting.
- Stylised Lifecycle of a Government Bond; Let's start with Figure 1 from the paper.

The stylised lifecycle of a government bond and associated markets **Figure 1**



1. Issuance by a Debt Management Office (DMO) to primary dealers
2. Secondary trading of "on the run" bonds in the dealer market
3. Use as collateral in repo markets, general or special
4. Eligible for delivery in bond futures contracts
5. "Off the run" bonds on the balance sheet of investors, held to maturity (HTM)

- Showing the strong linkage between markets, primary to secondary and cash, repo and futures.
- Debt Holders by Type; A graph on the holders of government bonds.



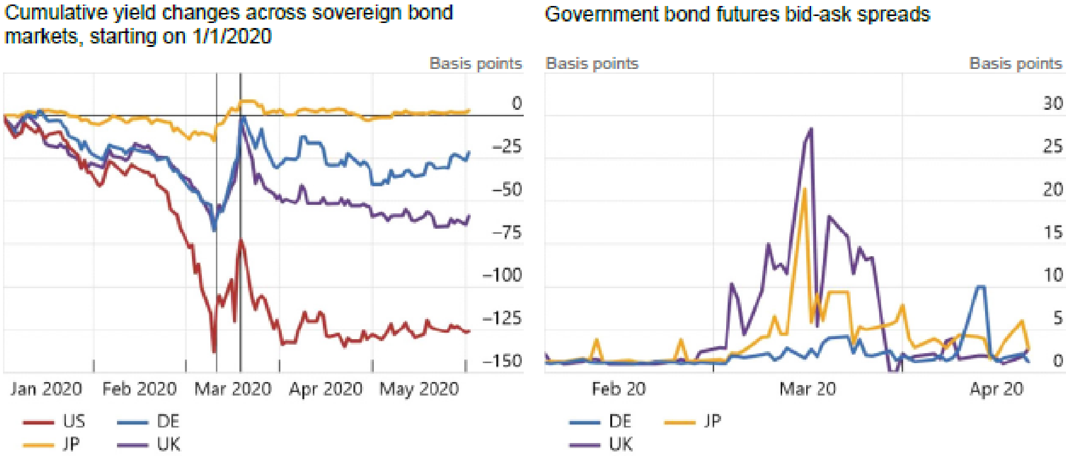
- Domestic Central Bank holdings increasing significantly in each country
    - United States – Domestic non-banks the largest holders
    - Germany – Others, followed by Domestic Central Bank
    - France – Foreign non-banks, then Domestic non-banks
    - United Kingdom – Domestic Central Bank (QE), then Domestic non-banks
    - Japan – Domestic Central Bank (QE), then Domestic banks
    - Italy – the most evenly split by type
- There are also charts on the increase in size of Government Bonds markets, but not the clearest, so I will quote from the paragraph that introduces section 2.
    - *The size of core government debt increased substantially, both in absolute and relative terms.*
    - *In the US, outstanding government debt grew from about $13.6 trillion in 2010 to $25 trillion in 2020 (or from 90% to 131% of GDP).*
    - *In the euro area over the same period, government debt grew from €8.3tn to €12.9tn (87% to 113% of GDP)*
    - *In the UK from £1.3tn to £2.9tn (80% to 137% of GDP)*
    - In *Japan from ¥882tn to ¥1280tn (174% to 238% of GDP)*

- Puts some figures to what we all know; there is a lot more government debt to trade and hold.

- The same section states that Government bond liquidity in normal market conditions has not deteriorated between 2011 and 2020, using data on bid-ask spreads, trading volumes and turnover ratios adjusted for domestic central bank holdings.
- The paper goes onto cover March 2020.
- Market Dynamics in March 2020; The second paragraph from this section is re-produced below:

Overall dynamics in March 2020 were fairly similar across government cash and futures markets in terms of rapid changes in yields and market liquidity deterioration. There was initially a 'flight to quality', as investors sold risky assets and bought safe assets due to the elevated uncertainty. During this period, yields on government bonds initially declined across all jurisdictions in response to the evolving trajectory of policy (Graph 3). However, this gave way to a 'dash for cash' in mid-March. Yields suddenly spiked, indicating that a broad range of investors were selling government bonds to raise cash. This was most pronounced in the off-the-run segment, in part due to the need for dealer intermediation of these trades. Liquidity measures deteriorated across cash and futures markets, and to a lesser extent repo markets. Bid-ask spreads widened, order book depth fell, while trading volumes continued to increase.

Market dynamics in March 2020 — Graph 3



The vertical lines indicate 10 March 2020 and 18 March 2020 respectively.
Sources: FRB; Refinitiv Tick History; FSB calculations.

- After providing more detail on Futures, Repo, FX Swap Basis and a comparison between jurisdictions, there follows a description of public intervention by central banks (re-formatted into bullet points and shown below):

    - *Such interventions involved significant asset purchases and liquidity support (e.g. reverse repo operations), which led to a US$7 trillion increase in G7 central bank assets in just eight months.*
    - *Specifically in the US, the Federal Reserve alleviated strains in the offshore US dollar market by expanding FX swap lines and establishing a foreign central bank*

  - *repo facility and in onshore markets by offering a significant amount of repo financing to primary dealers.*
  - *In the euro area, the pandemic-related monetary policy measures included (i) the pandemic emergency (asset) purchase programme (PEPP); (ii) targeted longer-term refinancing operations (TLTRO III) at more favourable terms and conditions; (iii) non-targeted pandemic emergency longer-term refinancing operations (PELTROs); and (iv) easing of collateral rules.*
  - *In some cases, these measures were also followed by targeted and temporary relaxation of prudential regulations (e.g. exempting banks' government bond and central bank exposures from the leverage ratio requirements).*
  - *DMOs also deployed various tools to address the turmoil in government bond markets.*
  - *Feedback from stakeholder outreach confirms that central bank interventions were crucial to address the challenges in government bond market functioning during March 2020*
- Behaviour of Market Participants; Section 4 looks into the trading behavior of types of market participants in March 2020 and I would briefly summarise these five pages as:
  - Dealers increased their trading activities across cash, repo and futures, did not add to selling pressure, but were not able to meet the higher liquidity demands and focused their market making on a sub-set of government securities.
  - Principal Trading Firms (PTFs), while there is limited information, the evidence suggests PTFs did not sufficiently increase their intermediation during the turmoil
  - Hedge funds contributed to selling pressure in the US and some Euro area governments but were net buyers in the UK.
  - Open-ended funds (OEFs) were net sellers of government bonds, their sales motivated by investor redemption requests, precautionary factors and re-balancing needs.
  - Money-market funds (MMFs), Insurance Companies and Pension funds behaviour differed across jurisdictions.
  - Foreign entities were net sellers of government bonds in all jurisdictions and especially the US, with the role of the US dollar as the global reserve currency the main explanation of larger sales of US treasuries compared to other government bonds.
- Drivers of Behaviour; In section 5 the paper discusses and presents results of a survey the FSB conducted with relevant member authorities and Annex 4 has the findings from FSB outreach meetings. There is a lot to digest in these sections and not simple for me to do it justice; so I would highly recommend you take time to read it in the paper.
- The point that interests me, was not the drivers on which there was broad agreement between dealer participants (uncertainty, one-sided flows, risk limits, operation issues, difficulty in hedging...) but the drivers with the greatest discrepancy in responses:

- Some respondents highlighted market structure as a relevant driver of behaviour (see Box 3). They stressed how the size of government bond markets has grown significantly relative to dealer balance sheets (see section 2), suggesting that the capacity of dealers to intermediate in stress may be more constrained. They also noted that market functioning issues were only somewhat relevant and cited expanded use of central clearing and of trading platforms as areas to explore. Some other respondents indicated that market structure and functioning were not relevant drivers during the sell-off in March 2020, though they agreed that issues such as central clearing could potentially improve market resilience.

- Similar views were aired during the outreach sessions. Some participants noted that changes to the structure of cash and repo markets could help in increasing resilience. In particular, they noted that central clearing may result in non-trivial netting efficiencies in the repo market, especially in jurisdictions where sponsored repo is less developed.

- Respondents also ranked factors that motivated the demand for liquidity, and those noted as "highly relevant" were

  - MMF and OEFs needing to raise cash to meet investor redemptions
  - Hedge Funds needing to unwind positions

- Individual respondents also noted the following as highly relevant:

  - margin calls faced by insurance companies and pension funds, who were ill-prepared for them
  - portfolio re-allocations by some investors that rotated from bonds into equities to take advantage of depressed valuations
  - cash needs of non-financial firms (drawing down credit lines)
  - foreign monetary authorities liquidated substantial amounts of US Treasuries

- Policy Implications; *Conclusions and Policy implications are discussed in Section 6 and here I will just present a few of the policy measures under consideration*:

  1. mitigate unexpected and significant spikes in liquidity demand, which may involve selling (or repo) near cash-instruments such as government bonds
  2. enhance the resilience of liquidity supply in stress
  3. enhance markets' oversight, risk monitoring and the preparedness of authorities and participants

- For 2, the suggestion is for additional work on;

  - ways to increase availability and use of central clearing for government bonds and repos
  - the use of all to all trading platforms
  - (The first bringing us back to my recent blog on Central Clearing of Bonds and Repos).

- There is a lot more content in the FSB paper on Liquidity in Core Government Bond Markets.

To consider, digest and understand.

Implementation of the Unique Product Identifier (UPI), which identifies OTC derivatives products for derivatives trade reporting, is well underway. Emma Kalliomaki, of ANNA-DSB, gives an update on how UPI implementation is proceeding, and what challenges remain. *OTC derivatives market participants already feasting on an alphabet soup of product classification standards which included ISIN, CFI, FISIN, received another ingredient in the shape of UPI – or unique product identifier – which will be an obligatory addition for registered entities and swap counterparties in the US from 29 January 2024.*

Relevant market participants in the European Union will face the same requirements under a European Market Infrastructure Regulation (EMIR) Refit due to go live on 29 April 2024, while the UK comes under the rules on 30 September. Australia and Singapore join the regime in October, and the remaining G20 countries are expected to follow suit subsequently.

- This April, the ANNA Derivatives Service Bureau (DSB) was appointed sole provider of the UPI system, serving up the codes as well as operating the reference data library. DSB's Emma Kalliomaki shares an update the implementation of UPIs within the industry and what challenges remain.
- **Q: How well prepared is the industry for the arrival of UPI?**
- A: The intent of the UPI is to allow global authorities to aggregate transactions that are reported to trade repositories on a global scale and the focus so far has been on the major derivatives markets of the US, EU and the UK but smaller players are following suit, such as Australia and Singapore, with others on the horizon. The level of collaboration between the authorities has been fantastic and the efforts to achieve harmonisation are at a level we haven't seen previously. Obviously, there are divergences because different jurisdictions need to meet their specific objectives, but from a DSB perspective, we are jurisdiction agnostic and the solution we are providing has been agreed as a baseline for authorities and the market participants that fed into the DSB's consultations.
- **Q: What response have you had since DSB went live with its User Acceptance Testing on 17th April?**
- A: We had firms connecting from day one and we now have 260 unique organisations on board. That was surprising because generally firms tend to initially put out feelers and then they start testing, but we've had pretty good engagement immediately.
- Those 260 firms are free registered users and of those, around 85 have transitioned to test the fee-paying user types. The UK so far has the highest number of registered firms, but we have the US and other EU jurisdictions joining as well.
- On the 17 July, OTC ISIN users will be able to use an integrated workflow, leveraging their existing connections for UPI, so we expect that engagement to increase.
- **Q: What are the benefits of using the DSB utility acceptance testing service and how does it work?**

- A: It's quite simple and we only have three access methods. First, the Graphical User Interface (GUI) which is when you're manually going in and searching through the website. The second is Application Programming Interface (API) or programmatic connectivity when we have the real time fixed connectivity to pull and push the data. Finally, we have daily file downloads where if you're a fee-paying user it's a T+0 and for non-paying users its T+1, which is often used to build up a firm's own cache.
- The functionality of connectivity types is broken down further into search only or to search and create UPIs, so users need to consider that as part of their workflows.
- *The industry is also trying to understand their workflows and their integration and who's going to obtain the UPI. And there is the question of the timing of the different reporting requirements across jurisdictions where some have a near real time reporting obligation while others will have T+1 or T+2 requirements.*
- Q: What are the challenges in rolling out UPI?
- A: Unlike the prescriptive rules on the market participants that must have an ISIN, none of the regulations mandate or prescribe who must get a UPI. Instead, they say that counterparties have to report the UPI to the trade repository. That has made it more of a challenge for us to anticipate the number of users.
- The industry is also trying to understand their workflows and their integration and who's going to obtain the UPI. And there is the question of the timing of the different reporting requirements across jurisdictions where some have a near real time reporting obligation while others will have T+1 or T+2 requirements.
- To help with this anticipated increase in user numbers, we have a different onboarding process for UPI compared to OTC ISIN where we've introduced a new platform that supports self-service functionality, enabling a higher number of users to onboard as well as manage their connections and users in a centralised manner.
- Q: What do market participants need to consider when preparing for UPI?
- A: When it comes to the data integration, firms need to consider where in their workflows they're going to integrate the request to either retrieve or create a UPI. That is especially true for those that do not already have familiarity with OTC ISIN integration. Is that integration going to be as part of their core flow or is it going to be part of their middle or back-office flows, and how does that fit with how they manage their data today?
- And they need to understand where UPI fits with the existing OTC ISIN requirements to ensure they're obtaining and reporting the right identifier based on the scope of the regulation.
- Q: What advice would you give to firms so they can prepare efficiently for the UPI?
- A: The successive regulations and compliance dates are coming in quarter by quarter, starting in January 2024, so it is a good opportunity to think strategically about your data use. How can you streamline or begin to harmonise and find other synergies across the business?
- Similar regulations are being launched globally so there is no time to be tactical otherwise firms will be chasing their tails. So, while there are jurisdictional divergences which need to be considered, take advantage of the time to bring efficiencies to what they're doing on the data management side in particular.

- Related:
- DSB Integrates the Unique Product Identifier into the OTC ISIN UAT Environment – Derivsource

- EMIR Refit is Coming: Don't Underestimate the Scope of the Changes – Derivsource
- APAC OTC Derivatives Reporting Rules – In Harmony But With A Few Twists – Derivsource
- DSB Launches Unique Product Identifier User Acceptance Test Service – Derivsource

T+1; How the Shortening of the USA Settlement Cycle May Impact APAC; *The global financial industry is closely watching the U.S. as it prepares to shorten its standard settlement cycle for securities from T+2 to T+1 in 2024.*

- While T+1 settlement will come into force in the U.S. on May 28, 2024, its effects are being felt around the world. Recent research conducted by ValueExchange at the start of 2023 , showed that many challenges remain with regards to implementation, regardless of location. The survey showed that T+1's strongest impact is not in North America, but instead, with global custodians in Europe and the Asia-Pacific (APAC) region. These regions have been facing the steepest challenges, and in APAC, specifically, funds and derivatives are encountering the greatest obstacle.
- DerivSource recently spoke with **Nellie Dagdag**, Managing Director, Marketing and Communications for Asia Pacific at **DTCC,** to discuss how the move to T+1 in the U.S. could impact investors and intermediaries in APAC and how market participants in the region should start preparing for this change now.
- **Q: What are the critical post-trade processes that must be completed by the May 2024 deadline, when the U.S. will move to T+1?**
- **A:** The U.S. SEC's *New Exchange Act Rule 15c6-2* states that broker-dealers and their counterparties need to complete certain parts of the post-trade process – specifically, the **allocation, confirmation, and affirmation** processes – as soon as technologically practicable and **no later than by the end of trade date**. The *Amended Advisers Act Rule 204-2* also requires registered investment advisers that are parties to contracts under Rule 15c6-2 to **make and keep records of confirmations received, and allocations and affirmations sent, each with a date and time stamp.**
- To be able to meet these requirements, the U.S. T+1 Industry Working Group has recommended a 9PM ET T+0 deadline for affirmations, while DTCC has recommended completing allocations by 7PM ET T+0 in order to meet the 9PM ET affirmation deadline. To achieve T+1, firms must consider how they can accelerate their allocation and affirmation processes.
- Brokers and custodians that miss the affirmation deadline face additional post-trade costs to submit Delivery Orders directly to the US depository, the Depository Trust Company.
- **Q: Can you describe the changes required for allocating trades in a T+1 environment?**
- **A:** Under T+2, trade allocations are typically carried out at the end of the trading day or the following day, but this will have to be done much earlier in a T+1 environment. Trades on a Friday will pose a particular challenge to APAC investors because they would have to complete the post-trade processing on a Saturday (Friday evening EST) unless they can pass the work to colleagues in US time zones. Investors are responsible for timely

allocations, even if their middle and back-office operations are outsourced. In fact, some firms have teams in other time zones to cover more hours in the day and allow extra processing time. Other firms, particularly in the APAC region, will likely look to trade at the fund level, in line with common practice for markets where trading and/or settlement are at individual investor or fund level (also known as ID markets), rather than at the omnibus level as it is done in the US.

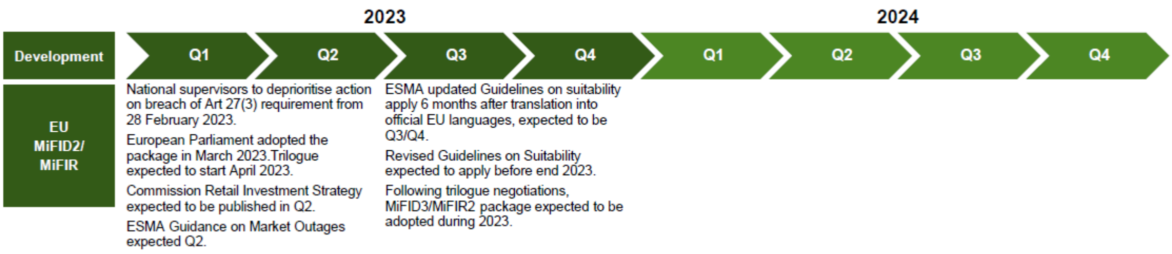
- In addition, some firms place orders in block but already provide standing allocation instructions to their brokers when the order is placed. Other firms place orders at the fund level but have an arrangement with their brokers to combine different fund-level executions to get an average price for all of their funds. These flexible arrangements will depend on the investor's relationship with the broker and the broker's automation capability.
- However, there is no single industry approach to how allocations are handled, which highlights the importance for each investor to discuss how best to manage the allocation process under T+1 with their brokers and custodians.
- Q: Why is increased automation important for T+1?
- A: With a reduced time to settlement, post-trade automation has become critical. According to the Value Exchange survey, roughly 37% of all T+1 activity is focused on process automation, with the most significant area for investment dedicated to moving to an automated or outsourced affirmations model.
- For U.S. institutional trades, the affirmation process takes place before the settlement instruction is sent to the depository. In contrast, in APAC markets, affirmations are generally embedded within the depository system, in what is known as pre-settlement matching between the local broker and the local custodian (acting on behalf of the investor). This is a key distinction that APAC investors need to account for when planning for the U.S. move to T+1. As a result, it is critical that APAC investors discuss the optimum affirmation arrangement suitable for them under T+1 with their custodians.
- Q: What is the state of industry readiness for T+1?
- The Value Exchange survey showed that T+1 represents a challenge for the entire organization, as it strongly impacts six separate areas of a firm's activities—the middle office, funding, settlement, fails management, securities lending and corporate actions.
- Foreign exchange (FX) is a big issue for APAC investment firms. Many firms are concerned about receiving unfavourable FX rates from their agent banks, especially when the base currency is weaker than the dollar and there is not enough time to shop around. However, this is a relationship matter between investors and their banks and there is no common industry solution. Investment firms need to negotiate bespoke solutions with their banks when it comes to FX.
- While the situation may have improved by now, the survey in Q1, 2023 showed that only a very small percentage of global firms (9%) considered themselves fully prepared, while 42% were in the process of implementing changes and 41% of firms were still researching what needed to be done. The report found that only 46% of the firms expect to be ready in time for the May 2024 deadline.
- Q: Given that time is not on our side, how should firms jumpstart their preparation for T+1?
- A: With less than a year to go until the T+1 rules come into effect, all firms (investors, custodians and broker dealers) must begin preparations and testing now. For its part,

DTCC, is focused on outreach and education, partnering with the industry to promote preparations and readiness.

- One key finding from the ValueExchange survey was that many firms did not know what they needed to do or how the new rules would impact their operations. To best prepare, firms need to perform thorough impact analyses and identify what needs to be done in terms of systems, processes, and people readiness.
- *"Firms need to perform thorough impact analysis and identify what needs to be done in terms of systems, processes, and people readiness."*
- Some firms are leveraging DTCC Consulting Services to aid in this process. DTCC is heavily involved in U.S. T+1 discussions and preparations. Our expert consultants bring deep industry experience and decades of post-trade knowledge to support firms along every step of their T+1 readiness journey, from impact analysis to project design and execution, all the way through to post-implementation remediation.
- Q: What is the impact of T+1 on firms in APAC?
- A: Firms in the APAC region will face many of the same T+1 challenges as organizations in other parts of the world, including how to prioritize the T+1 effort versus other regulatory reforms, and how to manage competing resources and funding. However, in some ways, APAC firms could be better placed to handle the changes than their peers in the U.S. or elsewhere.
- *"Firms in the (APAC) region are already accustomed to very strict deadlines and penalties. Whereas in the U.S., trades failing settlement is not unusual and mainly results in financial repercussions, in Asia-Pacific markets, a failed settlement is a regulatory matter and could lead to firms being suspended from trading. As a result, APAC firms typically have a very different mindset around trade failures."*
- First, firms in the region are already accustomed to very strict deadlines and penalties. Whereas in the U.S., trades failing settlement is not unusual and mainly results in financial repercussions, in Asia-Pacific markets, a failed settlement is a regulatory matter and could lead to firms being suspended from trading. As a result, APAC firms typically have a very different mindset around trade failures. In addition, many APAC markets have high levels of retail investor participation and trade failures could create a negative ripple effect. APAC firms are used to working quickly to meet deadlines.
- Secondly, as previously discussed, many of APAC markets are ID markets, where allocation instructions are already advised when the order is placed, and some APAC investors continue to trade at the fund level when they trade in the U.S.
- The third advantage for APAC firms is that the U.S. Dollar is a predominant currency and widely available, so sourcing it should not be a significant problem. It is easier to source than the Indian Rupee, for example.
- Q: What is the immediate task ahead for firms to get ready for T+1?
- A: APAC firms should not underestimate the enormous task ahead of them when it comes to preparing for the new rules. Each firm needs to build its own checklist of what it needs to do to get ready—there is no one-size-fits-all approach and firms will be impacted differently depending on their specific circumstances. Most importantly, firms need to look at where they can remove manual processes and increase their level of automation, especially in the post-trade space. Despite the upfront costs on technology and operational changes, automation and straight-through processing are must-haves under a T+1 regime. On balance, it will bring about significant risk reduction and

operational cost savings, and for some firms, the savings on margin requirements under T+1 could more than offset the upfront costs.

- *"Despite the upfront costs on technology and process changes, automation and straight-through processing are must-haves under a T+1 regime. On balance, it will bring significant risk reduction and operational cost savings and for some firms, the savings on margin requirements under T+1 could more than offset the upfront costs."*
- Working with a consultancy firm can make preparing for T+1 easier, as it reduces the need to have a dedicated team. Firms will still need to have internal people heavily involved in the project, but a consultant can provide an efficient framework and manage the project execution.
- DTCC has unique visibility into firms' operational performance and is able to collate CTM data, and the Depository Trust Company and DTCC's subsidiary, National Securities Clearing Corporation information to perform deep analysis on what firms need to do. This, combined with DTCC's in-depth knowledge of post-trade processes developed over the last 50 years, makes the DTCC a valuable partner for firms looking to comply with the new rules.
- The most important thing is not to wait—the deadlines are fast approaching and if firms trade in the U.S. market, they will be impacted either directly or indirectly. Firms operating under an outsourced model may even have to change the way they work with their providers. At the same time, other markets will soon move to T+1 as well, creating an additional advantage for firms that move to T+1 now. Firms must advance their T+1 preparations now.
- Related Reading:
- APAC OTC Derivatives Reporting Rules – In Harmony But With A Few Twists
- US Regulatory Roundup 2023: Swap Data Reporting and Digital Assets



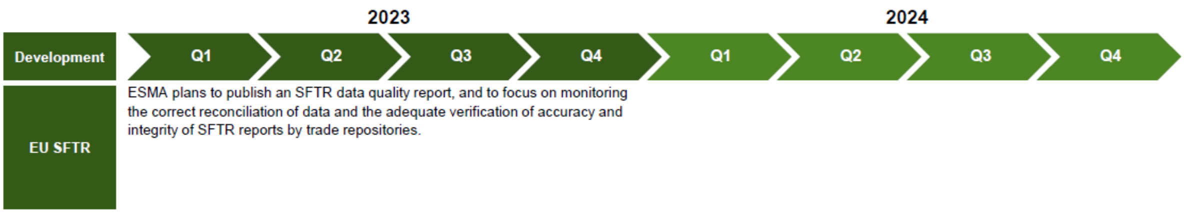
EU MiFID2/MiFIR package; *The extensive legislative package known as MiFID 2 (comprising the MiFID 2 Directive and the MiFIR Regulation) has since 2018 been the cornerstone of EU legislation governing the authorisation and operation of investment firms and the buying, selling and organised trading of financial instruments.*

- The MiFID 2 'Quick Fix' measures in response to Covid-19 have applied since February 2022 and measures to integrate sustainability into the package were introduced in August and November 2022.
- In addition, the Commission has reviewed the functioning of the MiFID 2 framework and put forward legislative proposals (sometimes referred to as 'MiFID3/MiFIR2') which are passing through the EU legislative process during 2023. MiFID2 will also see further

changes due to initiatives being introduced under the Capital Markets Union (CMU) Action Plan.

- The MiFID2 'Quick Fix' measures suspended best execution periodic reporting under Article 27(3) of the MiFID2 Directive until 28 February 2023. However, the incoming MiFID3/MiFIR2 package will remove the Article 27(3) requirement and so ESMA has advised national supervisors to deprioritise supervisory actions relating to breaches of Article 27(3) after 28 February 2023.
- •The incoming Fintech Amending Directive (see **slide 18**) will strengthen operational resilience of MiFID firms by amending the MiFID2 Directive to apply the provisions of the DORA Regulation (see **slide 35**).
- •The Council agreed its negotiating mandates on the MiFID3/MiFIR2 package on 16 December 2022 and is ready to begin negotiations with the European Parliament. The European Parliament's voted on the Reports of its ECON Committee in its March 2023 plenary session. Trilogue negotiations are expected to begin in April 2023.
- •The incoming CMU initiative, the Listing Act package to support access to public markets (see **slide 19**), will among other things amend MiFID 2's provisions on research unbundling and SME growth markets, to stimulate investment in SMEs.
- •The Commission's Retail Investment Strategy (see **slide 22**), expected in Q2 2023, will include proposed amendments to MiFID2 to introduce simplified/improved disclosures on products, new provisions relating to sophisticated retail investors and harmonisation of professional standards for advisers.
- •ESMA published updated Level 2 Guidelines on aspects of the MiFID2 suitability requirements in September 2022. These are expected to apply before the end of 2023.
- •ESMA is expected to publish guidance in Q2 2023 on market outages and its requirements on trading venue systems resilience.

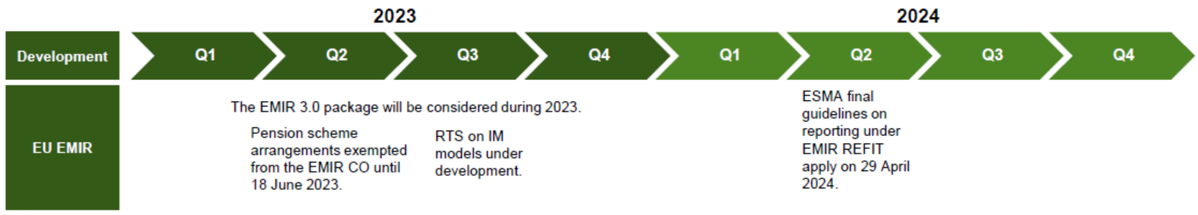
EU SFTR



- **During 2023, ESMA plans to publish an SFTR data quality report, and to focus on monitoring** the correct reconciliation of data and the adequate verification of accuracy and integrity of SFTR reports by trade repositories.
- ESMA Guidelines for the transfer of data between trade repositories under EMIR and the SFTR were published in March 2022 and have applied since October 2022.
- ESMA informed the European Commission in June 2022 that it has deprioritised the following EU SFTR deliverables: (a) a report on the efficiency of SFTR reporting; and (b) a report on SFTR fees

LISTING ACT PACKAGE

- The EU is moving forward with its ambitious plans for a new wide-ranging "Listing Act" package, following a wide-ranging consultation at the start of 2022. The package comprises three legislative proposals:
  - a proposed Directive to introduce targeted adjustments to MiFID2 to enhance visibility of listed companies, especially SMEs, and to introduce regulation for issuer-sponsored research (see slide 10 for other MiFID2 amendments), and to repeal the Listing Directive to enhance legal clarity;
  - a proposed Directive on multiple-vote share structures, to address regulatory barriers at the pre-IPO phase and, in particular, the unequal opportunities of companies across the EU to choose the appropriate governance structures when listing; and
  - a proposed Regulation amending the Prospectus Regulation and the Market Abuse Regulation, to streamline and clarify listing requirements applying on primary and secondary markets, while maintaining an appropriate level of investor protection and market integrity.
- The proposed measures will be considered by the European Parliament and the Council during 2023.
- The three legislative proposals will each enter into force on the 20th day following their publication in the Official Journal.
- Member States will need to create and publish national implementing measures by the expiry of 12 months following the entry of the Directives into force.
- The two Directives and the Regulation will each take effect 18 months after their entry into force.



In December 2022, the European Commission adopted proposals for the EMIR 3.0 package, comprising a proposed Regulation and Directive. EMIR 3.0 will amend EU EMIR and other sectoral legislation to mitigate excessive exposures to third country CCPs and improve the efficiency of EU clearing markets, as well as to enhance the monitoring and treatment of concentration risk towards CCPs and the counterparty risk on centrally cleared derivatives transactions.

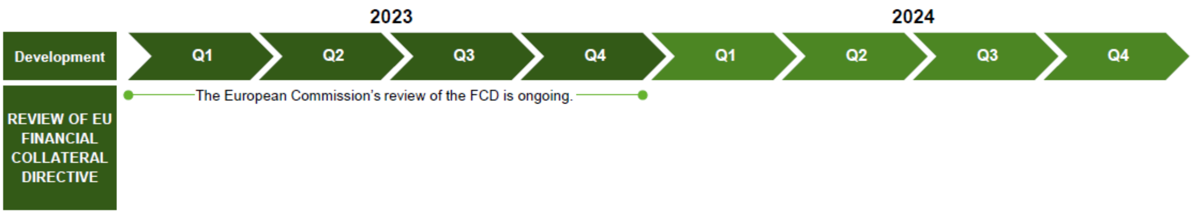
- Recently adopted Level 2 measures have deferred the application of some of EMIR's requirements.
- Commission Delegated Regulation (EU) 2022/1671 exempts pension scheme arrangements from the EMIR Clearing Obligation (CO) until 18 June 2023.
- •On 1 February 2023, in view of IBOR transition ESMA published a Final Report submitting to the European Commission draft RTSs: (i) under Article 5(2) of EMIR on the CO; and (ii) under Article 32 of MiFIR on the Derivatives Trading Obligation (DTO). Subject to endorsement by the Commission the RTS on the CO would enter into force on publication, and the RTS on the DTO would enter into force on application of the MiFID3/MiFIR2 package.
- •Draft RTS under Art 11(5) EMIR are under development, setting out supervisory procedures for initial and ongoing validation of initial margin (IM) models used to determine the level of margin requirements for uncleared over the counter (OTC) derivatives.
- •ESMA published final Guidelines on reporting under EMIR REFIT on 20 December 2022, providing clarification on compliance with the EMIR technical standards. The Guidelines apply from 29 April 2024.
- •Intragroup transactions:
  - Commission Delegated Regulation (EU) 2023/314 has extended the deferred date of the application of margin requirements for intragroup transactions to 30 June 2025.
  - Delegated Regulation (EU) 2023/315 has extended the deferred date of application of the CO for intragroup transactions set in the three Commission Delegated Regulations to 30 June 2025.
- •The European Parliament and the Council of the European Union are considering the EMIR 3.0 package during 2023. Once adopted, EU Member States are expected to implement the amendments set out in the proposed Directive 12 months after the date of the entry into force of the proposed Regulation.

EU CSDR

- The next major phase of implementation, the introduction of a mandatory buy-in regime, was intended to come into effect on 1 February 2022. This, however, has been postponed. In the meantime, in March 2022 the Commission published a legislative REFIT proposal with proposed amendments to the CSDR.

- From 1 January 2023, any EU issuer that issues transferable securities that are admitted to trading or traded on trading venues must arrange for the securities to be represented in electronic book-entry form. From 1 January 2025, this requirement will apply to all remaining transferable securities that are admitted to trading or traded on trading venues.
- •In November 2022, ESMA published a final report and draft RTS amending Article 19 of Commission Delegated Regulation (EU) 2018/1229. The amendments would remove the special distribution and collection process for cash penalties that applies to central counterparties (CCPs) and instead allocate responsibility for the collection and distribution of all cash penalties to central securities depositaries (CSDs). The draft RTS will now proceed through the EU legislative process.
- •In March 2022, the Commission adopted a legislative REFIT proposal to amend the CSDR. The proposal is now continuing through the EU legislative process. As yet, there is no firm date on which this process will conclude. Most recently, in December 2022, the Council of the EU announced that it had agreed its general approach on the proposed draft regulation, and the European Parliament's ECON Committee voted to adopt its report on 1 March 2023.
- •The ECON report was adopted by the European Parliament at its March 2023 plenary session. Trilogue negotiations are expected to begin during H1 2023.
- •The CSDR's mandatory buy-in regime was intended to apply from 1 February 2022. The application of the relevant rules has been delayed until 2 November 2025.

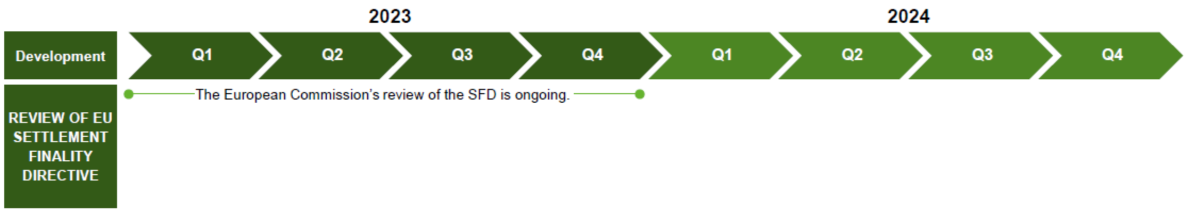
FINANCIAL COLLATERAL DIRECTIVE



- Review of EU financial collateral directive; The Financial Collateral Directive (FCD) facilitates the cross-border use of financial collateral primarily by removing national law formalities and offering harmonised protections against insolvency challenges in certain cases. It also ensures that certain close out netting provisions are enforceable in accordance with their terms.
- The Commission launched a consultation on the functioning of the FCD in February 2021, in parallel with a consultation on the functioning of the Settlement Finality Directive given that the two Directives are closely connected in the post-trade context.
- The consultation closed on 7 May 2021 and the Commission is reviewing responses. As yet there are no firm indications as to when the Commission will conclude its review of the FCD. Matters under consideration for potential legislative amendment include:
  - orevising the types of entity and collateral types that are in scope of the FCD;
  - oclarifying the requirements of "possession" and "control" and the concept of "awareness of pre-insolvency proceedings"; and

- oachieving further harmonisation around the requirement that close out netting arrangements should take effect in accordance with their terms notwithstanding the onset of insolvency proceedings of acounterparty.

SETTLEMENT FINALITY DIRECTIVE



- The Commission was mandated under Article 12a of the SFD to conduct a review of its functioning and was to have produced a report by 28 June 2021, including proposed legislative amendments where appropriate. Due to the close post-trade interconnection of the SFD with the Financial Collateral Directive (FCD), the Commission launched parallel consultations on the two Directives in February 2021.
- The last consultation closed on 7 May 2021 and the Commission is reviewing responses. As yet there are no firm indications as to when the Commission will conclude its review of the SFD. Matters under consideration for potential legislative amendment include: extending the scope of the SFD to cover EU institutions participating in third country systems as well as new types of entity;
  - enabling the SFD to apply in the context of permissionless DLT;
  - amending the protections relating to collateral security so that these can apply in the context of client clearing; and
  - clarifying and/or revising the concepts of irrevocability and the point in time at which an order enters thesystem.

UK Divergences

FCA seeks views on public offers and admission to trading regime; *The FCA has published two papers seeking views [on elements of the new public offers]() and [admission to trading regime]() under the Edinburgh Reforms.*

- The new regime will allow the FCA to set specific rules for types of public offers of securities that are not admitted to a public market. The first paper seeks views on the FCA's future rules relating to the new regulated activity of operating a public offer platform.
- The regime will also create a new type of multilateral trading facility (MTF) admission document known as the MTF admission prospectus which will be subject to the same statutory liability and compensation scheme as regulated market prospectuses. The FCA will have the power to make certain MTFs operating as primary markets (primary MTFs) require the production of an MTF admission prospectus in specified

circumstances. The second paper seeks views on the FCA's initial considerations relating to primary MTFs.
- Written responses are due by 29 September 2023. The FCA intends to consult on specific rules in 2024.

FCA publishes webpage on repeal and replacement of retained EU law; *The FCA has published a new webpage on the repeal and replacement of REUL with FCA rules under the Financial Services and Markets Act 2023.*

- The webpage sets out overarching principles for the replacement of REUL in the FCA Handbook as well as key documents, current status and next steps for the following files:
    - UK IDD, including an intention to publish a consultation in Q4 2023;
    - UK MiFID and MiFIR, and the Wholesale Markets Review (WMR) reforms, including an intention to publish further consultations on commodities derivatives and transparency reforms in Q4 2023;
    - UK MMFR, including an intention to publish a consultation in Q4 2023;
    - UK PRIIPs Regulation, noting that a consultation is forthcoming;
    - Payment Accounts Regulations 2015 (SI 2015/2038) (PARs), which is being repealed by HM Treasury and will not be replaced with FCA rule;
    - UK Revised Payment Services Directive (PSD2) and Electronic Money Directive (EMD) and regulations, noting that a consultation is forthcoming;
    - the prospectus regime, including an intention to publish feedback on engagement papers in Q4 2023;
    - UK Securitisation Regulation, including an intention to publish a consultation in Q3 2023;
    - UK Short-Selling Regulation (SSR), including an intention to publish a consultation in 2023; and
    - UK European Long-Term Investment Fund Regulation (ELTIF), which is being repealed on 1 January 2024 and will not be replaced as no ELTIFs have been established in the UK and the UK Long-Term Asset Fund (LTAF) regime provides an alternative fund structure.

FCA consults on Rule Review Framework; *The Financial Conduct Authority (FCA) has published a draft Rule Review Framework setting out how it intends to monitor and review whether rules are meeting their intended outcomes.*

- The draft Framework, which is in line with an obligation to review rules under the Financial Services and Markets Act 2000 (FSMA) (as amended by the Financial Services and Markets Act 2023), applies to all FCA Handbook rules, provides a summary of its approach to new and existing rules, and sets out the following three types of review:
    - evidence assessment for determining whether a rule is working as intended;
    - post implementation review for establishing whether a rule or policy intervention has met its intended outcomes, as measured by key changes, outcomes and discussions with stakeholders; and

  - ex post impact evaluations for measuring the impact of policy or rule interventions on intended outcomes, focusing on causal methods and planned in advance, at policy development stage.

- Actions that the FCA may take where rules are not working as intended include providing additional guidance or sharing information, conducting a more detailed review or, following the policy development process, rule changes.
- The Framework also covers the FCA's intended approach to reporting and Government-directed reviews.
- The FCA's immediate priorities for review will be considered in the context of the forthcoming Consumer Duty and the repeal and replacement of retained EU law (REUL).
- The FCA has invited feedback on the draft Framework and comments are due by 15 September 2023.

FCA launches permanent Digital Sandbox; *The FCA has announced that its Digital Sandbox for firms to test new products and services will be made permanent.*

- Originally only available temporarily to firms participating in pilots and TechSprints, the permanent Sandbox will provide participants with access to:
  - datasets and application programme interfaces (APIs);
  - data security protection;
  - a collaborative platform; and
  - an observation deck.

- Applications for access to the permanent Sandbox can be made from 1 August 2023. The FCA expects the approval process to take a maximum for four weeks.

Mansion House Reforms aim to deliver a smarter regulatory framework; *The government has set out more details on how it intends to repeal retained EU law relating to financial services and deliver a smarter regulatory framework for the UK. A package of reforms has been released to coincide with the Chancellor's 2023 Mansion House speech. The Mansion House Reforms build on last year's Edinburgh Reforms and last month's enactment of the Financial Services and Markets Act 2023.*

Delivery plan: what "significant progress" looks like

- The latest collection of policy papers includes a plan for delivering a smarter financial services regulatory framework for the UK. This paper follows the December 2022 policy statement which set out the government's policy approach for building a smarter regulatory framework. The latest plan describes how the government will deliver this approach in practice.
- The government previously committed to making "significant progress" on tranches 1 and 2 of its implementation plan by the end of 2023. A table now shows what this means, specifying the actions that will be taken this year and what workstreams will be delivered in 2024 and beyond.

Before the end of 2023:

- statutory instruments will be laid to reform the Prospectus Regulation, Solvency II Directive, Securitisation Regulation and Data Reporting Services Regulations
- draft statutory instruments will be published proposing reform to the PRIIPs Regulation, the Short Selling Regulation and the Money Market Funds Regulations, with a view to laying the relevant legislation in 2024
- the ELTIF Regulation and consumer information requirements for payment accounts will be repealed without replacement
- a consultation will be published on the Taxonomy Regulation
- a first round of "targeted reforms" will be made to payments and e-money rules
- work will continue on Basel 3.1 implementation and the "strong and simple" framework for small banks and building societies.

In addition, almost 100 pieces of retained EU law which implemented EU obligations will be repealed on 29 August 2023. The government determines that these statutory instruments, which include dozens of EU exit regulations, are unnecessary because the effect of the amendments are preserved elsewhere.

The Edinburgh Reforms and Mansion House Reforms have largely focused on policy changes to the UK regime. The delivery plan emphasises that there will be some areas of retained EU law where regulatory obligations are moved from legislation to regulators' rulebooks without exploring policy change. The government will announce which pieces of retained EU law will be considered for this "lift and shift" process when it sets out future tranches.

Background; *The Mansion House Reforms represent the latest round of policy work as the government continues to shape the UK's regulatory framework outside the EU.*

- The Financial Services and Markets Act 2023 provides the government with power to deliver the outcomes of a review into how the future regulatory framework for financial services should adapt following Brexit.
- The government and regulators have also progressed several other policy workstreams in recent years. Explore our webpage on the future regulatory framework for a status update on these and links to further resources.

Regulatory Framework

As the Chancellor outlined in his speech, FSMA 2023 allows the Government to repeal retained EU Law (REUL) relating to financial services and for it to be replaced through the regulators' rulebooks, creating a new 'smarter regulatory framework' (SRF). Each piece of REUL is now in a "transitional period," which will last until the repeal of each piece is individually commenced by HMT in a phased and sequenced manner. The delivery plan sets out this sequence.

FSMA 2023 introduces new secondary objectives for the FCA and PRA to facilitate international competitiveness and economic growth, and the focus of the Chancellor's speech was long term reforms to the UK competitiveness. Supporting this, the City of London Corporation and HMT jointly published their second annual report of key performance indicators on the UK's competitiveness. The report also summarises the Government's work to further boost the UK's standing as a global financial centre and highlights potential further reforms, identified by industry.

Wholesale Markets

An independent review of investment research in the UK has concluded and set out seven recommendations, all of which were accepted by the Chancellor. Significantly, the recommendations suggest that the MiFID II unbundling rules should be reversed by allowing asset managers to combine research with execution charges.

The FCA has said that it will carefully consider the report, and that its recommendations will inform the content of any consultation proposals. It will potentially make relevant rules in the first the first half of 2024. At the same time, the FCA has stated that it would consider "swift actions" to support firms impacted by changes to regulation in other jurisdictions.

The Digitisation Taskforce was established in July 2022 with the aim of driving forward the full digitisation of the UK shareholding framework by eliminating the use of paper share certificates and in general seeking to improve the UK's intermediated system of share ownership.

The Digitisation Taskforce has published an interim report setting out a number of potential recommendations and questions for industry to consider over the next six months before publishing its final report. These recommendations include legislation to stop the issuance of new paper share certificates and require the dematerialisation of all share certificates, and recommendations to improve the communication between issuers and ultimate beneficial owners through intermediaries.

Respondents to HMT's call for evidence on the Short Selling Regulation (SSR) largely did not see the need for a fundamental reform of the current regime, but rather support modifications to the existing framework where required to improve the effectiveness and efficiency of the regime. Under FSMA 2023, HMT will give the FCA power to set the rules (in light of the feedback from the Call for Evidence).

However, HMT will make two key changes. The current public disclosure regime based on individual net short positions will be replaced with an aggregated net short position disclosure regime, and the current disclosure threshold for net short position reporting to the FCA will be increased from 0.1% to 0.2%. HMT is also consulting on whether it should delete the aspects of the SSR related to sovereign debt and credit default swaps (this was not covered in the original Call for Evidence).

As part of the programme to repeal and replace EU law — the Smarter Regulatory Framework — HMT has published a number of draft Statutory Instruments (SIs):

- Many of the rules that govern Data Reporting Service Providers (DRSPs) are set out in the Data Reporting Services Regulations 2017 (DRSRs), which transposed parts of MiFID II into UK law when the UK was part of the EU. The draft SI which replaces this retained EU law will facilitate the emergence of a consolidated tape in the UK by

removing provisions that have previously made running a consolidated tape commercially unattractive, including providing data for free after 15 minutes. It will also give the FCA power to run a tender process to select a consolidated tape provider (CTP) per asset class. It should be considered alongside the FCA's recent consultation on a consolidated tape for bonds.
- The draft SI on the Public Office and Admissions to Trading Regulations will reform the Prospectus Regime (which derives from the EU Prospectus Regulation) and delivers key reforms recommended by Lord Hill's Listing Review. The aims of the reform include facilitating wider participation in the ownership of public companies, improving the efficiency of public capital-raising by simplifying regulation and removing the duplications and improving the quality of the information in prospectuses. Concurrently, the FCA is seeking views on the rules it should make for the new regime through a series of engagement papers. It will consult formally in 2024.
- HMT reviewed the onshored EU Securitisation Regulation (Sec Reg) in 2021 and identified a number of reforms that are being implemented by final draft SI. The main changes include designating a number of activities — acting as an originator, sponsor, original lender, or Securitisation Special Purpose Entity (SSPE), selling a securitisation position to a retail client located in the UK — under the new designated activities regime (DAR), and providing the FCA with rule-making powers. The FCA and PRA are expected to publish consultation papers in Q3 2023 on draft rules to replace most firm-facing requirements in the Sec Reg with changes where appropriate.

Sustainable Finance

In March, the Government published its 2023 UK Green Finance Strategy (see detailed article here), driven by five key objectives: UK financial services growth and competitiveness; investment in the green economy; financial stability; incorporation of nature and adaptation; and alignment of global financial flows with climate and nature objectives. Key regulatory developments for financial services include:

- Development of a UK Green Taxonomy: the draft UK Taxonomy will be published for consultation in autumn 2023. It will define which economic activities can be labelled as 'green' and will support the quality of standards, labels and disclosures used in green finance activity. Once finalised, taxonomy-aligned disclosures will be voluntary for at least two years.
- Adoption of IFRS S1 and S2: the International Sustainability Standards Board (ISSB) finalised its first two disclosure standards in June 2023, and the FCA intends to consult in Q4 2023 on how to incorporate them into its listing or transparency rules. Analysis of the standards and guidance on how firms can prepare to apply them can be found here.
- Transition plans: the UK Transition Plan Taskforce (TPT) will publish its final disclosure framework and implementation guidance in autumn 2023, with sector-specific guidance to follow. The Government then intends to consult on transition planning requirements for the UK's largest companies. The BoE recently published its own climate transition plan — the first of its kind from a central bank — reflecting some of the challenges that other financial institutions may face and setting a standard to follow.
- ESG data and ratings: in March 2023, HMT launched a consultation on a potential new regulatory regime for ESG ratings providers. The European Commission published its own consultation in June. Our analysis of the two proposals can be found here and here.

Digital Finance and Innovation

HMT is consulting on its proposed approach for a Digital Securities Sandbox (DSS), which will be the first FMI sandbox delivered under the powers granted under FSMA 2023. The DSS will enable firms to set up and operate FMIs, performing the activities of a central securities depository and operating a trading venue, under a legislative and regulatory framework that has been temporarily modified to accommodate digital asset technology. These activities will be performed in relation to existing security classes (which could either be digitally native issuances or digital representations of existing securities). Overall, the proposals align very closely to the EU's DLTR pilot regime. Responses are due by 21 August.

Senior Managers and Certification Regime (SMCR)

In March as part of a review of SMCR, HMT launched a Call for Evidence and, in parallel, the FCA and the PRA published a joint Discussion Paper — see our summary of both documents here.

Changes coming to investment research

The government has accepted all the recommendations made in the Investment Research Review which was published on 10 July 2023. The FCA has committed to start immediate engagement with the market to inform any rule changes on removing the requirement to unbundle research costs by the first half of next year.

- *UK Investment Research Review opens the way for potential removal of UK unbundling rules by H1 2024*

More short selling reforms

In its response to its review of the Short Selling Regulation, the government says that it will introduce an aggregated net short position disclosure regime and increase the current disclosure threshold for net short position reporting to the FCA.

The government has also launched a new consultation which proposes deleting the aspects of the short selling regime which apply to sovereign debt and credit default swaps. The consultation closes on 7 August 2023.

- *Government confirms relaxations of UK Short Selling Regulation regime for shares; signals intent to abolish regime for UK sovereign debt and CDS*

Banking

The Government's Call for Evidence on aligning the ring-fencing and resolution regimes closed on 7 May. The Call for Evidence asked for input on potential impacts on financial stability, firms, UK competitiveness and growth, and competition. The Government is now working with the BoE and PRA (through the Ring-Fencing Taskforce) to analyse the responses and develop an initial policy position on the long-term future of the ring-fencing regime.

In its December 2022 response (PDF 251 KB) to the 2021 consultation on reforms to the Building Societies Act, HMT committed to:

- Legislating to exclude funding from specific BoE Liquidity Insurance Facilities, senior non-preferred debt instruments raised to meet MREL requirements, repurchase agreements of high-quality liquid assets, and deposits from SME's with a turnover of up to £6.5 million from the funding limit for building societies — in order to provide greater flexibility for building societies under financial stress, bring the 1986 Act more in line with companies, and continue to support the mutual model.
- Revisiting the treatment of funding obtained through the intermediated savings platforms in the medium term — to allow Government and regulators to develop a clearer sense of the market and its impact on building societies.

Retail Markets

As a new initiative, the Government has commissioned an independent report on the future of payments. The "Future of Payments review" will consider how payments are likely to be made in the future and make recommendations on the steps needed to deliver world-leading retail payments and boost UK fintech competitiveness. The review will consider developments in the wider payments landscape, such as the Joint Regulatory Oversight Committee's[3] report on the future of Open Banking and developments in the UK payments industry's New Payments Architecture (NPA), and how to build on them. A Call for Input has been issued to inform the review, with a report and recommendations to the Government expected by autumn 2023.

HMT has confirmed (PDF 218 KB) its intention to proceed with proposals to repeal much of the Consumer Credit Act (CCA) and recast it in the FCA rulebook. Specific aspects that may warrant legislative provisions will be taken into account during the policy development process. This reform is intended to address concerns that the CCA was highly prescriptive and increasingly cumbersome and inflexible, confusing consumers and adding unnecessary costs to businesses when implementing its requirements. As expected, HMT reports broad stakeholder support for the reforms. The Government will now develop the policy further through stakeholder engagement in 2023, and further consultation is planned for 2024. Reform is expected to take a number of years due to the need for primary legislation, detailed FCA rules, and reasonable transitional periods for firms.

As part of the programme to repeal and replace EU law —the Smarter Regulatory Framework — HMT has:

- Confirmed (PDF 145 KB) its intention to revoke aspects of the Payment Account Regulations (PARs) 2015 which implemented the EU's Payment Accounts Directive. The PARs set out requirements intended to improve the comparability of fees connected with payment accounts. However, the Government believes many of these are either too prescriptive or less necessary in a UK context and therefore do not allow customers to readily compare current accounts. Detailed firm-facing requirements on customer information requirements will now become the responsibility of the FCA, rather than prescribed in legislation. The changes take effect on 1 January 2024. No FCA rule changes are expected as a result of this transfer of responsibility.

- Confirmed (PDF 163 KB) its intention to revoke all EU PRIIPs disclosure requirements from legislation and for the FCA to deliver a new retail disclosure regime & rules which are tailored and proportionate to the UK market (including UK UCITS). The new regime will be guided by the principles of proportionality, clarity and choice. In a change from the consultation, analysis has indicated that the FCA will require additional tailored powers in order that any new regime can be applied to certain unauthorised firms and overseas funds. Any new rules will be subject to a transition period to give firms sufficient time to adapt to the new regime. Following the repeal of the PRIIPs Regulation (and related secondary legislation), a draft statutory instrument will be published by 2024. Further detail on reform timescales will be published in due course.

PRIIPs to be replaced

In its response to its consultation on the PRIIPS regime, the government commits to removing all firm-facing retail disclosure requirements from legislation and empowering the FCA to deliver a new disclosure regime. This will include granting powers to the FCA to apply obligations to some unauthorised firms and overseas funds. UCITS vehicles will be brought into scope of the new retail disclosure regime after a transition period from the current disclosure requirements.

- *UK retail disclosure and the future of PRIIPs in the UK*

Payments regulation under review

In its response to its consultation, the government has confirmed that it will repeal the customer information requirements in the Payment Account Regulations 2015.

An independent review of the future of payments will explore how the UK can "remain at the forefront of payments technology". A call for input has been opened until 1 September 2023.

- *UK launches Future of Payments Review*

New FMI sandbox

The government has launched a consultation on a digital securities sandbox. Under the DSS, financial market infrastructure can perform the activities of a central securities depository and operate a trading venue under a regulatory framework that is temporarily modified to accommodate digital asset technology.

The consultation closes on 21 August 2023.

A new public offer regime

First published as part of the Edinburgh Reforms, the government has revised its draft legislation for a new regime on public offers and admissions to trading. Technical comments on the near-final statutory instrument are invited by 21 August 2023. The FCA has also published two more engagement papers asking for views on aspects of the new public offers and admission to trading regime.

- [Treasury introduces "public offer platforms" as part of wider reforms of UK Prospectus regime]
- [Revised draft of regulations relating to public offers and prospectuses]
- [FCA engagement papers on public offer platforms and primary MTFs]

Pensions reform

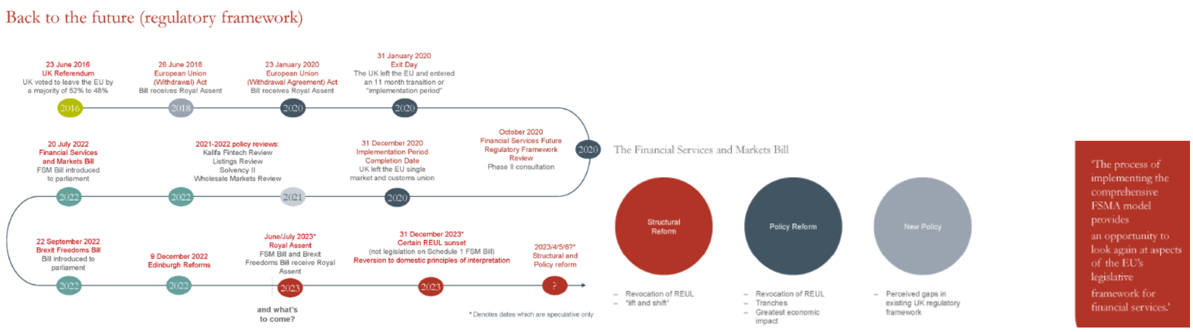
Reform to the UK pensions market featured prominently in the Chancellor's Mansion House speech. The government has published several papers, including responses to consultations on defined benefit schemes and extending collective defined contribution provision.

The Chancellor's Mansion House speech set out a series of new initiatives on pensions reforms to increase pension savings, drive more investment into UK business and ultimately grow the UK economy. The reforms are ambitious and wide-ranging and all types of pension schemes are impacted. The reforms include:

1. Plans (PDF 406 KB) for Defined Contribution (DC) pension schemes to invest (on a voluntary basis) 5% of their default funds in unlisted equities by 2030;
2. Creating a new regulatory regime for Defined Benefit (DB) superfunds to support employers and trustees with a more effective and efficient way of managing DB liabilities;
3. Seeking views on changes to the potential scope and usage of the Pension Protection Fund[1] to support smaller DB pension;
4. Changes to improve engagement, value for money and better meet the information needs of customers; and
5. Seeking to further increase the rate of consolidation of smaller Local Government Pension Schemes (LGPS).

The proposals are supported by a raft of consultations, calls for evidence and responses to consultation documentation[2] which firms will need to fully digest in order to understand, in aggregate, how the proposed reforms will reshape the pension landscape.

- Mansion House reforms: Implications for pension schemes



Tranche 1; *Work is already underway to review, repeal, reform and replace the first tranche of REUL files:*

i. The Wholesale Markets Review (WMR)
ii. Lord Hill's Listing Review
iii. The Securitisation Review
iv. Solvency II Review

Tranche 2; *The government will take a 'twin-track' approach to the next phase involving the following REUL*:

i. Remaining implementation of the outcomes of the WMR
ii. Continue with Solvency II
iii. The Packaged Retail and Insurance-Based Investment Products (PRIIPS) Regulation
iv. The Short Selling Regulation
v. The Taxonomy Regulation
vi. The Money Market Funds Regulation.
vii. Payment Services Directive and the Money Directive.
viii. Insurance Mediation and Distribution Directives
ix. The Capital Requirements Regulation and Directive.
x. Long-Term Investment Funds Regulation
xi. The consumer information rules in the Payment Accounts Regulations 2015.

The substance of the Smarter Regulatory Framework will be set through FCA rules and these SIs:

i. The DAR SI: A single Designated Activity Regime SI, divided into parts, each dedicated to regulating a different activity
ii. Have Regards SI; To set out matters to witch the regulators must have regard when making rules in that particular area.
iii. Misc. SI; Shall contain REUL that needs to be preserved & does not inside FSMA or other primary regulations.

The FCA will have three aspects for its rulemaking:

i. Architectural Changes: Changes to legislative structure DAR, objectives and accountability of regulators, MRAs
ii. REUL and the FSMA'isation and Policy Changes; The repeal and restatement of EU law into UK rules will impact firms' substantive obligations. Approach is still unclear for most elements of the *Aquis*. Long term expect a medium/ high impact.
iii. New Policy Areas; Miscellaneous (financial promotions; APP; crypto). Likely to be of limited impact for most firms.

1. Secondary markets policy update; John Wu, David Mascarello and Robert Avery

Next Wednesday, on 05th July the FCA will publish both its Policy Statement on the Trading Venue Perimeter and the scope of Multilateral activities ("expect no surprises"); and a consultation paper on the creation of an Equities and a non-equities Consolidated Tape.

Firms will be given 3 months until 09th October to assess, confirm, comply and disclose with the multilateral perimeter requirements.

The FCA had no comments on the forthcoming non-equities transparency workstream, nor the Oct/Nov consultation paper as scheduled. They did remark that some outreach with certain individual firms was now underway, but without any more details. It was noted that the SMAC was feeding into the process, but under strict secrecy. The meeting discussed whether the non-public and non-disclosed approach to the SMAC was in fact beneficial, especially when set against the CFTC-MRAC, the ESMA-SMSC and the FISMA-ESC processes which were all more transparent. There is clearly a range of views inside the FCA on this matter. Non-one inside the FCA had any visibility on the new stakeholder committee on market reporting which is to sit in parallel with the SMAC.

In parallel to the recent ESMA paper on market outages and associated communications protocols, the FCA was proposing to mirror this in follow-up work to the Policy Statement on Equities Transparency. This means that non-equities outages will be subsumed into this workstream. A subgroup of the SMAC had been created to work up policy proposals for a framework for market outages, and David Mascarello had been appointed to chair that work.

2. Prospectus regime; Adam Wreglesworth

Listings Regime: FCA noted that there were now only 2 days remaining to respond to the open consultation on the Listings Reform. A further CP shall be published in the autumn which will set out the legal instrument & the CBA.

Prospectus Regime: a new timeline will be published very shortly in conjunction with HMT, together with a draft text of the SI legal instrument. The formal legal process should take effect in the autumn of this year with the date of admission to trading being launched on 10th April next spring.

AW noted the structure of the four "Engagement Papers" and set out the FCA timelines per the slide below and on the webpage: New regime for public offers and admissions to trading | FCA

- Engagement Paper 1 - Admission to trading on a regulated market
- Engagement Paper 2 - Further issuances of equity on regulated markets
- Engagement Paper 3 - Protected forward-looking statements
- Engagement Paper 4 - Non-equity securities

There will be two further engagement papers published shortly, one of which will be on the Primary market "Intermittent MTFs" or "*ITV*s" whereby firms making listings will not be required to publish a prospectus. The other will concern "crowdfunding platforms" for both public offers and for growth markets, and therefore make a close parallel with work underway at ESMA. AW noted that the FCA is deploying focus groups to steer all 6 workstreams.

3. AOB

i. Discussion on what FCA policy involvement there should be wrt the T+1 HMT and industry taskforces (none)
ii. Discussion as to whether next TACC should set out FCA approach to UPI and UTI where it goes live in Q4 2024 (will be at Q1 2024 TACC)
iii. Discussion on the UK-EU MoUs

UK Edinburgh Reforms six months on; *HM Treasury and the UK regulators have published over 20 new policy statements, consultations, discussion papers and calls for evidence on the proposals for the reform of UK financial sector regulation announced in Edinburgh last December*.

- Mapping those developments in the last six months to the list of 43 'core' EU financial services files in scope of HM Treasury's programme for the review, repeal, reform and replacement of EU derived legislation under the Financial Services and Markets Bill, and shows the expected timing of the reforms.

Edinburgh reforms package

- On 9 December 2022, the UK Government announced a package of over 30 proposals for financial services regulatory reform including:
  - some proposals directly relating to the "core" EU financial services files in scope of its implementation programme under the Financial Services and Markets Bill and
  - cross-cutting and other proposals to reform the UK financial system of financial regulation.
- These build on the Government's plans to create a 'smarter regulatory framework' for the financial sector.
- Edinburgh reforms
  - HMT policy statement, Building a smarter financial services framework for the UK (9 December 2022).
  - Chancellor of the Exchequer, Ministerial statement (9 December 2022).
  - HMT, Financial Services: The Edinburgh Reforms (9 December 2022).
  - PRA DP4/22,The PRA's future approach to policy (September 2022).
  - FCA Future Regulatory Framework Review (December 2022).
  - HMT, Financial Services Regulation: Measuring Success – Call for Proposals (May 2023).
  - UK Edinburgh Reforms Impact on Financial Services (December 2022)
  - UK Retained EU Law (Revocation and Reform) Bill: Impact on financial services (October 2022).

Financial Services and Markets Bill

- The Bill was introduced in July 2022 and is in its final stages in Parliament.
- The Bill provides for the review, repeal, reform and replacement of EU-derived financial services legislation .

- HM Treasury has identified 43 "core" files in scope of its implementation programme for the Bill: work has started on four files (Tranche 1) and ten other files have been identified as the next priority (Tranche 2).
- HM Treasury expects to make significant progress on both Tranche 1 and Tranche 2 by end 2023 (and will review and assess the prioritisation of the remaining files in due course).
- UK Financial Services and Markets Bill: enacting the future regulatory framework (July 2022).

Progress on the reform package

- Six months on, HM Treasury and the UK regulators have published over 20 new policy statements, consultations, discussion papers and calls for evidence on the proposals in the Edinburgh reforms package.
- However, the planned repeal and replacement of EU-derived legislation will only move forward after the Financial Services and Markets Bill receives Royal Assent.
- The following tables highlight developments in the last six months, mapped to the list of “core” files, and show the expected timing of the reforms.

Markets in Financial Instruments Directive and Regulation (MiFiD/R)

Tranche 1 file

- Delivering on Wholesale Markets Review (FSM Bill).
- Markets in Financial Instruments (Investor Reporting) (Amendment) Regulations 2022.
- Introduce consolidated tape (by 2024).
- Work on new class of trading venue (I*ntermittent Trading Venue*).
- Work on boundary between regulated and other advice (with FCA).
- FSMA 2000 (Commodity Derivatives and Emission Allowances) Order 2023 (May 2023).
- Investment research review and Call for evidence (April 2023).
- FCA policy statement on secondary markets (May 2023).

Listings Directive (LD)

Tranche 1 file

- Delivering on Lord Hill listing review and Secondary Capital Raising Review
- Illustrative statutory instrument (SI) (policy note)
- FCA consultation on primary markets and FCA policy statement on secondary markets (May 2023).
- FCA engagement papers engagement papers on proposed public offers and admissions to trading regime (May 2023).

Market Abuse Regulation (MAR)

Tranche 3 file

- HMT/FCA statement on criminal market abuse regime (March 2023)

Short Selling Regulation (SSR)

Tranche 2 file

- HMT call for evidence on short selling review published

Securitisation Regulation (Sec Reg)

Tranche 1 file

- Delivering on Securitisation review
- Illustrative SI (policy note) published

Securities Financing Transactions Regulation (SFTR)

Tranche 3 file

Benchmarks Regulation (BMR)

Tranche 3 file

- ESG Data and Ratings Code of Conduct Working Group

Central Securities Depositories Regulation (CSDR)

Tranche 3 file

- Accelerated settlement taskforce launched
- Implementing FSM Bill changes (FMI sandbox planned for 2023).

European Market Infrastructure Regulation (EMIR)

Tranche 3 file

Settlement Finality Directive (SFD)

Tranche 3 file

Timing Of The Reforms

Q4 2023

- Substantial progress on review, repeal, reform and replacement of all EU-derived legislation covered by Tranche 1 and Tranche 2 files (by end 2023).

- Accelerated settlement taskforce publishes initial findings (December 2023).

Q1 2024

- Work starts on review, repeal, reform and replacement of EU-derived legislation covered by Tranche 3 files.*
- FCA consultation expected on rule proposals for public offers and admissions to trading regime*

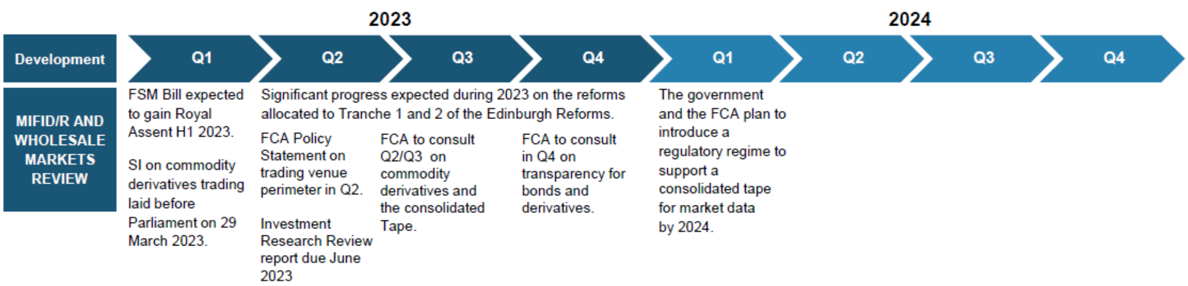
Q4 2024

- Introduction of consolidated tape (by 2024).
- Accelerated settlement taskforce publishes final report and recommendations (December 2024).

Q1 2025

- Financial Services and Markets Act 2000 (Commodity Derivatives and Emission Allowances) Order 2023 in force (1 January).

MIFID/R AND WHOLESALE MARKETS REVIEW

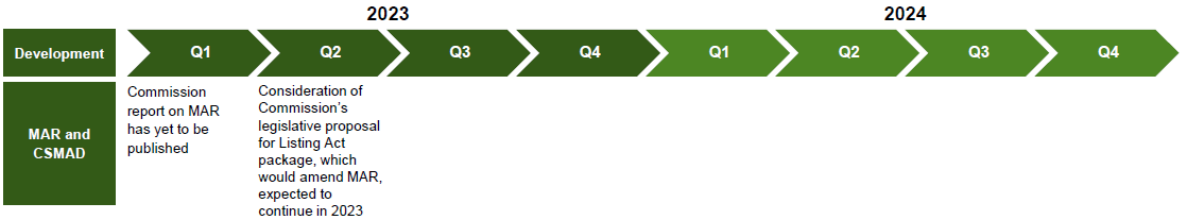


- Delivering on a WMR recommendation, the government and the FCA plan to introduce a regulatory regime to support a consolidated tape for market data by 2024.
- As envisaged by the WMR, on 29 March 2023, the government laid before Parliament the draft Financial Services and Markets Act 2000 (Commodity Derivatives and Emission Allowances) Order 2023, to remove burdens from firms trading commodities derivatives as an ancillary activity. The Order will come into force on 1 January 2025.
- The independent Investment Research Review was launched on 9 March 2023 and is due to report by 13 June 2023.
- Timing not yet announced
    - the government will work with the regulators and market participants to trial a new class of wholesale market venue which would operate on an intermittent trading basis
    - the government has committed to work with the FCA to examine the boundary between regulated financial advice and financial guidance
    - regulation of the wholesale markets is also likely to be impacted by the outcomes of the Overseas Framework Review which was launched by HM

Treasury in December 2020. The government is considering the impact of potential reforms before bringing forward concrete proposals on potential changes to the UK's regime for overseas firms and activities.

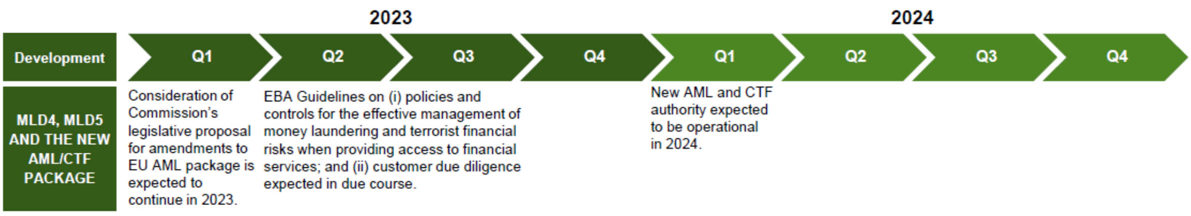
AML & MAR

EU MAR AND CSMAD



- MAR required the Commission to submit a report on MAR and, if the Commission considered this to be appropriate, a proposal for amendments to MAR, by 3 July 2019. In September 2020, ESMA published a report on MAR. The Commission's report has yet to be published.
- •In December 2022, the Commission published a package of proposals to simplify EU listing rules, referred to as the Listing Act package. This will, amongst other things, amend MAR to: narrow the scope of the obligation to disclose inside information and enhance legal clarity as to what information needs to be disclosed and when; clarify the conditions under which issuers may delay disclosure of inside information; clarify the market sounding procedure; simplify the insider lists regime; and simplify the reporting mechanism for buy-back and stabilisation programmes. The proposals will now continue through the EU legislative process.

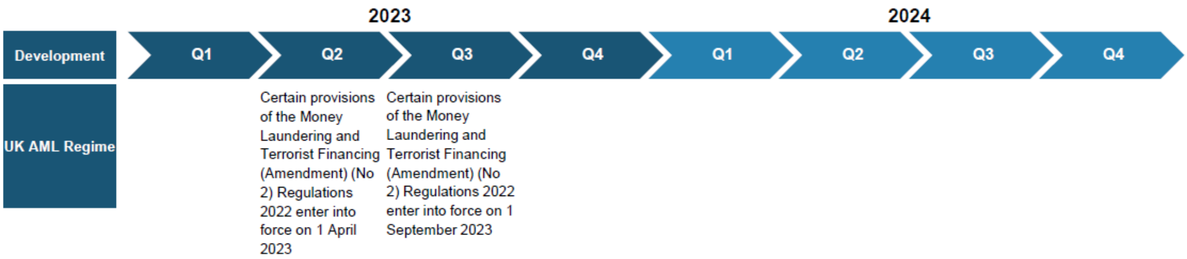
EU MLD4, MLD5 AND THE NEW AML AND CTF PACKAGE



- MLD4 contains the EU's anti-money laundering framework. MLD5 made targeted amendments to MLD4 to increase transparency around owners of companies and trusts through the establishment of public beneficial ownership registers, prevent risks associated with the use of virtual currencies for terrorist financing, restrict the anonymous use of pre-paid cards, improve the safeguards for financial transactions to and from high-risk third countries and enhance Financial Intelligence Units' access to information. In 2021, the Commission adopted an ambitious new package of legislative proposals, intended to further strengthen the AML and CT framework.

- In July 2021, the Commission adopted a package of legislative proposals including a regulation establishing a new EU AML and CTF authority, a new regulation on AML and CTF, a regulation on information accompanying transfers of funds and certain cryptoassets and a sixth directive on AML and CTF. The package continued its progress through the EU legislative process in 2022, with different elements of the package progressing at different speeds. In October 2022, the Council of the EU confirmed that a compromise agreement had been reached on the regulation on information accompanying transfers of funds and certain cryptoassets. In December 2022, the Council of the EU adopted its position on the new regulation on AML and CTF and the sixth directive on AML and CTF. It is currently expected that the package of proposals will be finalised in 2023.
- •In December 2022, the EBA published a consultation paper on producing draft guidelines on policies and controls for the effective management of money laundering and terrorist financing risks when providing access to financial services. The consultation paper also consulted on revising existing guidelines on customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions. The consultation closed in February 2023 and the EBA's report and finalised guidance are expected in due course.
- •It was originally expected that the new AML and CTF authority, created under the new AML package, would be operational in early 2024 but this timeline may be extended.

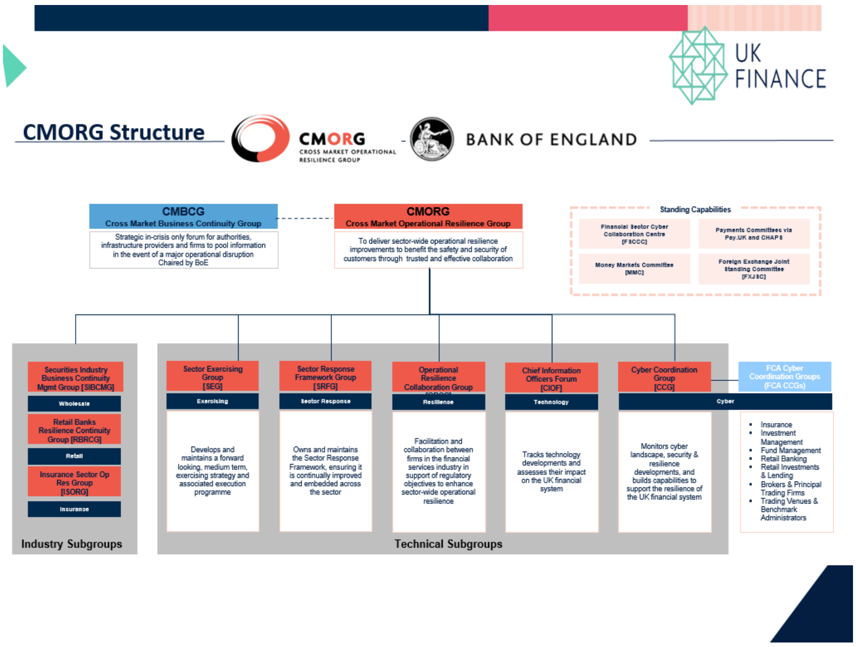
UK AML REGIME



- On 21 July 2022, the UK's Money Laundering and Terrorist Financing (Amendment) (No 2) Regulations 2022 were passed. These set out specific amendments to the UK's AML regime, which are being phased in, culminating on 1 September 2023.
- Alongside the consideration of these specific amendments, the UK has been conducting a wider review of its AML regime. A report on this review was published on 24 June 2022. This indicated that further reform to the UK's AML regime is needed and, therefore, further consultations and amendments to the regime are expected.
- The Money Laundering and Terrorist Financing (Amendment) (No 2) Regulations 2022 were made on 21 July 2022. They make various targeted amendments to the UK's Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer)

Regulations 2017, including in relation to the reporting of discrepancies and requirements relating to crytpoasset businesses and cryptoasset transfers. Most of the requirements entered into force on 11 August 2022 and 1 September 2022. Remaining provisions will enter into force on 1 April 2023 and 1 September 2023.

- •The UK's list of high risk third countries is updated periodically to reflect the Financial Action Task Force's standards. Future updates may be made following the next Financial Action Task Force plenaries, in March and July 2023.



Digital finance, SupTech, RegTech & FinTech

Tokenization in financial services; July 2023 CFTC Global Markets Advisory Committee meeting

1. Digital assets have demonstrated resilience through a period of extreme volatility, with emergence of non-crypto applications
2. Blockchain based representation of real-world assets (i. tokenization) is growing as a key application of blockchain technology across traditional and new asset classes
3. Tokenization demonstrates qualities across value chain participants inherited from three tenants of the underlying technology: 24/7 operations, atomic settlement and programmability
4. A combination of challenges across technology, market readiness, economics and regulation have impacted the ability of the industry to scale
5. Accelerated adoption across certain asset classes point to a potential inflection point where these challenges could change or disappear

6. Whether or not tokenization is at an inflection point, there are a few steps companies could consider, ranging from simple preparedness to shaping the path for tokenization

Digital assets have demonstrated resilience through a period of extreme volatility

As of June 2023

880+
Digital Asset Funds globally

~$3 Bn (20%)
Daily volume processed by decentralized exchanges in 2022

64%
of F500 execs indicate investing in blockchain is important to stay ahead of competition[2]

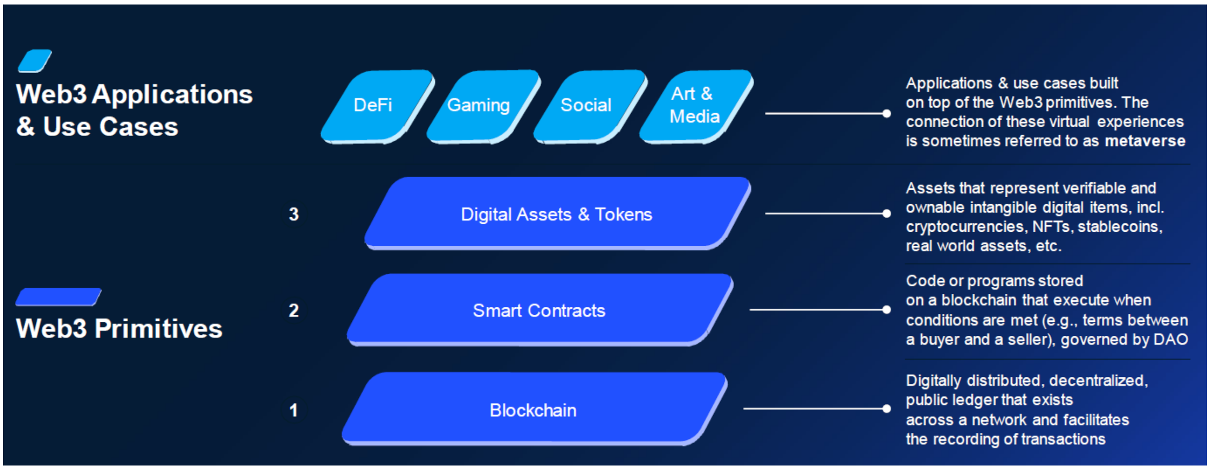
30%+
% of FMIs with active pilots / investments in Digital Assets

~95 (20%)
Governments around the world who are actively engaging with digital assets

$25+ Bn
PE / VC investments in crypto and blockchain-related deals in 2022

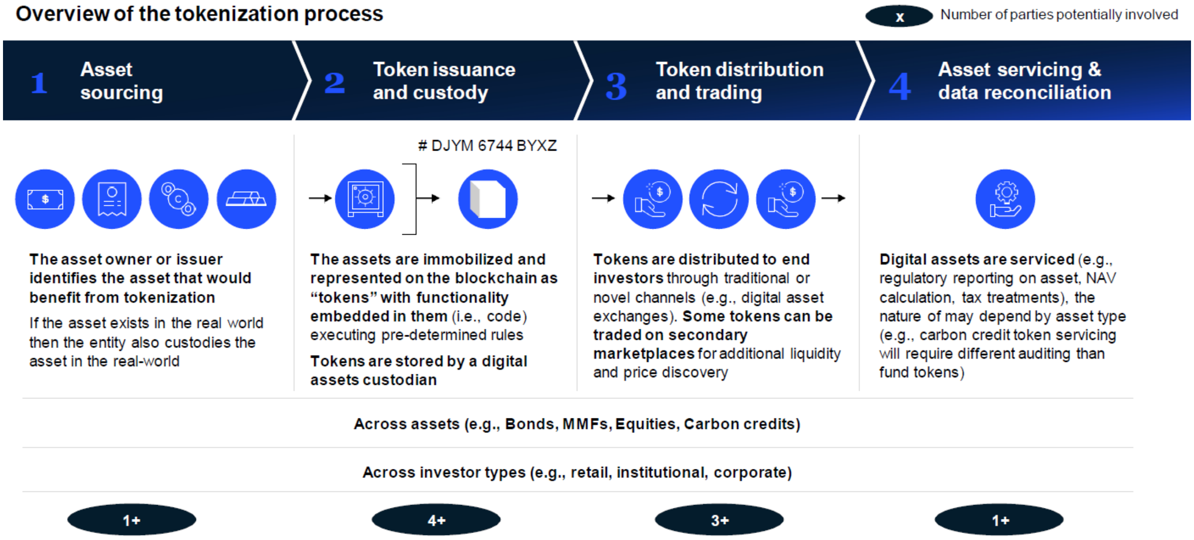
1. Includes centralized and decentralized trading volume
2. Based on F500 execs familiar with cryptocurrency or blockchain – from Coinbase survey of June 2023

Web3 Applications and use cases are built on top of 3 technology primitives: Blockchain, Smart Contracts Digital Assets

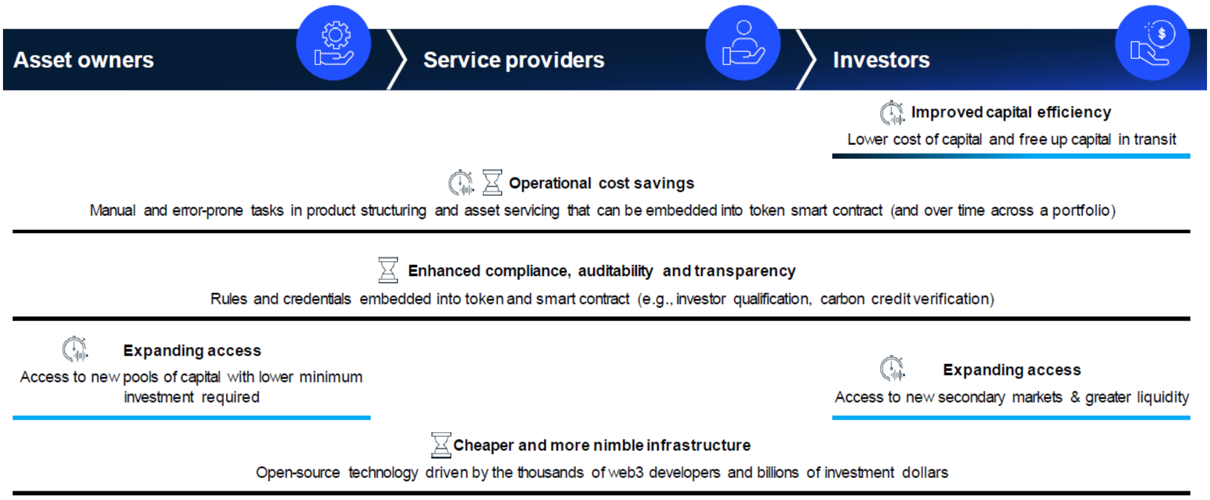


Tokenization is the process of issuing a digital representation of a traditional asset on the blockchain

Overview of the tokenization process



Tokenization could create unique outcomes for participants across the financial services value chain



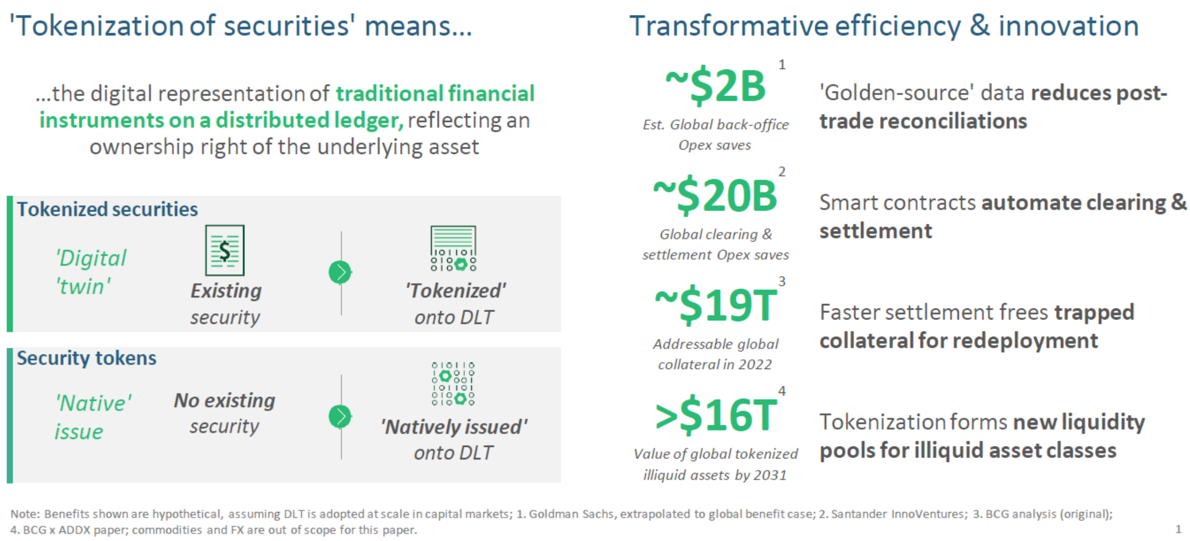
GFMA *Impact of DLT In Global Capital Markets;* CFTC Global Markets Advisory Committee Meeting;17July2023

- Harmonization of global regulatory and legal frameworks
  - *Adaptations to existing legal and regulatory structures is fundamental in promoting transparent, disciplined, risk focused, and effective market infrastructure.*
  - *Different jurisdictions are facing individual and global challenges and as such, legislation is at different levels of maturity*

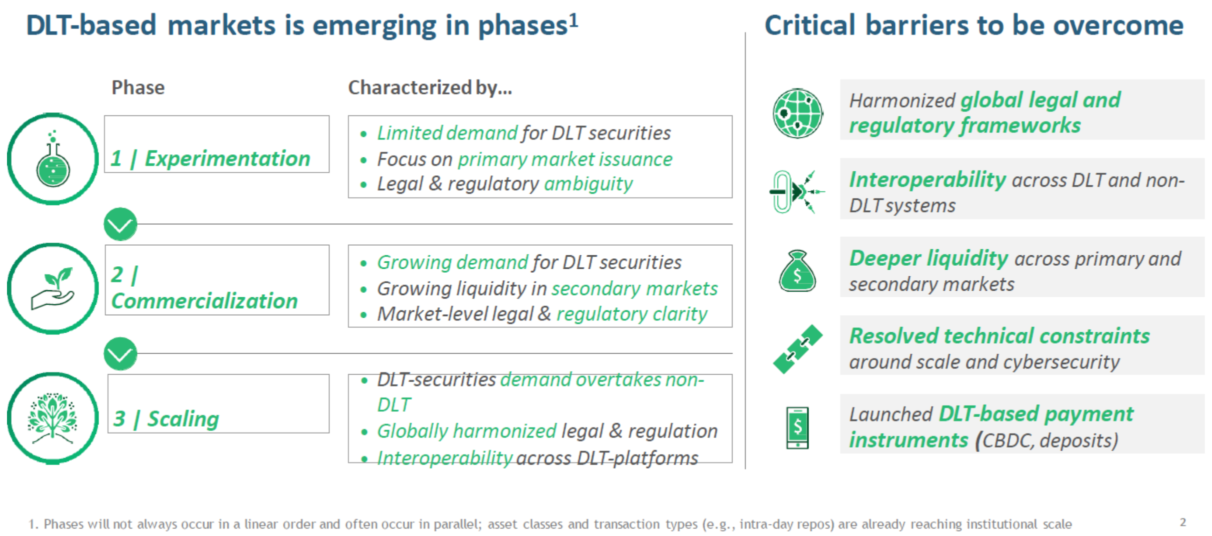
   - *Demonstrates need for harmonized and risk consistent policy positions across different jurisdictions to benefit both the market and governments regulators*
- Enablement of interoperability with existing market infrastructure
   - *Interoperability is an important enabler to network effects, providing the basis for real world, diverse use cases*
   - *Build on existing initiatives and broaden alignment on a framework of standards to guide market level compatibility This entails initiatives that cover public networks with appropriate risk mitigation, as well as private permissioned networks*
   - *Key areas include technology architecture design, smart contract standards and governance, linkages with traditional infrastructure alongside risk identification, mitigation, and management and specific roles and responsibilities.*
- Development of viable Primary Secondary Markets
   - *Cross industry initiatives to focus the pooling of liquidity in a few, high potential asset classes (e. fixed income, OTC derivatives) across the security lifecycle could help increase the formation of viable markets for DLT based securities.*
   - *Market participants could focus on assets where the inefficiencies are well documented and the cost of conversion is less onerous*
- Advancement of open technical challenges posed by DLT
   - *DLT is not yet a fully formed infrastructure solution, with demanding requirements around scalability, cybersecurity, and regulatory compliance.*
   - *Industry practitioners and developer communities collaborating on research and development of DLT specific solutions that address these issues.•*
   - *Cross industry participation can maximize the strength of participating talent pools, distributes costs and accelerates the timeline to key outcomes*
- DLT based Payment Instruments to achieve true DvP settlement
   - *DLT based payments are a critical enabler for the settlement of DLT based Securities; integration with legacy payment tools significantly reduces the scope of benefits, such as programmability.*
   - *DLT based commercial bank deposits represent deposit account balances on a distributed ledger to support settlement, which can support more efficient and effective payment tools.*
- *Tokenized securities in capital markets could deliver game changing efficiency and innovation*

EVIA European Venues & Intermediaries Association

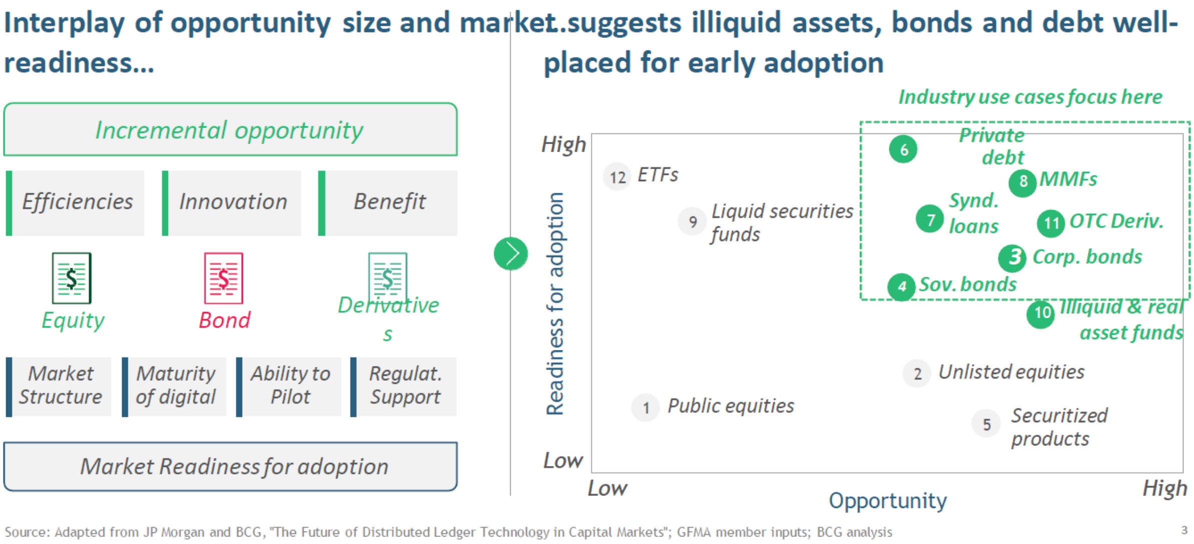
LEBA London Energy Brokers' Association



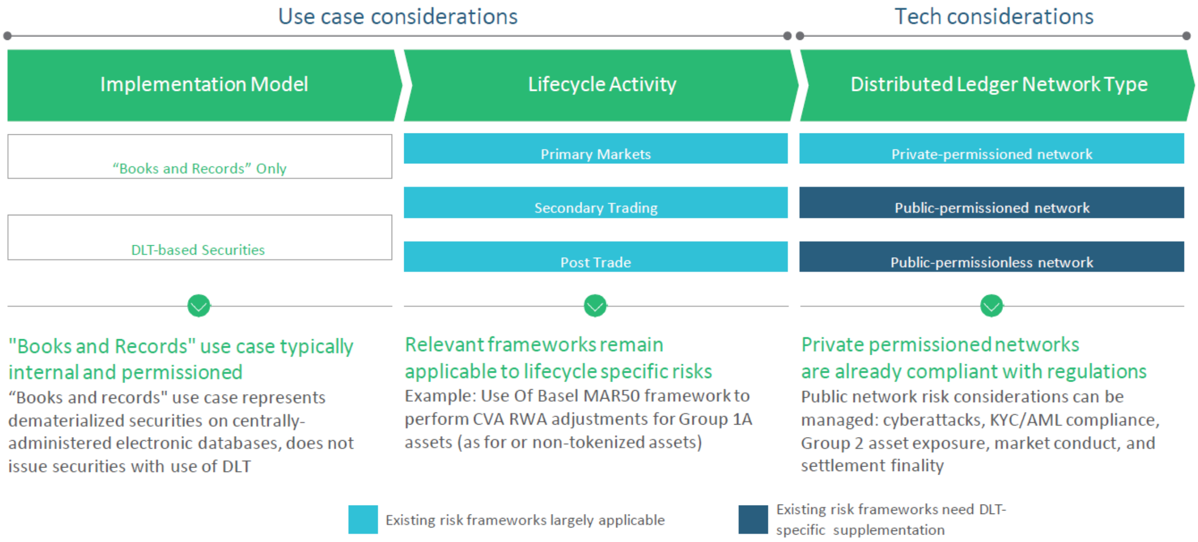
- *End game: DLT based capital markets is emerging, but critical barriers must be overcome*



- *Deaveraging adoption: Varying incremental opportunity and market readiness will drive adoption*



- DLT Networks: Use case considerations drive decisions around network type



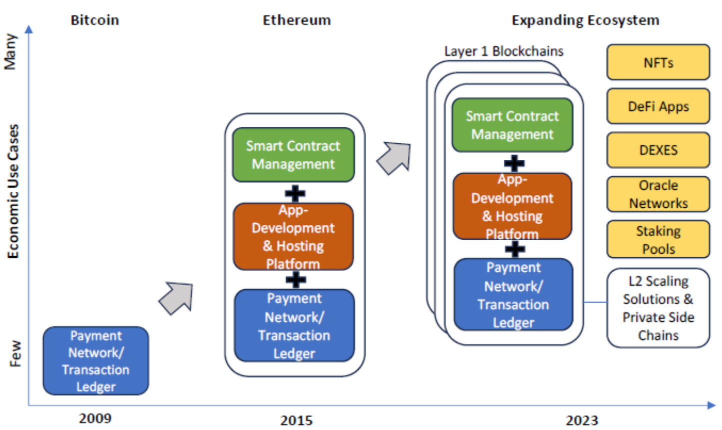
- Impact assessment: Three dimensions assessed cross the securities lifecycle

Dimensions assessed	Primary Markets	Secondary Trading	Clearing & Settlement	Custody	Asset Servicing
Overall DLT Impact	Medium	Medium	High	High	High
Workflow Efficiency	Medium	Low	High	High	High
Financial Opportunity & Value Creation	High	High	High	High	High
Incremental Risk Mitigation	Low	Low	High	Medium	Medium

Why the Digital Asset Ecosystem Matters

Innovations in the enabling infrastructure of Web3 and digital assets continue to progress despite the onset of "crypto winter", but projects in the space often underweigh safety, soundness and controls

Evolution of the Open Source Web3 Ecosystem



- Operates 24/7/365
- Globally accessible, public networks
- Permissionless access
- Near real-time payments/settlement
- Immutable, distributed record-keeping
- Services enabled by programmable currencies and tokens
- Actions enabled by self-executing smart contracts
- Assets held in pseudo-anonymous digital wallets protected by crypto keys
- New composable and interoperable approach to software & token development
- New financial participation and asset utilization models

As of June 2023, there were 21,300 active developers making code commitments monthly to open source Web3 ecosystem—a larger total than were active in the space in November 2021 when crypto prices hit an all-time high[1]

Cross-Over of Digital Asset/Market Innovations

Increasingly, innovations that originate in the crypto space are crossing over—recent reports suggest that the potential for tokenization of financial and real world assets may reach $4.6 trillion by 2030[1]

Tokenization of Physical & Digital Assets

- **Gold**: Tokenized gold assets surpassed $1.0 billion in combined market capitalization in April 2023[2]
- **Real Estate**: Tokenized real estate made up 40% of the digital securities market accounting for nearly $200 million as of September 2022[3]
- **Art**: Prints of 4 of Andy Warhol's most famous works are being tokenized and offered as security tokens that can be used in DeFi transactions[4]
- **Music Royalties**: The Chainsmokers[5] issued a limited number of NFTs with the release of their new album and Diplo[6] released NFTs for his new song with both offerings allowing to fans to share in the artists' future royalties; Rihanna's producer released a limited set of NFTs offering a portion of his royalties for one of her top songs[7]

Tokenization of Registered Investment Vehicles

- **40 Act Funds**: Franklin Templeton offers U.S. government money market fund (MMF) tokens[8]; Wisdom Tree has filed to offer 9 tokenized mutual funds via their Prime wallet[9]; Ondo is backing their stablecoin offering with shares in a U.S. government MMF[10]; Blackrock is tokenizing shares of their MMFs to use as collateral within JPM's Onyx platform[11]
- **Private Funds**: KKR, Apollo, Hamilton Lane, and Partners Group tokenized shares of their private funds offerings[12]
- **Securities**: Societe Generale, Deutsche Bank, and BNP Paribas each issued a tokenized bond using public blockchain[13]; the European Investment Bank (EIB) issued digital bonds using Goldman Sachs' Digital Tokenization Platform[14]
- **Structured Loans**: Santander issued a tokenized loan backed by agricultural commodities [15]

Exploration of Regulated, Digital Asset Use Cases

- **Collateral Management & Financing**: J.P. Morgan's private Onyx chain enables participants to transfer tokenized MMF shares as collateral & to perform on-chain repo[16]
- **Liquidity Pools, Trade Receivables & Structured Notes**: Monetary Authority of Singapore's Project Guardian has explored 1) trading in a permissioned liquidity pool; 2) tokenizing trade receivables; 3) issuing & servicing tokenized OTC structured notes [17]
- **Cash Payments**: The RLN network looks to facilitate the transfer of tokenized deposits between financial institutions [18]
- **Settlement**: Fnality, Canton Network, and DTCC's Project Ion are each building DLT solutions that link asset registries with digital currencies for settlement [19]

Footnotes in appendix

Challenges & Opportunities with Digital Assets/Markets

Digital assets and markets and their enabling infrastructure offer both challenges and opportunities

Challenges	Opportunities
Current rules regulate an asset, not the potential <u>use</u> of the asset	Tokens can be both an asset and a store of value that can be bartered for other assets or services; moreover, tokens can be programmed to confer different rights to the holder; this offers the potential for a dynamic, use-based approach to oversight
Digital wallets secured by crypto keys co-mingle tokens representing different types of underlying assets	Given the potential complexity of wallet holdings (that may be overseen by varying regulators), an opportunity may exist to solve for KYC/AML, digital identity and risk oversight at the wallet level rather than the individual or entity level
Distributed blockchains exchange tokens and payments in near-real time, 24/7/365	By running a node, regulators can monitor transactions and wallets in real-time rather than identifying issues forensically; global, round-the-clock access to digital markets may allow for dynamic application of regulatory regimes
Decentralized marketplaces and financial services offer permissionless access to participants	Access to certain investment products and services is today based on an accreditation system that links consumer sophistication to wealth levels—new digital asset models offer an opportunity to rethink and democratize this approach

Rallying together as a global industry can help harness the potential of new technology and define guidelines for a 21st century financial ecosystem; Failure to address challenges and seize opportunities may result in loss of talent, regulatory arbitrage, and fragmented or siloed solutions

EVIA European Venues & Intermediaries Association

LEBA London Energy Brokers' Association

High Level Principles & Plan

Guiding Principles:

- Stay true to the potential of the technology infrastructure and its ability to support new approaches to financial markets
- Base considerations on the optimal use of the new infrastructure, not on whether delivery will occur on private or public blockchains
- Think broadly about the optimal outcomes for the industry and do not limit recommendations to matters that currently sit within the CFTC mandate
- Envision opportunities independent of a participant's existing role and entity and think about how roles and entities may evolve
- Allow workstream leads the freedom to shape and define the scope of their mandates and output

Sub-Committee Workstreams:

- **Tokenization Infrastructure**: Set forth principles that might guide the use of blockchains, tokens, smart contracts, digital wallets, oracle networks and other innovations in a regulated investment ecosystem
- **Tokenized Asset Markets: Nomenclature**: Define a common taxonomy and set of definitions that can be agreed upon to help level-set discussions about elements of the new ecosystem, differentiate the various token types, and provide a common language for developing standards
- **Tokenized Asset Markets: Pre-Trade, Execution & Post-Trade Requirements**: Assess what changes might be required to existing practices and/or suggest new processes that might be enabled across the digital market lifecycle and assess how this alters, expands or redefines the roles of existing providers
- **Tokenized Asset Markets: Governance, Risk & Control Frameworks**: Develop a framework on how financial system participants might harmonize their activities, obligations, input, and suggestions across both centralized and decentralized participants, existing and emerging utilities, and potential new entrants to maintain coordinated and effective communication and guide the industry to positive outcomes
- **NFTs/Utility Tokens**: Explore how utility tokens and NFTs that can blend financial, commercial, and social terms might impact investment portfolios, particularly the ease with which new types of assets might be issued and made both investible and tradable, putting forward suggestions on how to adapt regulations to this new type of offering

1. Citigroup Predicts 80X Explosion in Tokenization, Forecasts Timeline for Mass Adoption of Digital Assets -The Daily Hodlv
2. Tokenized Gold Surpasses $1B in Market Cap as Physical Asset Nears All-Time Price High (coindesk.com)
3. Dentons -The tokenization of real estate: An introduction to fractional real estate investment
4. Andy Warhol Artworks to Be Offered as Tokenized Investments on Ethereum (coindesk.com)
5. Chainsmokers to Release NFTs That Offer a Cut of Music Royalties - Bloomberg
6. Diplo Joins NasWith NFT Drop on Tokenized Royalties Platform Royal (coindesk.com)
7. Biggest Music NFTs in February: Rihanna, Snoop Dogg, Tycho, KINGSHIP –Billboard
8. Franklin OnChainU.S. Government Money Fund -FOBXX (franklintempleton.com)
9. WisdomTree Announces Nine New Blockchain-Enabled Funds are Effective with the SEC :: WisdomTree, Inc. (WT)
10. Ondo Finance Announces New Token, OMMF, Providing Tokenized Exposure to US Money Market Funds, Targeting $100 Billion StablecoinMarket (prnewswire.com)
11. JPMorgan Wants to Bring Trillions of Dollars of Tokenized Assets to DeFi (coindesk.com)
12. Private-Equity Firms Push Blockchain-Based Funds Despite Crypto Collapse –WSJ
13. State of Security Tokens 2023 -Real World Usage: Public Bonds & Institutional Adoption - Securities.io
14. Goldman Sachs unveils digital asset platform with EIB €100m blockchain bond -Ledger Insights -blockchain for enterprise
15. State of Security Tokens 2023 -Real World Usage: Public Bonds & Institutional Adoption - Securities.io
16. JPMorgan Wants to Bring Trillions of Dollars of Tokenized Assets to DeFi (coindesk.com)

17. MAS partners the industry to pilot use cases in digital assets —Marketnode—Digital Markets Infrastructure
18. Facilitating Wholesale Digital Asset Settlement -FEDERAL RESERVE BANK of NEW YORK (newyorkfed.org)
19. Incumbents embrace tokenization and alliances take shape | by Jonny Fry | Coinmonks| May, 2023 | Medium

HSBC Orion EIB 'Mars' Issuance; The EIB has issued the first ever GBP denominated digital bond using blockchain on HSBC Orion

The European Investment Bank (EIB) appointed BNP Paribas, HSBC and RBC Capital Markets as joint lead managers for a short dated inaugural GBP digital bond issuance.

Size: GBP 50 million
Settlement: 02 February 2023 (T+2)
Maturity: 03 February 2025

This is EIB's third digital bond issuance after its inaugural EUR 100 million 2-year zero coupon notes executed in 2021 and its EUR 100 million 2-year 2.507% notes executed in November 2022.

- Two blockchain technologies (public and private)
- Plain vanilla, short-dated tenor, GBP-denominated
- Floating rate coupons
- Joint Lead Managers: BNP Paribas, HSBC, RBC Capital Markets
- The digital bond is not held in a Central Securities Depository, and instead recorded on a blockchain operated via HSBC's Orion platform
- Secondary market supported, via OTC and agreed dealers

" **We are excited to participate in this digital bond issuance, an important innovation for the development of digital asset solutions.** This is another important step on our journey to understand the transformative potential of distributed ledger technology and how it may support the asset management industry to deliver better outcomes for our clients. "
EIB press release dated 31 January 2023

- *HSBC Orion –Platform overview and getting involved with the EIB issuance*

What is the platform?

1. HSBC's strategic platform for asset tokenisation.
2. A secure, private, permissioned blockchain acting as the legal registry, and a public blockchain acting as a memorandum of holdings.
3. Platform located in Luxembourg.
4. The European Investment Bank (EIB) issued its first ever GBP 50 million digital bond on HSBC Orion.

   https://grp.hsbc/6045MQ1fV

   https://www.eib.org/en/press/all/2023-030-eib-issues-its-first-ever-digital-bond-in-british-pounds

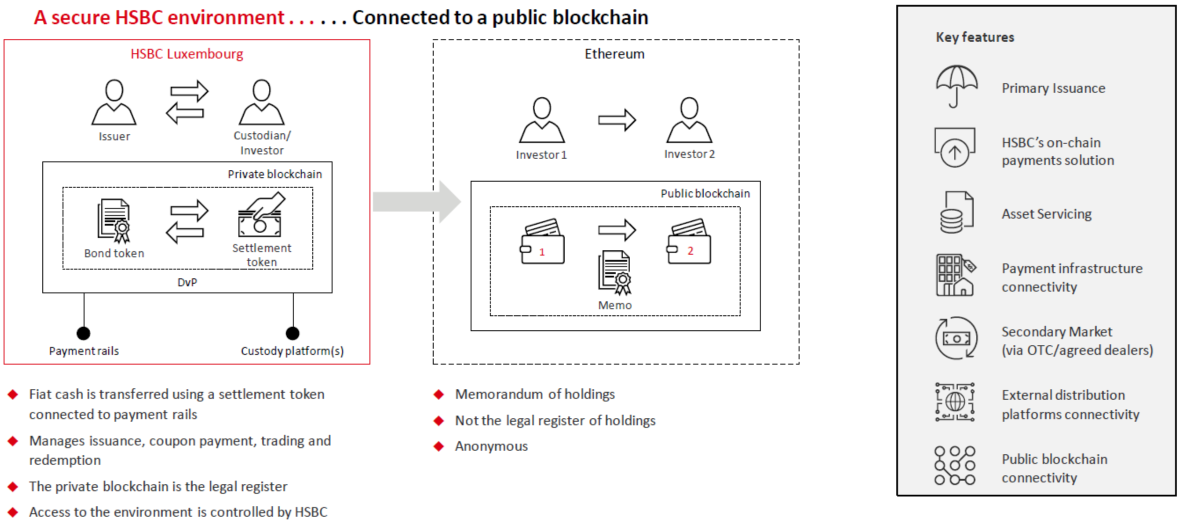
How can investors get involved?

1. Transact the bond post-issuance via existing OTC approaches;
2. Work with platform custodian for the bond. Current platform custodians are HSBC, RBC and BNPP (more to be added soon).
3. No need to create any digital wallets, or use stablecoins or cryptocurrencies.
   - Money movements for the bond and coupon will be in fiat sterling, and use a 'settlement token' approach.

Why should investors get involved?

1. Prepare your firm for the growing number of digital bond issuances.
   - Get involved in holding and selling a digital bond.
2. Review and understand the legal structure and term sheet supporting a digital bond.
3. Minimal technology and operational change is required to access the bond.
   - A tokenised bond is similar to an analogue bond, but not held in a traditional CSD.
   - The bond has an ISIN - LU2557886475

- *HSBC Orion –Platform Architecture*



- *HSBC Orion Account and Token Approach*

Account Structure

- The Orion Platform is designed and built to reflect the two-tier account structure under the Luxembourg DLT regime.
- One **central account keeper** (the "**CAK**") for the initial issue of the digital bonds (the "Securities Issuance Account"), this is HSBC
- Securities accounts kept by **secondary account keepers** ("**SAK**") for distribution of the digital bonds, these are HSBC, BNP Paribas and RBC for the EIB issuance.

Tokens

Four token types are used to create and record the digital bonds on the Securities Issuance Account and the Securities Accounts.

On the Private Blockchain

1. **Issuance Token:** indicates the primary issue details recorded on the securities issuance account. Created and held by the CAK (HSBC) only.
2. **Digital Bond Tokens:** the bond tokens that are issued, registered, held, transferred and cancelled in segregated securities accounts on the DLT platform. Each securities account on Orion are mirrored in the SAKs' existing custody systems.
3. **Settlement Tokens:** used solely to settle cash transactions relating to the digital bonds on-chain. These Settlement Tokens are records of deposits held by HSBC and will be ephemeral whilst on-chain, existing intra-day only.

On the Public Blockchain

4. **Digital Bond Information Tokens:** mirrors the 'Digital Bonds' information on the private chain onto a public chain. An optional information source for investors to see transactions in the Digital Bonds that has no legal status – the legal entitlement to bonds is evidenced on the private blockchain only.

https://etherscan.io/token/0x46a0d81204149327ae56bcb5887f007a41d46f2c

- *HSBC Orion; More Features to Come*

New Participants

- **New custodians:** bringing more Security Account Keepers (SAKs) onto the platform. SAKs can be existing Global Custodians or ICSDs.
- **New markets and currencies:** further expansion across new currencies, geographies and other products

New Features

- **Collateral & Repo:** collateralisation of bonds will be possible pending the passing of Luxembourg law (Q3-4 2023); also working to introduce repo facilities
- **Trading venue connectivity:** trading of Digital Bonds on electronic platforms is being explored (subject to law / regulation)
- **Token interoperability:** exploring arrangements where a token on one network can have meaning on another

Infrastructure development

- **Connectivity:** currently fund managers and custodians need to instruct one of the Direct Participants via SWIFT with a place of settlement of BBDALULX (HSBC CE's BIC Code) for Direct Participants to enter trades onto the Platform; end-to-end SWIFT connectivity will be added in 2023
- **More distributed architecture:** increased component dispersion and node hosting from more SAKs

FSB publishes global regulatory framework for crypto-asset activities; The Financial Stability Board (FSB) has published its global regulatory framework for crypto-asset activities to promote the comprehensiveness and international consistency of regulatory and supervisory approaches. The framework consists of two distinct sets of recommendations:

- high-level recommendations for the regulation, supervision and oversight of cryptoasset activities and markets; and
- revised high-level recommendations for the regulation, supervision, and oversight of 'global stablecoin' arrangements.
- The final recommendations draw on the implementation experiences of jurisdictions and build on the principles – 'same activity, same risk, same regulation'; high-level and flexible; and technology neutral – that informed the consultative framework. The FSB has strengthened both sets of high-level recommendations in three areas:
  - ensuring adequate safeguarding of client assets;
  - addressing risks associated with conflicts of interest; and
  - strengthening cross-border cooperation.

- The recommendations focus on addressing risks to financial stability and do not comprehensively cover all specific risk categories related to crypto-asset activities such as central bank digital currencies (CBDCs). The global framework includes a shared workplan that the FSB and sectoral standard-setting bodies (SSBs) have developed for 2023 and beyond.

MiCA's Impact on Exchanges Means New Opportunities; *New regulation governing crypto regulation in Europe -- the Markets in Crypto Assets or MiCA -- could provide the opportunity for incumbent exchanges to expand into new markets, given their status as a trusted partner. In this article, Magnus Almqvist, Head of Exchange Development at Exberry, discusses MiCA, which is being phased in, and describes the challenges exchanges face, as well as the opportunities that MiCA presents*

- New regulation governing crypto regulation in Europe -- the Markets in Crypto Assets or MiCA -- could provide the opportunity for incumbent exchanges to expand into new markets, given their status as a trusted partner. In this article, Magnus Almqvist, Head of Exchange Development at Exberry, discusses MiCA, which is being phased in, and describes the challenges exchanges face, as well as the opportunities that MiCA presents.
- Tokenization of financial and real-world assets could reach as much as $5 trillion by 2030, according to a recent report by Citigroup, with another $5 trillion moving into new types of money such as central-bank digital currencies and stablecoins. This forecast is backed up by a recent EY-Partheon survey of institutional investors, which showed that 93% of respondents believed in the long-term value of blockchain technology and/or digital assets, and a further 69% expect to increase their allocations to digital assets and/or related products in the next 2-3 years.
- Yet the same EY-Partheon survey also shows that "regulatory clarity and oversight," and "proven and trusted financial entities to interact with," are two of the most important factors when making a significant investment in digital assets.
- This need for "proven and trusted entities" has prompted many traditional financial industry players, including stock exchanges, to show an interest in launching digital assets and opening into new markets. At the same time, regulators have stepped up – in Europe at least – in an effort to bolster the "regulatory clarity and oversight" shortcoming. How can stock exchanges successfully position themselves in the face of these significant transformations and forthcoming competition?
- Facing down the competition; Bloomberg recently reported an increased level of activity relating to digital securities amongst regulated markets: JPMorgan Chase & Co. expanded its blockchain-based payments platform to include euros and potentially its asset tokenization platform; Goldman Sachs Group Inc. plans to increase the issuance of tokenized securities through its digital-asset platform; BlackRock Inc. and Fidelity Investments have both applied for Bitcoin exchange-traded funds; and a cryptocurrency exchange backed by the likes of Citadel Securities, Fidelity, and Charles Schwab Corp. was recently launched.
- In the face of this new competition, stock exchanges need to stay relevant whilst they find themselves in the midst of an interesting inflection point: exchanges are hampered by their often expensive and legacy technology powering their current markets. Introducing the necessary changes to be able to support new markets based on digital securities is often met by high risk, prolonged times to market and extremely costly implementation projects that slow down innovation, giving the competition unintended advantages.
- Nevertheless, these exchanges are usually the dominant marketplace in the region, an advantage they should fully capitalise on. This is resulting in exchanges now rethinking and reevaluating their strategies. They need to try to find ways to reach either retail investors more directly, or those segments of the market which today are typically not members on the main market.
- Introducing MiCA; In June 2023, digital assets in Europe fell under a brand new regulatory regime via the publication of the Markets in Crypto Assets ('MiCA') regulation. A phased implementation period of MiCA is now underway, in which time ESMA will begin publishing implementation guidelines and go through consultation processes over the next 12 months. Rules will start applying for stablecoins (asset-referenced and

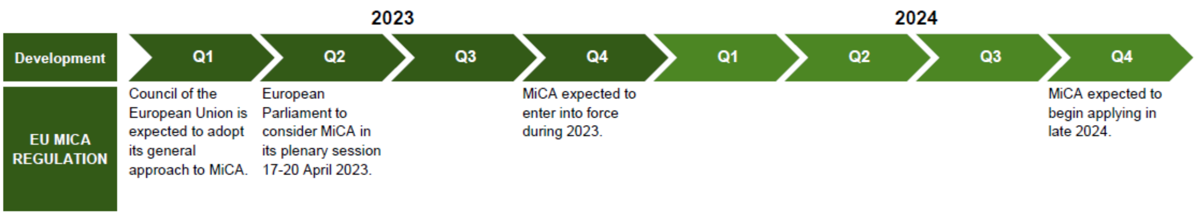
e-money tokens) in June 2024, and for other tokens and service providers in December 2024.

- MiCA defines a crypto asset as "a digital representation of value or rights which may be transferred and stored electronically, using distributed ledger technology or similar technology." The regulation, therefore, draws a distinction between 'cryptocurrencies' on one hand and 'tokens' on the other. In other words, MiCA covers the full gamut of digitised or tokenized securities, but excludes non-fungible token (NFTs).
- MiCA will require that the provision of services in crypto assets can only be performed by authorised crypto-asset service providers (CASPs), which include the operation of trading platforms for crypto assets. MiCA will also apply additional requirements to a separate category of "significant" CASPs (i.e. providers with at least 15 million active users annually in the EU), which will be obliged to report to ESMA on key supervisory developments. Authorised crypto-asset service providers will be able to passport their services cross-border in all EU jurisdictions.
- CASPs will be subject to market abuse rules around insider dealing, unlawful disclosure of inside information and market manipulation. Investor protection rules will also have an impact: according to analysis by Sygna, for crypto assets with no issuer (such as Bitcoin), trading platforms will need to outline potential risks. Exchanges will not only be liable for misleading content, but for any potential hacks or preventable outages to the platform itself. Moreover, CASPs will be required to make available any data around environmental impacts of assets.
- While the finer details still need to be ironed out in the Regulatory Technical Standards (RTS), entities nevertheless have begun preparations to beat the rush of obtaining a licence authorising the provision of crypto-asset services. What's more, many national competent authorities are offering regulatory sandboxes to support such initiatives. So how can established exchanges capitalise on the possibilities MiCA offers?
- Opportunities of tokenization: a plethora of possibilities; What MiCA introduces is the possibility for exchanges to get engaged in the newly created regulated marketplace around crypto assets. Tokens of private-sector securities and funds could span everything from corporate debt and financing collateral to alternative assets such as real-estate, private equity and venture capital.
- Fractional trading is one example of interesting possibilities that MiCA opens up. There are currently many barriers to access to the main institutional markets, particularly around derivatives and futures; for example, traders traditionally must have an account with the ability to handle initial margins and variation margin of several million USD. There is potential lucrative merit, therefore, in stock exchanges offering fractional shares of existing established securities to open derivatives markets to new entrants wanting to trade with lower risk profiles.
- Similar opportunities also exist around the opening of new markets in collectibles or prediction markets and new types of pre-IPO capital raising platforms. There is also interest in the potential of developing more secure and regulated secondary trading of unlisted shares, options schemes and warrants to provide employees a way to trade out of owned options.
- Overcoming legacy tech constraints; Whilst the potential of opening novel types of markets is promising, traditional stock exchanges lumbered with legacy technology may baulk at the time and expense that transforming internal systems might require. Therefore, exchanges need to keep themselves up to date with the latest technologies to serve these new customer bases. Adding a new type of asset class requires technical

changes to support more decimal places or trading outside of traditional hours, for example, or the provision of new avenues for market access, such as a mobile app.

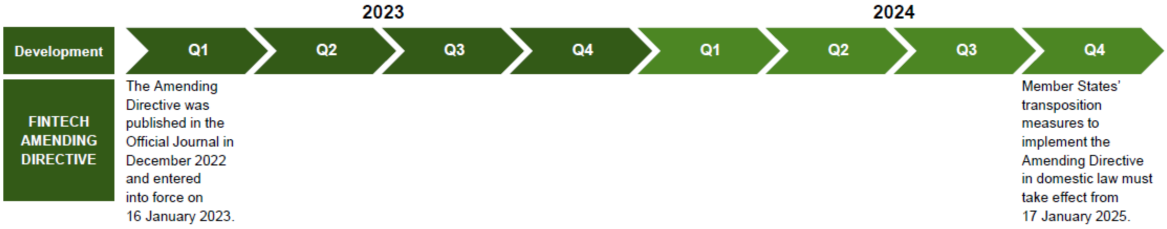
- Innovative technologies developed with regulated markets in mind are now readily available, which means exchanges are now able to quickly introduce new initiatives to launch supplementary markets at a fraction of the total cost of ownership. By partnering with a technology vendor that allows rapid testing and adaption of new ideas at a fraction of the time, exchanges then have the confidence to migrate existing products onto a new technology ecosystem, and even eventually decommission existing legacy technology.
- First-mover advantage; In terms of launching different types of assets and opening up into new markets, the time to consider the impact of MiCA is now. Focus should be given on how real-world assets can be represented by digital tokens to create trading efficiencies and develop new opportunities that smart contracts and (where beneficial) blockchain offer.
- To take advantage, exchanges need to start designing suitable operating models and checking that their technology is updated to ensure compliance with the regulations' detailed provisions. Those exchanges who can take the initiative and finally take part in a regulated crypto ecosystem now have an incredible opportunity to gain first-mover advantage and propel business growth.

EU MICA REGULATION



- The European Parliament and the Council reached political agreement on the text of MiCA in October 2022. The European Parliament is expected to vote on the Regulation at its plenary session in April 2023.
- Once adopted, MICA will enter into force 20 days following its publication in the Official Journal of the European Union.
- MiCA's provisions related to stablecoins ('Asset Referenced Tokens' and 'E-Money Tokens') will apply 12 months after MiCA enters into force, with the remainder of its provision (covering other cryptoassets) will apply 18 months after MiCA enters into force.

FINTECH AMENDING DIRECTIVE



- The Amending Directive (EU) 2022/2556 of 14 December 2022 supports the DORA Regulation (see slide 35) as part of the EU's Digital Finance Strategy.
- The Amending Directive makes amendments to various sectoral Directives to ensure that their requirements on operational risk and risk management are cross-referenced to the DORA Regulation. The objective is to ensure legal certainty and clarity for financial services entities as to the relevant requirements for the operational resilience of their digital operations against information and communication technology (ICT) risk.
- Member States must amend their national law implementing the following Directives to transpose the provisions of the Amending Directive: UCITS Directive; Solvency II Directive; AIFMD; Capital Requirements Directive; Bank Recovery & Resolution Directive; MiFID II; PSD2; and IORP Directive.
- Provisions in the original proposal for the Amending Directive that proposed amendments to MiFID II to allow derogations from MiFID II requirements for DLT market infrastructures that have permission under the DLT Pilot Regulation (a related initiative under the EU's Digital Finance Strategy) were not carried through into the final version of the Amending Directive.
- •Member States' transposition measures to implement the Amending Directive in domestic law must take effect from 17 January 2025.

EU AI ACT

- The Commission published a proposal for a Regulation on artificial intelligence (AI) in April 2021. The proposed 'AI Act' sets out rules relating to the placing on the market, putting into service and use of AI systems in the EU, as well as transparency requirements and rules on market monitoring and surveillance.
  - The rules will apply proportionately on the basis of four different risk levels: unacceptable risk, high risk, limited risk, and minimal risk.
  - AI uses that are deemed to present unacceptable risk will be prohibited. High risk systems and their operators will be subject to the detailed requirements in Chapter 2 of Title III of the proposed Regulation. Limited risk systems will be

subject to transparency requirements. Minimal risk systems will be dealt with by development of and adherence to voluntary codes of conduct.

- It is intended that the AI Act will not apply to private, non-professional use of AI. Otherwise, it will apply to all sectors including financial services. The measures in the proposed Regulation will extend to providers and users of AI systems located in the EU as well as those based outside the EU to the extent the output produced by the system is used in the EU.
- Financial institutions looking to launch or use AI will need to analyse the extent to which they qualify under the AI Act as providers or users of AI systems and comply with the associated requirements according to the risk classification of the system.
- The Council agreed its general approach on the proposal on 6 December 2022 and is ready to begin negotiations with the European Parliament.
- The proposal is being considered by two committees of the European Parliament. A draft Report was published in April 2022 and has gone through a number of amendments in Committee. This legislative proposal has attracted feedback from a wide variety of stakeholders. A vote on the Report is yet to be scheduled.

Sanctions

OFSI amends General Guidance; *Amendment to General Guidance Section 6.12;* On 26 July 2023 OFSI amended Section 6.12 of the General Guidance relating to options available following a rejected licence application. The amendment removes the option to request from OFSI a review of its decision.

Consolidated Sanctions List:

- PDF - v.1.0
- CSV - v.1.0
- CSV - v.1.1
- XML (Based on XSD) - v.1.1
- XML (Based on XSD) - v.1.0

Conduct / Enforcement / Reporting

BNP Paribas to Settle SEC, CFTC Probes Over Use of Banned Messaging Apps; The French bank said it has reached proposed resolutions with the regulators; BNP Paribas said the U.S. Securities and Exchange Commission and the CFTCare investigating it over its employees' use of messaging applications that broke record-keeping rules. The French bank and its broker-dealer division have reached proposed resolutions with the respective regulators to resolve the probes, BNP Paribas said in its second-quarter earnings report that became public Thursday. The proposed resolutions are subject to approval by the CFTC and SEC, the bank said. /jlne.ws/3ObzXEe

UK FCA adds more fields for transaction reporting The UK FCA is adding additional temporary measures for reporting under the UK Markets in Financial Instruments Regulation, expanding the reporting field to include securities financing, commodity derivatives, waivers, and OTC post-trade indicator fields. The FCA says it also plans to update the reporting scheme in MiFIR, so the waiver and OTC post-trade indicator fields include all alphanumeric values. Global Investor

From: Markets Reporting Team <marketsreportingteam@fca.org.uk> / **Sent:** Thursday, July 27, 2023 12:16 PM / **To:** Markets Reporting Team <marketsreportingteam@fca.org.uk> / **Subject:** Statement - Supervisory flexibility on transaction reporting

- Dear all, We wanted to make you and your members aware we have just published a statement which confirms we are putting in place temporary measures for the reporting of the waiver indicator, OTC post-trade indicator, commodity derivative indicator and securities financing transaction indicator fields while we consider changes to the UK transaction reporting regime.
- We will also be disabling transaction reporting validation rules CON-610 and CON-640 from September 2023.
- This follows our previous statement on the reporting of the short selling indicator and the action we took in Handbook Notice No.96 to exclude securities financing transactions from transaction reporting under UK MiFIR.
- We will also be updating the UK MiFIR transaction reporting schema in due course to enable reporting of all alphanumeric values in the waiver indicator and OTC post-trade indicator fields. This change will allow firms to report the new trade reporting flags introduced in PS23/4 in their UK MiFIR transaction reports.
- Please feel free to contact mrt@fca.org.uk if you have any questions.

The FCA has published its latest newsletter, Market Watch 74, and once again has used it to draw firms' attention to common transaction reporting errors. *This Market Watch is of particular interest as it tackles several issues not highlighted in the past, as well as reminders for some more familiar issues.*

- **MDP data;** Despite the number of firms downloading data from the regulator's Market Data Processor (MDP) showing a steady increase year-on-year, the FCA has reminded firms of their legal obligation to reconcile their records to MDP data and note that they have contacted firms who haven't done so.
- Not all EU NCAs make this as straightforward as the FCA, and the legal obligation remains to reconcile front office records to the latest point at which the data is available, be that from the ARM or NCA.
- However, despite the increase in the number of firms accessing their data from the MDP there has been a fall in the number of firms raising errors and omission forms. This is somewhat surprising and contrary to our experience at Kaizen where although quality

is – as noted by FCA – improving, many firms are still finding and resolving issues dating back to MIFIR go-live in 2018, resulting in costly and time consuming replay exercises.

- Identification of IDM and EDM; There has not been much written guidance here from NCAs in the past as to "who" firms should populate in this field. The FCA has given some clarity and suggests that an individual named in either of these fields should have more than "limited practical involvement in those decisions at a transaction level."
- Complex Trades; The ESMA guidelines here have always, in our opinion, been clear but the FCA has reminded firms that reports linked by a Complex Trade ID should be reported with the same price. The regulator has also reminded firms that adherence to ESMA guidelines is still expected.
- Transmission Agreements; When is an agreement not an agreement, or perhaps when is an arrangement not an arrangement, those are the questions…
- The legislation is not prescriptive, but the receiving firm needs to populate its report with data received from the transmitting firm. This, in itself, implies that the transmitting firm has to seek some assurance that the "receiving firm" has a mechanism in place to take this data and will make the necessary reports to ensure its obligation to report will fall away under Article 4.
- Unfortunately, some firms relying on Article 4 didn't get that assurance and have therefore not been making the correct transaction reports.
- Transmitting firms must make certain they have evidence of the provisions in place with their receiving firms to benefit from Article 4.
- Inconsistent Price & Quantity Notation; The devil is in the detail here but there should be no excuse for firms not reporting the majority correctly. ESMA/FCA validation rules will only prevent some of common errors. ESMA also mentioned price discrepancies reported for CDS in its recent Data Quality Report albeit from a slightly different angle.
- TVTIC on Negotiated Trades; The FCA has clarified this is an optional field where the trade is bought under the rules of the venue.
- Chains; The FCA has clarified the reporting of the Fund Manager and not the Fund, and the subsidiary and not the client of the subsidiary.
- Fields 42 – 56; The regulator has reminded firms of the importance of getting supplementary instrument data correct where an ISIN is not used in Field 41. They have commented on this several times in previous editions of Market Watch.
- Could it happen here? Following the arrival of any Market Watch, best practice dictates that firms now take steps to reassure their Senior Managers that all is well and that these errors wouldn't, couldn't, or shouldn't, be happening on their watch.
- In Market Watch 74, the FCA makes it clear that firms should heed their warnings: "….some firms are not paying sufficient attention to our warnings on the importance of reporting transactions to us in a complete, accurate and timely manner." And: "We may conduct further work on the areas covered in our Market Watch articles to ensure appropriate remedial actions are undertaken by firms." Perhaps firms would be wise to read "may" as "will".

Market Watch 74; Newsletter on market conduct and transaction reporting issues; July 2023

- About this edition
- Transaction reporting
- Instrument reference data

- Next steps
- *Noting this #MW74, but not sure that it contains anything that will be news to firms. Comments welcome if it raises any points of interest …*
- *Same message on requesting submitted transaction reporting breach notifications as ever, with FCA checking on the frequency of requests.*
- Identification of Investment and Execution Decision Makers; *nothing here to suggest that the FCA seeks broker PIId or would consider the that any IDB staff is making an investment or execution decision [NORE]*
- Complex trades; *single price only, and linking of trades per ESMA guidelines -- as per usual.*
- Inconsistent price and quantity notations; *seeks the establishment and common uptake of market standards -- as per usual.*
- Looking through the chain; *highlights that an intrafirm/affiliate trade creates the first counterparty, don't look through -- as per usual.*
- Reporting instrument details; *clarity on what the expiry date means and actually is, common question for derivatives and used to be widely wrong pre-2020 but not nowadays.*
- Instrument reference data
    - Late reporting; *Trading venues and SIs should have adequate systems and controls in place to detect late reporting. -- as per usual*
    - Spot FX instruments; *cites TVs reporting spot trades, but likely its actually SIs, an old issue [and opposite to the CFTC approach icymi]*
- Transaction reports continue to play a key role in our ability to conduct effective market oversight. There has been a trend of improved data quality since 2018. But issues persist, and some firms are not paying sufficient attention to our warnings on the importance of reporting transactions to us in a complete, accurate and timely manner.
    - In this Market Watch, we describe some of our recent supervisory observations, covering RTS 22 transaction reporting and the submission of financial instrument reference data under RTS 23.
    - These will be of interest to investment firms, credit institutions, trading venues, systematic internalisers (SIs), and approved reporting mechanisms (ARMs).

- Transaction reporting
- Reconciliations and breach notifications
    - Table 1 shows the number of firms accessing our Market Data Processor (MDP) Entity Portal to make a transaction reporting data extract request since 2018.

Table 1

Year	Firms making data extract requests
2018	451
2019	630
2020	677
2021	716
2022	745

- We recently identified and contacted certain firms who have not been making regular data extract requests.
    - Some were not aware of the MDP Entity Portal, while others responded that they were relying on data extracts provided by ARMs to conduct their reconciliations.
    - Firms are required to reconcile front-office records with data samples provided by the FCA under Article 15(3) of RTS 22.
- Table 2 shows the number of firms that submitted a transaction reporting breach notification to us each year since 2018. These notifications are required by Article 15(2) of RTS 22 and SUP 15.3.11R.

Table 2

Year	Firms submitting breach notifications
2018	383
2019	428
2020	417
2021	385
2022	346

- Under Article 26(7) of UK MiFIR, where errors or omissions are identified in transaction reports, the firm reporting the transaction must cancel the report and submit a new corrected report to us.
    - Firms should be aware of validation rule 269, which rejects transaction reports submitted more than 5 years after the trade date and consider this when planning back reporting exercises.
    - Errors and omissions notifications should still contain details of when an issue first occurred and the number of transaction reports affected, even if this extends beyond 5 years.
    - We do not expect firms to cancel transaction reports which have a trade date 5 years older than the submission date.

- Identification of Investment and Execution Decision Makers
- Where more than one person or algorithm is involved in an investment or execution decision, the person or algorithm taking primary responsibility for the decision should be identified in the transaction report. Article 8(2) and Article 9(4) of RTS 22 require firms to establish pre-determined criteria for determining who is primarily responsible for making investment and execution decisions.
- We have identified a range of practices from firms where a natural person is assigned responsibility for an investment or execution decision. Some identify the individual trader, investment manager or portfolio manager making the investment or execution decision at a transaction level. Others have identified a head of desk, head of trading, or other senior manager overseeing a team responsible for making investment and execution decisions.
- Our market monitoring capabilities are best supported by granular information on individuals or algorithms making specific investment or execution decisions. We recognise that in some scenarios, judgement may be needed to determine primary

responsibility. However, we challenge firms to consider whether it is appropriate to assign primary responsibility to senior management within the firm who oversee investment or execution decisions but have limited practical involvement in those decisions at a transaction level.

- Complex trades
- We have identified transaction reports submitted for spread trades which do not conform to the ESMA transaction reporting guidelines as a complex trade, involving a simultaneous buy and sell of 2 (or more) instruments quoted at a single price, typically a spread between the yield of the 2 instruments in basis points.
- Example 117 in the guidelines shows that a single price must be populated in field 33 for a complex trade, and that individual transaction reports submitted for each leg of the complex trade should be linked by the same complex trade component ID in field 40. We have seen complex trades misreported with individual prices in each constituent transaction report. This approach is inconsistent with the guidelines. We expect firms and market participants to continue to apply ESMA guidelines and recommendations to the extent that they remain relevant.
- Transmission agreements
- Under Article 26(4) of UK MiFIR and Article 4(1)(c) of RTS 22, where certain predefined conditions are met, including an agreement between the 'transmitting firm' and the 'receiving firm', the transmitting firm is relieved of the requirement to submit a transaction report. This is because the report submitted by the receiving firm contains all necessary information on the transaction. This information includes the client of the transmitting firm being identified as the buyer or seller, the receiving firm identified as the executing entity, and the transmitting firm identified in the transmitting identification code for the buyer or seller fields.
- We recently contacted some investment firms who had failed to submit transaction reports to us. Some responded to our enquiries claiming they were a transmitting firm, and that reporting was being undertaken by a receiving firm. We contacted those receiving firms, some of which advised that no transmission agreement was in place. We encourage all transmitting and receiving firms to review the transmission arrangements they have in place to ensure all relevant conditions outlined in Article 4 of RTS 22 are being met and the agreements can be evidenced.
- Inconsistent price and quantity notations
- We have identified inconsistencies in the notations reported by investment firms for the price and quantity fields. In cases other than where a specific price or quantity type is required for the instrument traded (for example, credit default swaps (CDS) - price in basis points; equity - quantity in units), firms may determine the most appropriate notations to report. We urge firms to follow market convention when determining which notation to use. Where possible, firms should ensure that the notations selected are consistent with those reported by their counterparties. We have identified cases of the same transaction being reported using different price or quantity notations by firms facing one another. For example, one side using a monetary price and the other using a basis point price.
- Transactions executed under the rules of a trading venue.
- We have received queries on how to populate the venue (field 36) and trading venue transaction identification code (TVTIC) when reporting transactions negotiated off-exchange and brought under the rules of a trading venue. In such cases, both parties

are expected to report the market identifier code (MIC) of the trading venue. This is covered in section 5.4 Part I of the ESMA Guidelines on transaction reporting. The TVTIC (field 3) is optional for these transactions.

- Looking through the chain
- We do not expect firms to look through a chain of intermediaries in scenarios other than the transmission of orders meeting the conditions of Article 4 of RTS 22. Some firms have misidentified funds as the buyer or seller in transaction reports when dealing with a fund manager. Similarly, where a firm executes a transaction with an intragroup subsidiary, the firm should not identify the subsidiary's client as the buyer or seller, even where those details are known to the firm. This is important to ensure consistency in transaction reporting and the identification of all relevant parties within a chain.
- Reporting instrument details
- For transactions in financial instruments where instrument details must be populated in fields 42-56, we have seen variable data quality issues. Some of the issues are:
- Price multipliers which do not reflect an accurate number of underlying instruments for the derivative transaction, most often for contract for differences (CFDs).
- Unreported expiry dates, default expiry dates, and expiry dates which precede the trade date of the transaction.
- Classification of financial instrument (CFI) codes which are inconsistent with the instrument name or other instrument details.
- Firms must make sure these fields are complete and accurate as we rely on them to identify the nature and attributes of the instrument traded.
- Instrument reference data
- Late reporting
- Under Article 2 of RTS 23, trading venues and SIs must submit instrument reference data to us by 21.00 CET on each day they are open for trading for all financial instruments admitted to trading or that are traded on their platforms before 18.00 CET on that day.
- Some trading venues and SIs are not successfully submitting data within this timeframe. This impacts the ability of investment firms to submit transaction reports executed on trading venues or with Sis. In the case of late reporting by trading venues, it can prevent investment firms from completing an accurate assessment on the reportability of the financial instrument. Trading venues and SIs should have adequate systems and controls in place to detect late reporting. And in such cases, they should promptly submit an instrument reference data errors and omissions notification to mrt@fca.org.uk.
- Spot FX instruments
- We have identified trading venues submitting instrument reference data for spot FX instruments. Spot FX is not a financial instrument under the UK MiFID framework. The submission of reference data for spot FX instruments can therefore mislead investment firms as to the scope of their reporting obligations. This includes where they are traded as part of a complex trade or strategy. Trading venues should ensure reference data is not submitted to us for instruments that are not MiFID financial instruments.
- Cancelled instrument reference data.
- When instrument reference data is submitted to us in error, it should be cancelled by the submitting entity. This includes where instrument reference data is submitted for spot FX instruments. When an instrument reference data record is cancelled, it will remain in

the FCA Financial Instrument Reference Data System (FCA FIRDS) but display as a blank record, except for the instrument identification code, trading venue and publication dates. Investment firms should disregard these products when seeking to determine the reportability of an instrument.

SEC finalizes cybersecurity disclosure rules; On Wednesday, the Securities and Exchange Commission adopted final rules and amendments requiring public company registrants to disclose material cybersecurity incidents and to make certain disclosures regarding their cybersecurity risk management, strategy and governance on an annual basis. Specifically, the final rule requires:

- Registrants to describe:
    - The nature, scope, timing, and impact of any material cybersecurity incident on Form 8-K
    - Their processes for assessing, identifying and managing material cybersecurity risks as well as any material impact from previous incidents on Form S-K
    - The board of directors' oversight of cybersecurity risks and management's role and expertise in assessing and managing material risks on Form S-K
- Foreign private issuers to furnish information on material cybersecurity incidents that they make or are required to make public or disclose in a foreign jurisdiction on Form 6-K
- There were a number of key changes from the March 2022 proposed amendments including:

- The SEC clarified that there is no deadline for determining the materiality of a cyber incident, as long as it is not an unreasonable delay following discovery. However, once such a determination of materiality is made, the incident must be reported in Form 8-K within four business days.
- Disclosure of material cyber incidents may be delayed if the US Attorney General determines and notifies the SEC that immediate disclosure would pose a substantial risk to national security or public safety (in the proposed amendments there were no exceptions from the four-day filing requirement).
- The proposed rule required disclosure when a series of previously undisclosed individually immaterial cybersecurity incidents become material in the aggregate. Instead, the final rule clarifies the definition of cyber incident as including a series of related occurrences. If a company determines that it is materially affected by a series of related occurrences — such as incidents related to the same threat actor or multiple actors exploiting the same vulnerability— the 8-K incident reporting would be required, even if each individual occurrence is immaterial.
- Removal of the proposed requirement to disclose the names of any board member with cyber expertise.
- The material incident disclosure requirements would be effective on or after December 18, 2023 (smaller reporting companies have a 180-day deferral). Disclosures for risk management, strategy and governance would be effective for all registrants for fiscal years ending on or after December 15, 2023.
- This rule will pose numerous challenges for publicly traded US companies, which must soon make new disclosures pertaining to material incidents, cyber risk management,

strategy and governance. Most large financial institutions are already facing growing cybersecurity risk management expectations from regulators, including the Fed and OCC, but having to publicly describe their programs in greater detail may spur them to further shore up their defenses.

- This new disclosure regime will expose companies' cybersecurity programs to comparison with their peers and scrutiny from investors. Accordingly, financial institutions will need to not only consider standards from their primary regulators, but where their policies, procedures, risk assessments, and controls stand against industry leading practices.
- They will also need to develop or update policies and procedures for determining materiality of cybersecurity incidents and the details they should disclose with coordination across security, finance, risk and legal teams as well as, when needed, key business leaders. In particular, they will need to be prepared to make timely determinations of whether certain disclosures could exacerbate security risks or publicize vulnerabilities.
- In addition, as they prepare to describe their oversight role in annual disclosures, financial institution boards should take note that regulators and investors expect them to take an increasingly active oversight role when it comes to cybersecurity matters. Although they will no longer be required to disclose specific names, firms should still consider either having a board member with cybersecurity expertise or having consistent access to independent subject matter experts for educational sessions or consultations. They should also make sure they are kept abreast of the information to be disclosed, assess the content and frequency of information they receive on cybersecurity risks, and make sure members are able to effectively challenge management's identification and management of such risks.

FMSB Publishes Conduct Management Review; *The Financial Markets Standards Board (FMSB) has published a Spotlight Review on Conduct and Culture Management Information (MI). The paper provides insight, on an aggregated and anonymised basis, on how 24 major global financial firms source and deploy their MI.*

- Oliver Wyman's Olivia Richards chaired the working group that published the report, the group is made up of participants from across the wholesale markets. It is designed for their use and will equally aid board members and executives as well as risk and compliance teams in the financial industry, FMSB says.
- The report observes that most firms have established MI around known areas of misconduct and sources of risk. Root causes were then addressed including both operational and behavioural weaknesses, and organisation-wide risk management frameworks were expanded and supported by extensive new oversight committee structures as well as dedicated conduct reporting.
- The report says the early, accelerated pace of development of conduct risks metrics has shifted to more broadly include culture and behaviour. It adds that dashboard metrics most popular with management are those dealing with controls, breaches and sanctions. Some firms are content to maintain hundreds of metrics prepared to suit individual audiences. External information like complaints or some social media feeds are now included along with limited amounts of newly created data to address organisationally-specific issues, FMSB says, adding taxonomies are well-developed and

analysis is progressing to include more advanced, potentially predictive measures. “However, reporting remains comprised of a patchwork of regional and function-specific initiatives rather than a singular, more cohesive approach for the firm as a whole,” the report states.

- The review provides three stages of development for reference and reflects on progress on various aspects of oversight such as: outcomes-focused rather than just rule adherence, targeting specific behaviours for change; sophistication of analytics and implementation of change; and interpersonal development programmes. “Most firms are spread across Stages 1 and 2 with a few firms now exploring Stage 3,” the report states. “Organisations are beginning to explore how best to support staff at large to demonstrate good behaviour as the norm. This is recognised as an emerging area of potential competitive advantage.
- The report observes that the word ‘behaviour’ can often substitute for ‘culture’. This serves more readily to focus attention on specific behaviours, topics and goals than the general concept of culture.
- “Having established the boundaries of current practice, firms can now more confidently self- assess their relative progress and prioritise next steps in what will be a continuous, long-term effort to foster and maintain a healthy culture,” the report states. “Conduct and culture is not an exact science and metrics can most usefully be thought of as sources of insight into behaviour rather than measurement like a thermometer.”

- For the founding research, some 24 firms provided a submission covering the following topics with many also providing redacted dashboard reports:

    - Overall strategic drivers
    - Management Information (MI) governance detail
    - Data sources and collection
    - Approaches to modelling data
    - Conduct and culture reporting and decision-making
    - Integration with broader conduct risk processes, and
    - Overall assessment and future priorities

- “My thanks go to the industry players who came together as FMSB members to create this Spotlight Review,” says FMSB CEO Myles McGuinness. “The excellent analysis was carried out with support from Oliver Wyman’s team. We are grateful to all firms who submitted their responses to enrich our collective knowledge.”
- Richards adds, “Firms are looking to tie product-driven P&L metrics to conduct metrics to derive better insights. It is good to see that they are also looking to improve measures of culture and make a meaningful move toward ‘carrots’, understanding that there needs to be a more balanced approach which aims to understand and support the positive sides of behaviour.”
- Finally, Standard Chartered’s Tracey McDermott, who is chair of FMSB’s conduct and ethics committee, says, “We have made substantial progress from where we all started on conduct and culture some years ago. This work provides insight from FMSB market practitioners on our collective progress; highlights ongoing challenges and the opportunities we now have to drive this agenda forward to ensure we bring about enduring changes in culture and behaviour.”

On 28 July 2023, the FCA published the following Instruments:

- Financial Resilience Reporting (No 2) Instrument 2023.
- Technical Standards (Electronic Reporting Format) Instrument 2023.
- Disclosure Guidance and Transparency Rules Sourcebook (Electronic Reporting Format) Instrument 2023.
- Handbook Administration (No 66) Instrument 2023.

On 27 July 2023, the FCA updated its webpage on Securitisation in relation to an upcoming consultation. *The webpage has been updated to include the following text:*

- 'On 7 August 2023, we'll publish a consultation paper (**CP**) setting out our proposed rules to replace the firm-facing provisions from the UK Securitisation Regulation (**UK SR**) which are being transferred into our Handbook.
- This CP should be read alongside the Treasury's near-final draft of a Statutory Instrument, which will keep part of the UK SR in new legislation. Supervisory responsibility for the UK SR is currently shared primarily between us and the Prudential Regulatory Authority (**PRA**).
- The PRA has published its own CP on proposed rules to replace firm-facing requirements in the UK SR, which it has supervisory responsibility for'.

FCA, BoE and PRA publish joint Policy Statement: Complaints against the Regulators; *On 27 July 2023, the FCA, Bank of England (**BoE**) and Prudential Regulation Authority (**PRA**) published a joint Policy Statement, PS23/12, PS10/23: Complaints against the Regulators.*

- The FCA, PRA and BoE (the **Regulators**) have a joint Complaints Scheme (the **Scheme**) under the Financial Services Act 2012. The Scheme covers the complaints procedures for the Regulators and also describes the role of the independent Financial Regulators Complaints Commissioner.
- In July 2020, the Regulators launched a consultation with the aim of proposing a revised Scheme that was more user-friendly, using plain language to make it more understandable. This was in part a response to recommendations made by the former Complaints Commissioner to consult on improving the Scheme and, in particular, to clarify the Regulators' approach to compensatory payments. This joint Policy Statement sets out the Regulators' response to the feedback received to the consultation and details of the final changes to the Scheme which are being introduced.

- **Consultation feedback;** The feedback to the consultation included the following:
  - A large proportion of respondents did not support all the proposals concerning compensatory payments in recognition of financial loss. In particular, the proposals to introduce limits on compensatory payments, save for exceptional circumstances, were not welcomed. Several of the more detailed responses, mainly from organisations, also raised objections to the use of the 'sole or primary' cause condition when considering a payment in recognition of financial loss.

  - Respondents were generally supportive of the proposals in relation to compensatory payments for non-financial loss. Some respondents expressed the view that the Regulators should keep the levels under review.
  - The Regulators received supportive overall feedback about the language being more understandable than the language in the current Scheme. Respondents told the Regulators that the diagrams proposed in the consultation were a useful addition.
- Final changes and implementation; The Regulators have made changes to the proposals to reflect the feedback received where they agreed it would improve the accessibility of the revised Scheme and help to clarify the Regulators' approach to compensatory payments. The revised Scheme will come into force on 1 November 2023.

FCA published new webpage: Changes to application forms accessed via connect; *On 27 July 2023, the FCA published a new webpage: Changes to application forms accessed via connect.*

- The webpage provides that, the FCA is reviewing and updating authorisations application forms to:
  - Make it quicker and easier for firms to apply to the FCA for authorisation.
  - Help the FCA capture the information it needs.
- The first new form the FCA will be releasing will be Form A – one of the longest and most common forms, used for Senior Management Functions and Controlled Functions applications.
- The new Form A will be launched in the coming months and will be accessible via Connect.

Firms Need More FCA Help Complying With Consumer Duty The City watchdog's landmark consumer protection regime for financial services launches Monday after months of compliance warnings that it will intervene firmly where businesses get it wrong. And now lawyers are worrying that many of the companies risk early enforcement action unless the FCA helps to clear up ambiguities buried in the new rulebook. Read full article » |

NatWest saga shows running a bank is more of a high-wire act than ever; The Farage row suggests political intervention will continue until banking governance becomes more muscular' The financial crisis of 2008 turned banking into a highly political business, guaranteeing the sustained interest of governments and their arm's length bodies. Especially in the UK, where the now discredited light-touch regulation was once an article of faith, the authorities have stepped in whenever they suspect weak governance. This turns running a bank into a high-wire act where the rich rewards for senior executives are accompanied by the risk of very public humiliation. /jlne.ws/3OaKDTG

- NatWest chair to stay as lawyers appointed to probe Nigel Farage row; UK bank has been embroiled in a clash with former Ukip leader over closure of his Coutts account' NatWest chair Howard Davies has vowed to continue leading the bank, in spite of pressure from shareholders, after appointing a law firm to probe the closure of Nigel Farage's account. The bank has been under intense scrutiny following an inaccurate report that Farage's account at NatWest's Coutts brand was closed for purely commercial reasons. The widening scandal has led to the chief executives of NatWest and Coutts resigning over their handling of the affair. /jlne.ws/43Ky3jt

- NatWest Launches Investigation Into Farage Account Closure; NatWest Group PLC said Friday that it has appointed law firm Travers Smith LLP to conduct an independent review into why a subsidiary closed the account of former politician Nigel Farage, in line with expectations set out by the FCA. Read full article » |

Mark Johnson Seeks to Have Conviction Overturned; Former HSBC FX trading head Mark Johnson has petitioned the US Eastern District Court of New York to have his conviction for wire fraud set aside "to achieve justice". Johnson was found guilty of wire fraud by a jury in 2017 and lost a subsequent appeal and a submission to have his case heard by the US Supreme Court - he served a two-year sentence, including an extended period in a US jail. /jlne.ws/3Ob77nh

Credit Suisse Fined for Archegos Failures; *Three regulators have completed their actions against Credit Suisse for its risk management failures around the Archegos episode, which cost the bank over $5 billion. Credit Suisse was rescued by UBS, with the encouragement of local authorities, earlier this year – UBS has agreed to pay fines to UK and US authorities.*

- The US Federal Reserve has fined the bank $268.5 million for “misconduct” and “unsafe and unsound” credit risk management procedures, while the UK’s Prudential Regulatory Authority (PRA) has fined the bank GBP 87 million (reduced due to cooperation) in relation to the activities surrounding the collapse of Archegos which defaulted on a huge total return swap position in March 2021. Nomura, Morgan Stanley and UBS were all caught up in the collapse.
- Local Swiss regulator FINMA has not levied a fine on the bank, rather in a release it says it has “concluded proceedings” against the bank and ordered corrective measures from its new owner, UBS. FINMA has also commenced proceedings against an unnamed former Credit Suisse manager.
- The US Federal Reserve says its board requires Credit Suisse to improve counterparty credit risk management practices and to address additional longstanding deficiencies in other risk management programs at its US operations, which is where the key prime brokerage relationship with Archegos existed.
- For its part, the PRA’s CEO and deputy governor for prudential regulation, Sam Woods, says, “Credit Suisse’s failures to manage risks effectively were extremely serious, and created a major threat to the safety and soundness of the firm. The seriousness and widespread nature of those failures has led to today’s fine, which is the largest ever imposed by the PRA.”

IOSCO reports on compliance carbon markets; *The Board of the International Organization of Securities Commissions (ISOCO) has published a final report on compliance carbon markets (CCMs).*

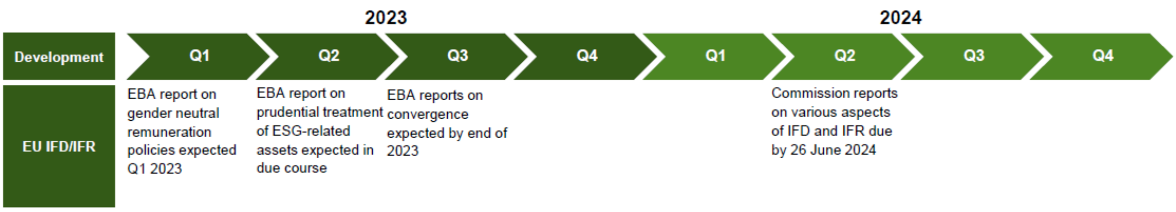
- The report examines the specific characteristics of CCMs compared to traditional financial markets and sets recommendations intended to make markets efficient and function with integrity. The recommendations are addressed to relevant authorities to allow for the flexibility jurisdictions and regulatory authorities need in order to be consistent with their legal mandates as CCMs are established in their jurisdictions.

- The recommendations relate to:
  - the transparency and predictability of primary market decisions and market structures for primary markets;
  - allowance allocation mechanisms, market stability mechanisms and primary market access; and
  - market integrity, transparency and structure at the secondary market level.

- The report also includes a selection of applicable IOSCO Objectives and Principles of Securities Regulation and IOSCO Principles for the Regulation and Supervision of Commodities Derivatives Markets.
- The Board intends to publish a report on voluntary carbon markets later in 2023.

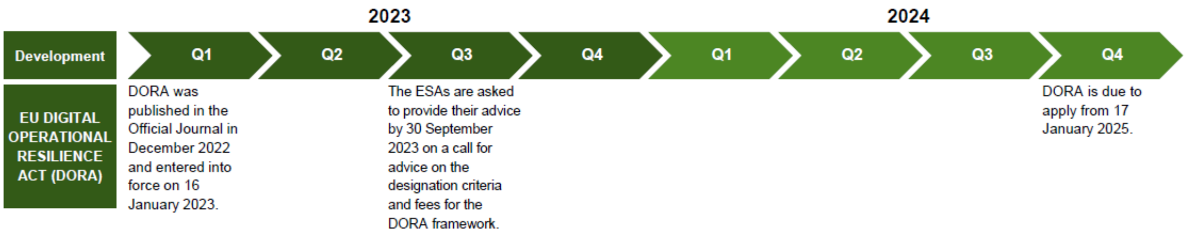
Financial Stability, Operational Resilience

EU IFD/IFR



- The IFD and IFR will be accompanied by a number of RTS, ITS and guidelines, not all of which have been finalised.
- An EBA report on the application of gender-neutral remuneration policies is expected in Q1 2023.
- The EBA was required to report by 26 December 2021 on whether dedicated prudential treatment of assets exposed to activities associated substantially with environmental or social objectives, in the form of adjusted K-factors or adjusted K-factor coefficients, would be justified from a prudential perspective. The report has not been published. The EBA published a discussion paper on the topic in May 2022 and a report is expected in due course.
- An EBA report on the degree of convergence of the application of the Chapter 2 of the IFD (Review process) among member states is expected by the end of 2023.
- The Commission is required to report on the IFD and IFR, with legislative proposals to amend the package if it considers this to be necessary, by 26 June 2024.

DORA



- DORA will apply from 17 January 2025. The DORA package includes the Fintech Amending Directive (see slide 18), which amends operational resilience requirements in a number of existing EU directives, including the UCITS Directive, the AIFMD and MiFID II.
- The European Commission has issued a provisional call for advice to the ESAs on the designation criteria (under which a third-party ICT service provider is designated as 'critical') and fees for the DORA oversight framework. The ESAs are asked to provide their advice by 30 September 2023.

OPERATIONAL RESILIENCE

- The Financial Services and Markets Bill (FSM Bill) which includes proposals to regulate cloud service providers and other designated critical third parties providing services to UK regulated firms, is expected to gain Royal Assent in H1 2023.
- In July 2022, the FCA, PRA and Bank of England published a joint discussion paper (DP22/3) on the operational resilience of critical third parties and how the regulators could use their new powers under the Financial Services and Markets Bill. The consultation closed in December 2022 and feedback and a consultation paper are expected in H2 2023.
- Firms have until31 March 2025to implement strategies, processes, and systems that enable them to address risks to their ability to remain within their impact tolerance for each important business service in the event of a severe but plausible disruption.
- In Q4 2023, the Bank of England, PRA and FCA expect to publish a joint consultation paper on incident, outsourcing and third party reporting. The purpose of this initiative would be to: (i) introduce clarity regarding the information that firms should submit when operational incidents occur; and (ii) collect certain information on firms' outsourcing and third party arrangements in order to manage the risks that they may present to the FCA's and PRA's objectives, including resilience, concentration and competition risks.

Prudential & Risk

Preparing for the Basel III Endgame; *Preparing for the Basel III Endgame; Scott O'Malia offers informal comments on important OTC derivatives issues in derivatiViews, reflecting ISDA's long-held commitment to making the market safer and more efficient.*

- All around the world, banks are getting ready to implement a package of capital requirements for market risk, credit risk and operational risk that will finally complete the Basel III reforms developed in response to the 2008 financial crisis. Within days, US prudential regulators are expected to publish their legislative proposals, following similar proposals in the UK and the EU. As in those jurisdictions, it is critical that the impact of the proposed rules is thoroughly tested and any increase in capital requirements does not disproportionately affect costs for businesses, consumers, and investors.
- It's nearly 15 years since the crisis, and the financial system is far safer and more resilient to stress than it was in 2008. In the fourth quarter of 2022, US global systemically important banks (G-SIBs) held roughly $881 billion in common equity tier-one capital, up from $244 billion in 2008, according to a recent PwC report. In the derivatives market, the introduction of central clearing and margining has contributed to a substantial reduction in systemic risk. Nearly 75% of interest rate derivatives traded notional was cleared last year, while $1.3 trillion of margin had been collected by the 20 largest market participants at year-end, according to ISDA research.
- Implementing additional capital requirements is a complex challenge. The Basel III regulatory reforms are long overdue, but, as many policymakers have recognized, a further significant increase in capital requirements could have serious consequences. The Federal Reserve has previously estimated that implementing these final measures could result in a capital increase of up to 20% for the largest US bank holding companies, while the Basel Committee on Banking Supervision expects the revised market risk standards will lead to a weighted average rise in capital requirements of 57% for G-SIBs.
- An increase in capital for market risk of this size is concerning. Recent periods of stress sparked by the pandemic in 2020 and the invasion of Ukraine in 2022 have highlighted certain liquidity imbalances that may warrant attention, but there has been no evidence that banks were holding insufficient market risk capital to weather those shocks. If banks are forced to ramp up their trading book capital by more than 50%, it could result in higher costs for end users and may force some firms to withdraw from certain businesses.
- One of the cornerstones of the new framework is that all banks above a certain size will have to use standardized models to calculate capital requirements for market risk, while the use of internal models will be subject to a much more stringent approval process and ongoing tests that will substantially increase maintenance costs. A recent ISDA survey suggested internal model coverage of bank trading desks would drop from an average of 86% to just 31% as a result of these changes. While the new standardized approaches are more sensitive to risk than in the past, the reliance on a one-size fits-all model will be a major change that could lead to herd behavior and drive concentrations in particular assets.

- The publication of the US proposals later this week will be a major milestone that takes us a step closer to the completion of these landmark reforms. It is critical that any increase in capital is carefully considered and based on robust data, and that the overall framework is risk appropriate. We look forward to reviewing the detail of the proposals with our members and sharing our perspective with policymakers in the months ahead.

The Basel III Endgame is on; *On July 27th, the Fed, FDIC, and the OCC released their long-awaited proposal to implement the final components of the Basel III agreement, also known as the Basel III endgame.*

- Separately, the Fed also proposed adjustments to the calculation of the capital surcharge for global systemically important banks (G-SIBs).
- The agencies estimate varied impact across the categories of the Fed's tailoring framework, with an aggregate increase in RWA by 24% for Category I and II banks and 9% for Category III and IV banks. The proposals include adjustments to the following areas:
- Expanded scope and new requirements.
    - Scope. The proposal confirms that it would apply to banks with over $100 billion in assets.
    - Changes in capital numerator. The proposal would remove the accumulated other comprehensive income (AOCI) opt-out for Category III and IV banks, requiring them to recognize unrealized gains or losses in calculating their regulatory capital. These banks would also be subject to deductions currently only applicable to larger banks (e.g., mortgage servicing assets, deferred tax assets (DTAs), significant investments in the capital of unconsolidated financial institutions) and rules for minority interest.
    - New capital requirements. Banks between $100 and $700 billion would be subject to total loss absorbing capacity (TLAC) requirements, the supplementary leverage ratio (SLR), and the countercyclical capital buffer (CCyB), if activated. Currently these requirements only apply to G-SIBs and/or Category II banks.
- Banks need to calculate RWA under two approaches, subject to an output floor.
    - Dual approach calculation. Banks would be required to calculate RWA amounts under the standardized approach and the "expanded risk-based approach" (the regulators' term for the proposed Basel III endgame requirements), with the higher of the two being used to set their minimum capital requirements (see Figure 1). Importantly, even in the standardized stack, the new market risk RWA will be applied, thereby increasing capital requirements for the standardized stack at firms with trading exposures.
    - Output floor. The proposal also maintains an output floor that would serve as a lower bound under the expanded risk-based approach for banks that adopt the internal model approach of market risk. If the risk-weighted assets under the expanded risk-based approach were less than the output floor, the output floor would have to be used as the risk-weighted asset amount under the expanded risk based approach.
- Large increase in capital requirements across risk stripes.
    - Market risk changes would drive increased capital requirements for banks with large trading books.

  - New standardized approach applied by default. A new standardized approach must be used by all Category I-IV institutions, and across all asset classes. This is expected to result in a higher market risk capital requirement compared to the existing approaches.
  - Internal models remain but on a more granular and limited basis. Expected shortfall models would replace value at risk (VaR) models, with heightened requirements for obtaining regulatory approval prior to use. Banks will have to determine the benefit and cost of developing models for the most liquid products (although prohibited for securitization or correlation trading instruments) on a desk-by-desk basis.
  - New banking book and trading book boundary. The proposal provides revised definitions of covered market risk positions with explicit inclusion (e.g., publicly traded equity positions) and exclusion (e.g., debt securities for which the fair value option was elected) of certain product types. This could expand the scope of positions requiring market risk RWA calculations and require banks to develop procedures to accurately identify such positions.
  - Revised market risk scope. All banks with over $100 billion in assets are now required to calculate market risk capital requirements regardless of the size of their trading assets and liabilities. Additionally, other firms (not otherwise in scope) with "significant trading activity" (i.e. with trading assets and liabilities of $5 billion or more or that exceed 10% of total assets) will also be subject to the requirements. The $5 billion threshold is an increase from the previous $1 billion.
- Credit valuation adjustment (CVA) applies a standardized approach, with no internal models option.
  - Alignment to simulation-based accounting CVA approaches. The proposal would replace the current approaches for measuring capital requirements for changes in the valuation of over-the-counter (OTC) derivative contracts with a standardized approach largely intended to align to common market simulation based approaches to determine accounting CVA. However, firms will need to ensure specific aspects of existing models are aligned to regulatory requirements.
  - Operational risk would be another primary driver of increasing capital requirements for all banks.
  - Shift to standardized approach. The internal models based approach (i.e. the advanced measurement approach) has been removed and replaced with a standardized approach that accounts for a bank's business volume, activities, and historical operational risk losses.
  - Internal loss multiplier (ILM). The ILM is a component of the standardized operational risk RWA calculation process that adjusts RWA based on a 10 years of operational loss history. Despite the ILM being set at one (eliminating its impact) in the EU and UK, the US proposal would allow the ILM to scale operational risk RWA up if firms have substantial operational loss events in the look back period.
- The changes to credit risk in the US may not be as beneficial as expected.
- Gold plating on lending. The proposal would increase risk weights beyond Basel levels (known as gold plating) for a number of material portfolios. For example,

the residential mortgage framework now includes loan-to-value (LTV) bands, but the risk weights would be increased by 20 percentage points relative to the Basel framework. Similarly, for retail exposures, risk weights have been increased by 10 percentage points. For corporate exposures, the proposal requires them to be listed on a recognized exchange to be classified as investment grade, which aligns with the Basel framework but deviates from the EU/UK implementation where the listing requirement was excluded.

  - Haircut floors for securities financing transactions (SFTs). For repo-style transactions and eligible margin loans, the proposal includes haircut floors that generally align with the Basel framework but excludes certain transactions where a bank borrows securities for the purposes of meeting a current or anticipated demand, providing some capital relief.
  - No simple transparent and comparable (STC) securitization. The proposal does not include the STC criteria for securitization exposures as included in the Basel framework and also proposed in the EU with some modifications. The Basel STC criteria permitted eligible securitization exposures to receive preferential risk weight treatment and applied more punitive risk weights to non-STC exposures. The proposal would subject all securitization exposures to the more punitive capital treatment.
  - All large banks would use the standardized approach for counterparty credit risk (SA-CCR). All large banks would need to use SA-CCR to calculate exposures for derivatives. Category I and II banks currently use SA-CCR, but today other large banks have the option to use the current exposure method approach for such exposures.
  - Cross-default added to definition of defaulted exposures. The proposal's classification of defaulted exposures (excluding to a sovereign entity, real estate exposure, a retail exposure, or a policy loan) would look to the performance of the borrower with respect to credit obligations to "any" creditor, whereas the Basel framework does not explicitly call out defaults to "any" exposure. Such exposures will be risk weighted at 150%.

- Stress testing will need to consider both the standardized and the expanded approaches.
  - Binding constraint approach for stress testing. Banks in Categories I - III of the Fed's framework would be required to use the capital and RWA approach that is the binding constraint at the start of the projection horizon for capital stress testing. For many banks, the binding constraint is likely to be the expanded risk-based approach. Category IV banks would need to make baseline projections using their binding constraint approach.
- G-SIB surcharge to use more daily and monthly average data.
  - Daily average input data and cliff effects. The G-SIB surcharge proposal would report and measure certain systemic indicators as an average of daily values over the quarter or average of month-end values rather than only year-end. It would also measure the GSIB surcharge in increments of 10 basis points rather than 50.
  - Adjustments to the interconnectedness component. The proposal would also expand the definition of "financial institution" to include savings and loan holding companies, private equity funds, asset management companies, and exchange-

traded funds. This will increase the interconnectedness component of the surcharge.

Comments on both proposals are due by November 30, 2023. As proposed, implementation of Basel III endgame would take effect July 1, 2025, with a three-year phase in until June 30, 2028.

The proposal would raise capital requirements beyond what was anticipated and implemented globally.

- Most significant increase in capital for the largest banks. G-SIBs would be the most adversely impacted under the proposed expanded risk-based approach, particularly those with large sales and trading businesses.
- Retention of internal models for market risk presents both challenges and opportunities. To meet the proposed standards, banks would need to develop entirely new market risk models with much more granular calculations and will need to obtain regulatory approval before using them. While waiting for this approval, banks would have to utilize the more punitive standardized market risk approach. However, for certain firms the ultimate market risk capital benefit from utilizing internal models may be significant as the output floor constraint is assessed against total expanded risk based capital (with standardized measure for market risk).
- New operational risk impact. With the expanded risk-based approach likely to result in the binding capital ratios for most banks, the new standardized operational risk approach would materially increase capital requirements. Given that the ILM component was set to one in the UK and EU, a similar adjustment to improve competitiveness for US banks would likely be considered as part of the comment process.
- Gold plating will fuel arguments around pushing financing out of the banking sector. There are several provisions that "gold plate" or go beyond the standards implemented in other jurisdictions (e.g., risk weights on residential mortgage, definition of default). These higher capital requirements could push even more activity into the less stringently regulated non-bank finance sector. Some Fed governors have expressed concern about the implications of this shift on financial stability.

The proposal significantly reduces variance between categories in the regulatory tailoring framework.

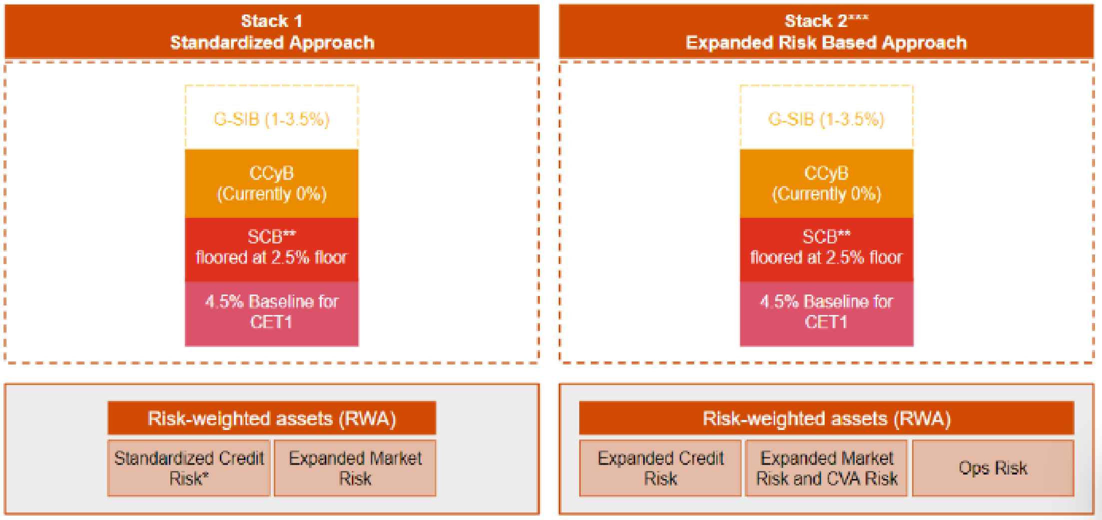
- Biggest change in requirements for banks with between $100 and $250 billion. These banks were the greatest beneficiaries of the Fed's 2019 tailoring framework as they were placed in Category IV, which had the most relief from post-crisis requirements. However, the newly proposed changes will essentially collapse the categories with little differentiation in capital requirements between Categories II and IV. While Category III and IV banks have lower increases in RWA through the expanded risk-based approach, the changes to the definition of capital (e.g., removal of AOCI opt out, limits on deferred tax assets, and limits on minority interest) will have a significant impact. Banks will need to analyze their temporary difference DTAs to determine if they will need to haircut the DTAs that are included in CET1.

- New considerations at $100 billion threshold. These changes would also result in a new incentive structure for banks close to $100 billion to either diligently remain below the threshold or to grow substantially enough, including through mergers, to benefit from economies of scale given the increased regulatory cost. Compliance will be more complicated than just meeting new regulatory capital minimums.
- Each change would need operational adjustments. The proposal introduces a significant number of modifications and refinements that will require banks to adapt their data, calculations, processes, controls, and documentation, putting pressure on all three lines of defense. Category III and IV banks will particularly need to make significant investments to comply with the proposed enhanced risk-based requirements as well as SLR, SA-CCR, and TLAC requirements which currently only apply to the largest banks.
- Models and processes would need to be ready on July 1, 2025. Despite the three year phase-in period to meet capital requirements, banks will need to have their updated models and calculations ready from the effective date and to conduct calculations under both new and old approaches throughout the phase-in period.
- Banks likely to update capital allocation strategies. While banks with shortfalls could raise the necessary capital through earnings and reduced distributions to shareholders, most will seek to optimize their capital allocation strategies for the new approaches. Banks have long been arguing that these efforts will result in reduced lending and trading activity that may not deliver adequate economic returns relative to its capital impact. They are likely to continue to press this point and to push the regulators for evidence-based rationale for higher capital requirements.

What happens now?

- 120 days to digest and comment. While the 120-day comment period is longer than usual, it will still be a tight timeframe for banks to digest the proposal, determine how it affects them, and to organize their advocacy to focus on the areas where they can make the strongest case for relief in the final rule. The lack of initial concessions and multiple dissents by Fed and FDIC board members indicates that there are components of the rule that may well be adjusted before the rule is finalized.

Figure 1: Risk based capital stacks



** Existing standardized approach except derivatives that must use SA-CCR Source:*

- *SCB will be same across both the stacks and will be based off of the constraining approach as of the jump off point for stress testing*
- *Expanded Risk Based RWA (stack 2) would be floored at 72.5% of RWA calculated across risk stripes using the same expanded risk based approach but using only standardized measures of the proposed market risk framework*
- *For simplicity "adjusted allowance for credit losses not included in tier 2 capital" and "allocated transfer risk reserves" are not included*

BoE consults on updating UK technical standards on the identification of global systemically important institutions; *On 28 July 2023, the Bank of England (*BoE*) published Consultation Paper CP16/23: Updating UK technical Standards on the identification of global systemically important institutions (*G-SIIs*) (*CP16/23*).*

- The Basel Committee for Banking Supervision (**BCBS**) implemented changes in 2022 to its framework for assessing the systemic importance global systemically important banks.
- This Consultation Paper sets out the Prudential Regulation Authority's (**PRAs**) proposed updates to the UK methodology for the identification of, and setting of a capital buffer, for G-SIIs, to be in line with the BCBS framework.
- The proposals in this CP would result in changes to the UK Technical Standards (the **UKTS**) for the methodology used to identify G-SIIs. This CP sets out policy proposals to align the UKTS with updates made to the BCBS framework.
- The PRA's proposals aim to maintain the alignment of the UKTS with the BCBS framework. Identifying and setting an additional capital buffer for G-SIIs in accordance with the BCBS methodology developed at international level advances the PRA's primary

safety and soundness objective. It does this by helping to ensure G-SIIs hold appropriate levels of capital, in line with the greater costs of their distress or failure to the financial system and economy. Ensuring consistency with the BCBS framework also provides clarity to firms and avoids incurring any duplicative operational costs for firms and the PRA.

- The PRA proposes that the implementation date for the changes resulting from this CP would be the date of publication of the final revised UKTS.
- The deadline for feedback to this consultation is 29 August 2023.

FSB publish statement on continuity of access to financial market infrastructure services for firms in resolution; *On 27 July 2023, the Financial Stability Board (***FSB***) published a statement following survey feedback on the continuity of access to financial market infrastructure (***FMI***) services for firms in resolution.*

- In October 2022, the FSB Resolution Steering Group surveyed banks, FMI intermediaries and FMIs about their experiences with the FSB framework.

- The survey respondents demonstrated, among other points, that:
    - The FSB guidance is seen as a helpful reference for gathering relevant information to support resolution planning, but further uptake by FMIs and FMI intermediaries is needed;
    - Some FMI service providers noted that they would welcome feedback on their questionnaire responses from the users of that information; and
    - A respondent noted that not only banks, but also FMI service providers have information needs to support their own contingency planning.
- Based on this feedback, the FSB considers that its existing publications on the topic of firms' continuity access to FMI services in resolution do not currently need revision. However, the statement on the survey feedback does include a number of clarifications that are intended to further support the information exchange between FMI service providers and FMI service users for contingency planning.
- The FSB strongly encourages all FMIs that have not done so, to prepare a response to the FSB questionnaire and to review their response periodically to ensure continued accuracy and usefulness.

How changing a single risk measure could give banks the freedom the economy needs; By: *Barnabas Reynolds, Michael Adams* and *Simon Dodds; In this guest essay, three of the City's sharpest minds lay out a route for our biggest lenders to get their risk appetite back. Since the global financial crisis of 2007/8, banks have been less able to lend to the real economy.*

- Much of their traditional financing activity has been displaced into the more lightly regulated "shadow banking" sector, particularly that of private equity funds, money market funds, credit funds and hedge funds.

- The reason for this shift of business is that banks have become less profitable and nimble. Many banks have a suppressed market equity value because of the lack of transparency over the risks which they run, and concerns over those risks, particularly on matters of liquidity. Investors are cautious over whether banks will always have enough cash to meet their outgoing liabilities as they arise. Regulators in turn apply higher standards to manage risk they often cannot see.
- Top-up charges and capital requirements are, however, blunt instruments, which might be (simultaneously) either too high or too low since they have been calibrated on the basis of an inadequate understanding of bank risk at a granular level. They are based on numbers which are considered (for the most part) in the aggregate.
- The issue for the banks is one of trust, which flows through to value. A mistrust of bank data is connected to shareholder concerns over banks' volatile business flows and the risks arising from the fact that banks' fundamental business model involves borrowing short-term and lending on a longer-term basis, i.e. so-called maturity transformation – an activity which is inherently unstable and makes banks susceptible to a "run". With online banking, the impact of recent runs on banks has been more dramatic and rapid than ever before. To balance that risk, regulators apply ever more punishing regulatory requirements, forcing banks to raise capital – and at a higher rate than their 'shadow' bank equivalents.
- Technological advances, aligned with sophisticated legal reasoning, now make it feasible for banks to operate in a more cost-effective manner by undertaking a nuanced and granular analysis of their risk-adjusted cash flow or cash flow at risk ("CFaR"). Done properly, this will provide banks with a more accurate understanding of their risk position, which can be shared with investors and regulators. The result is that banks will themselves gain a better understanding of the risks they are truly taking. This should allow, over time, for an increase in their share value and a reduction in risk capital charges, since investors and regulators will become focused on the management of actual not perceived risk.
- Steps must be taken to address the current situation. Banks need to gather information on their cash inflow and outflow exposures. This will require an assessment of their CFaR, by analysing the risks and implications of each individual cash flow and then at that point aggregating the risk. This is in contrast to the current approach taken by many institutions which add and subtract aggregated risk metrics that may or may not be mathematically consistent and are likely to be insufficiently granular. The task involves the collection of data from core bank systems and the application of big data techniques. This data will need to be enriched by tagging each item with its original legal and other characteristics, allowing for a more accurate picture of the overall cash flow exposures.
- Some banks already do this, albeit in the limited case of existing product areas, legal entities or business lines, which means that they miss the understanding that comes from appreciating the risk arising from cash flows across the whole bank group, regardless of how they arise.
- For optimum results, matters could be taken one step further by introducing ways to track transactions across a financial group in real time through the use of blockchain or other technology. This would enable the creation of a "digital balance sheet" which can then be shared with the regulators, allowing for informed "live" discussion on specific elements of risk.

- Banks should consider how the risks resulting from their cash flows can best be managed, from legal and other offsets to hedging strategies, freeing them up to play a bigger role in the financial markets.
- More granular data would allow banks to be nimbler in controlling their own risk and exposures, and to price client or counterparty trades in a more responsive way.
- Finally, banks need to be more transparent with shareholders and regulators. An approach based on better data combined with properly explained legal and regulatory points can demonstrate why existing perceptions should be reconsidered on the basis of the new data and analysis. For bank regulators, the new data should be significantly more useful than traditional sources of information, such as regular, but after-the-fact, reports.
- Banks will soon face ever-increasing capital requirements and liquidity buffers, as is anticipated in a recent report of the Swiss National Bank over the collapse of Credit Suisse, unless they find new ways to manage their risk.
- There is now an opportunity for the banks to retake their essential place at the centre of the financial system, benefitting not just their shareholders, creditors and management, but the regulators themselves, as the custodians of the safety and soundness of the system as a whole. The benefits this will bring to banks and to wider society are self-evident.
- Barnabas Reynolds is a partner at Shearman & Sterling and the author of A New Direction of Travel for Financial Regulation – A Time for Fresh Thinking, published by the Digital Economy Initiative. Michael Adams is a consultant and former senior banker who led a team which successfully implemented the cash flow at risk approach at a major financial institution. Simon Dodds is Of Counsel at Shearman & Sterling and was formerly the co-General Counsel and Head of Compliance at Deutsche Bank AG.

Banking Agencies Propose Amending Capital Requirements Consistent with Basel Standards;
The Federal Reserve Board, OCC and FDIC jointly proposed amendments that would "substantially" revise capital requirements for large banking organizations to be consistent with international capital standards issued by the Basel Committee on Banking Supervision.

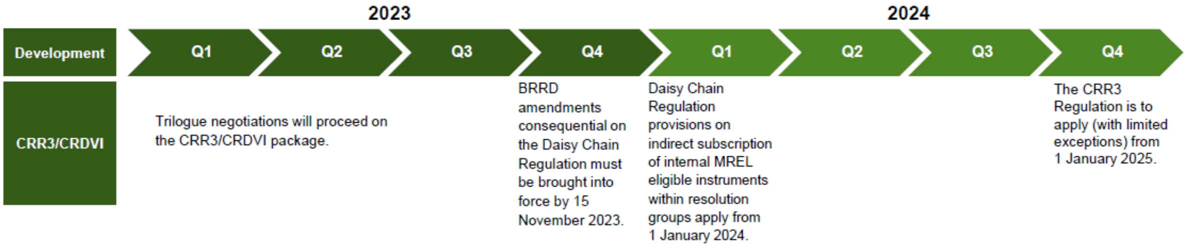
- Given the proposed amendments' breadth and complexity, in-depth analysis of the proposed amendments is necessary. That being said, a few highlights from the proposal are below:
- *Tailoring*. While the proposal does not alter the specific Category I-IV tailoring thresholds established by the prudential regulators in 2019, the proposed amendments would significantly reduce the gap in requirements that apply between the regulatory categories. As alluded to in statements by Governor Bowman, Governor Waller, and FDIC Vice Chair Hill, the proposed amendments appear to materially reverse much of the tailoring of the capital framework for large banks. Under the proposed amendments, Category III and Category IV firms would be subject to various new requirements that are currently generally applicable only to U.S. GSIBs. Among other things, such new requirements for Category III and Category IV firms include application of: (i) the requirement to calculate capital under both the new "expanded risk-based approach" subject to an "output floor," and the standardized approach; (ii) most elements of accumulated other comprehensive income ("AOCI") in regulatory capital, consistent with treatment for banking organizations subject to Category I or II capital

standards; (iii) total loss absorbing capacity ("TLAC") holdings deduction treatments; (iv) the supplementary leverage ratio and countercyclical capital buffer (for Category IV firms); (v) risk-weighted assets ("RWAs") regarding operational risk, market risk (to the extent not already subject), and credit valuation adjustment ("CVA") risk; (vi) capital deductions and limitations on minority interests that currently apply to Category I or II firms; and (vii) the requirement to use the standardized approach for counterparty credit risk to calculate exposures to derivatives contracts.

- *GSIB Surcharge and Calculation of Cross-Jurisdictional Activity*. The proposed amendments would revise the calculation of certain systemic indicators used in the GSIB surcharge framework and the framework for determining prudential standards for large banking organizations. In particular, the proposed amendments would revise the systemic indicators for cross-jurisdictional activity claims and cross-jurisdictional liabilities to include derivative exposures to "provide a more accurate and comprehensive measure of a banking organization's cross-jurisdictional activity and the associated risks intended to be captured" (p. 35 of the GSIB surcharge proposal). The proposed amendments would calculate cross-jurisdictional derivative claims and cross-jurisdictional derivative liabilities gross of collateral. Notably, the GSIB surcharge proposal states that the revisions to the cross-jurisdictional activity systemic indicator would "substantially increase the reported value of cross-jurisdictional activity of the combined U.S. operations and U.S. intermediate holding companies of most foreign banking organizations that have combined U.S. assets of $100 billion or more" (p. 46). In particular, 7 foreign banking organizations that are currently within Category III or IV would fall within Category II under the proposed amendments (p. 46). The GSIB surcharge proposal also states that two U.S. intermediate holding companies of foreign banking organizations that are currently subject to Category III standards would become subject to Category II standards (p. 47). The re-classification of these firms would have significant regulatory consequences with respect to liquidity and other prudential standards, *in addition to* enhanced capital requirements.
- *Digital Assets*. The proposed amendments do not appear to provide specific guidance on how large banking organizations might incorporate digital asset holdings into their regulatory capital calculations.
- Among other things, the banking agencies proposed to amend the regulatory capital framework by:
    - replacing the internal model-based approach for credit and operation risk with a standardized approach to (i) account for tail risks and (ii) assess risks of less liquid trading positions;
    - implementing "consistent" capital calculation requirements that would take into account unrealized gains and losses on available-for-sale securities to assess actual loss-absorbing capacity;
    - standardizing banking organizations' approach to public disclosures to "increase the comparability and transparency" of their capital requirements; and
    - requiring a non-model-based approach to assess credit valuation adjustment risk for OTC derivatives contracts.
- The agencies stated that the proposed reforms would be implemented in accordance with the proposal's transition provisions with a fully phased-in target date of July 1, 2028.
- Comments on the proposal must be submitted by November 30, 2023.
- Statements

- FRB Chair Jerome H. Powell supported the proposal and requested comment on: (i) assessing the calibration of the proposed capital increases on areas such as capital market activities and operational risk; (ii) ensuring that the "consistency and anti-arbitrage" benefits of the proposed standardized approach outweigh the costs of treating risks of different business activities as identical; and (iii) making regulations reflective of the size and risks of individual institutions, even with recent bank failures showing the need to strengthen requirements for institutions with less assets.
- FRB Vice Chair for Supervision Michael S. Barr said that the proposal was an "important step" toward aligning capital requirements with risks, including those related to the recently failed banks. He noted the analysis showing that additional costs to economic activity from additional capital are outweighed by the "benefits of a robust financial system." He also stated that the capital impact on the economic activities would be "modest" and that ultimately the proposal would contribute to economic growth.
- FRB Governor Michelle W. Bowman emphasized the importance of international parity in capital standards among banks, but highlighted that the proposal "deviates significantly from international standards and perpetuates differences in implementation across internal jurisdictions." She stated that the proposal would "substantially increase" risk-based capital requirements but fails to provide sufficient evidence that the benefits justify the costs. While in favor of the proposal to revise the G-SIB surcharge to "reduce cliff effects within the current rule," Ms. Bowman requested input on whether there are "less burdensome" alternatives to measurements of certain systemic indicators.
- FRB Governor Christopher J. Waller agreed with the proposed calculation changes to the G-SIB surcharge, but voted against the proposal, arguing that it would increase costs without "clear benefits to the resiliency of the financial system." He stated that the stress tests and real-world events have shown that the capital structure for the largest banks are already "resilient to very large macroeconomic shocks" and that the proposal would "materially increase requirements for the largest banks."
- FDIC, Federal Reserve Board, OCC Interagency Proposed Rule: Regulatory Capital Rule - Amendments applicable to large banking organizations and to banking organizations with significant trading activity
- FDIC, Federal Reserve Board, OCC Interagency Fact Sheet: Interagency Overview of the Notice of Proposed Rulemaking for Amendments to the Regulatory Capital Rule
- FDIC, Federal Reserve Board, OCC Interagency Press Release: Agencies Request Comment on Proposed Rules to Strengthen Capital Requirements for Large Banks
- Federal Reserve Board Memo
- Federal Reserve Board Overview
- FRB Statement: Jerome H. Powell (July 27, 2023)
- FRB Statement, Michael S. Barr (July 27, 2023)
- FRB Statement, Michelle W. Bowman (July 27, 2023)
- FRB Statement, Christopher J. Waller (July 27, 2023)
- CFPB: Statement of CFPB Director Rohit Chopra, Member, FDIC Board of Directors, Regarding the Proposal to Strengthen the Resilience of America's Largest Banks

CRR3/CRDVI



- Revisions to the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRDIV) known as the CRR3/CRDVI package are being made to implement in the EU the final reforms agreed by the Basel Committee on Banking Supervision in December 2017 (known as Basel 3.1). Other revisions introduce some EU-specific measures, including on the proportionate application of the prudential regime, the fitness and propriety of senior staff, the incorporation of ESG risks within the regime, and measures on supervisory powers (including prudential supervision of third-country branches).
- The so-called Daisy Chain Regulation has also made further revisions to the CRR to improve banks' resolvability, including clarifying the treatment of indirect subscription of internal MREL eligible instruments within a resolution group with a multiple point of entry resolution strategy.
- Most provisions of the Daisy Chain Regulation have applied from 14 November 2022, apart from: (i) provisions relating to the indirect subscription of internal MREL eligible instruments within resolution groups, which will apply from 1 January 2024; (ii) Consequential amendments to the Bank Recovery and Resolution Directive (BRRD), which must be brought into force by member states by 15 November 2023.
- •The Commission published its proposals for the CRR3/CRDVI package in October 2021.
- •The Council agreed its general approach on the package in November 2022, proposing some changes to the proposed fit and proper framework and adjustments to ensure proportionate application of the rules for small and non-complex institutions. The Council also seeks to defer (until 2026 at the earliest) the introduction of legislative proposals on third country branch supervision, in favour of mandating the EBA to produce a report by 31 December 2025 on the merits and modalities of introducing a harmonised third country branch requirement for banking services.
- •In the European Parliament, the ECON committee adopted its Reports on the proposals on 24 January 2023, and the European Parliament has entered into trilogue negotiations (under rule 71 of its Rules of Procedure).
- •Under the current proposals, Member states must adopt and publish measures implementing the CRD VI Directive 18 months from the date of its entry into force and to apply those measures from the following day. The CRR3 Regulation is to apply (with limited exceptions) from 1 January 2025.

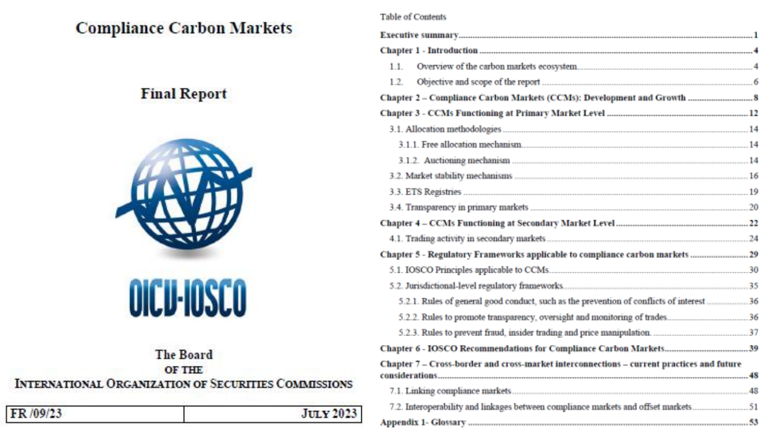
EVIA European Venues & Intermediaries Association

LEBA London Energy Brokers' Association

[IOSCO reports on compliance carbon markets](); The Board of the International Organization of Securities Commissions (ISOCO) has published a [final report]() on compliance carbon markets (CCMs).

- *The report examines the specific characteristics of CCMs compared to traditional financial markets and sets recommendations intended to make markets efficient and function with integrity. The recommendations are addressed to relevant authorities to allow for the flexibility jurisdictions and regulatory authorities need in order to be consistent with their legal mandates as CCMs are established in their jurisdictions.*
- *The recommendations relate to:*
    - *the transparency and predictability of primary market decisions and market structures for primary markets;*
    - *allowance allocation mechanisms, market stability mechanisms and primary market access; and*
    - *market integrity, transparency and structure at the secondary market level.*

- *The report also includes a selection of applicable IOSCO Objectives and Principles of Securities Regulation and IOSCO Principles for the Regulation and Supervision of Commodities Derivatives Markets.*
- *The Board intends to publish a report on voluntary carbon markets later in 2023.*



Compliance Carbon Markets

Final Report

OICU-IOSCO

The Board
OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

FR /09/23	JULY 2023

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Compliance Carbon Markets (CCMs), or Emissions Trading Systems (ETS) markets, fall under two broad categories. The first and most widely used type of compliance carbon market, also called "cap-and-trade", is set by "cap-and-trade" regulations. In these markets, carbon emission allowances for domestic firms and sectors are issued by governmental organizations. These allowances mandate the maximum amount of CO21 that holders are permitted to emit. Each allowance (or emissions permit) typically allows its owner to emit one ton of a pollutant such as CO_2. These may be subsequently traded in a secondary market, with corporations seeking to buy and sell allowances in accordance with their own organizational needs (for example, a corporation which has emissions exceeding its allocated cap may seek to purchase additional allowances). In the second type of compliance carbon market, called the "baseline-and-credit system", there is no fixed limit on emissions but carbon emitters that reduce their emissions more *than they would otherwise be obliged to can earn allowances that they can sell to others who need them.*

Various jurisdictions have established compliance carbon markets since 2005, and, as a result of new commitments, additional jurisdictions are exploring the possibility of establishing compliance carbon markets. Indeed, a recent report by the International Carbon Action Partnership suggests that "there are now 29 such systems in force, three more than last year, with 20 more systems under development or consideration across the world, particularly in the Latin American and Asia-Pacific regions. For the first time, we see concrete steps towards emissions trading being taken in Africa."2

However, for these markets to be effective in meeting their decarbonization goals, it is important that they are underpinned by the same principles as any sound and robust regulated financial market, namely orderly functioning, transparency, integrity, stability and accountability.

With the aim of contributing positively to the debate on how to establish sound and well-functioning compliance markets, IOSCO issued a Consultation Report on 9 November 2022 which explored the functioning of existing and well-established compliance markets in order to gain an understanding of potential vulnerabilities in their functioning and how to mitigate these.

We received a total of nineteen (19) responses to the Consultation Report. Overall, respondents were supportive of IOSCO's work and were broadly in agreement with the proposed recommendations set out in the Consultation Report. We are grateful for the responses received. This Final Report (thereafter "the report") builds on the Consultation Report and the responses received to the consultation.

Building upon the lessons learned from existing compliance carbon markets and good practices in commodity derivatives markets, this report delves into both primary markets and secondary markets considerations, spot and derivatives trading.

On primary markets, the report highlights aspects related to the mechanisms to allocate allowances, in particular how free allocation, although intended to minimize the risk of carbon leakage, can at the same time disincentivize compliance entities from participating actively in secondary markets. In addition, the report addresses historical challenges, such as oversupply of allowances, and describes market stability mechanisms that jurisdictions have implemented in response, which vary between price-based mechanisms and volume-based mechanisms. Finally, the report highlights the important function of ETS registries in avoiding double counting, in enhancing market monitoring and data quality, and in promoting transparency.

In a compliance carbon market, once allowances have been distributed, via free allocation and/or auctioning mechanisms in jurisdictions where CCMs exist, entities can either use secondary markets for further trading or bank any surplus they have for future use, subject to relevant regulations. Therefore, the report also considers the functioning of secondary markets, spot and derivatives.

This report suggests the same comprehensive oversight that promotes transparency and integrity in commodities markets could be applicable to CCMs as well. Some jurisdictions classify *both allowances traded in spot markets and in derivatives markets as financial instruments and such that they fall within the scope of securities regulation in those jurisdictions – including with regards to market abuse and money laundering. Generally, regulatory frameworks seek to address concerns such as (i) conduct issues, including conflicts of interest, (ii) potential lack of transparency, oversight and monitoring of trades, and (iii) fraud, insider trading and price manipulation.*

With those considerations in mind, the report identifies a set of recommendations for CCMs in addressing issues around integrity and orderly functioning, including secondary markets in both spot and derivatives markets. The aim of these recommendations is to support jurisdictions seeking to establish new or to enhance their existing compliance carbon markets to do so in the most effective way possible, learning from the experience of others.

The report includes a total of twelve recommendations relating to primary market functioning, transparency and predictability of primary market decisions; market structures for primary markets, covering allowance allocation mechanisms, market stability mechanisms and primary market access; and secondary market functioning, with particular focus on market integrity, transparency and structure.

Finally, the report includes a section on international carbon markets and a unique carbon price, to consider mechanisms that would, over time, lead to a consistent price for carbon globally. In doing so, it highlights a set of benefits and challenges to the current linking of CCMs, bringing forward the few cases where CCMs have been linked so far.

The structure of this Report

The report is structured around six chapters. Chapter 1, the introduction, provides a high-level description of the carbon market ecosystem and identifies the objectives and scope of this report. Chapter 2 provides a description of existing CCMs while Chapter 3 and 4 give a general overview of primary and secondary markets functioning respectively. Both chapters include general challenges and best practices from jurisdictions that have implemented ETSs. These two chapters were included in the consultation report and have been kept in the report to share lessons learned. Chapter 5 elaborates on the regulatory frameworks currently applicable to CCMs where these exist, highlighting which existing IOSCO principles may form the appropriate baseline upon which to build additional recommendations specific to compliance markets. Chapter 6 addresses recommendations to relevant authorities (financial market regulators, as well as public policy governmental organizations) to allow jurisdictions the flexibility they may require as they establish CCMs in their jurisdictions. Some recommendations address the functioning of primary markets, while others address the functioning of secondary markets; spot and derivatives; noting the IOSCO Principles for the Regulation and Supervision of Commodity Derivatives Markets appear applicable to emission allowances markets. The CCM recommendations in this report have been revised in light of the feedback received from the consultation. Finally, Chapter 7 presents some considerations for jurisdictions that may be thinking about linking their frameworks.

Banks working to develop global standards on accounting for carbon emissions in bond or stock sale underwriting have voted to exclude most of these emissions from their own carbon footprint, three people familiar with the matter said.

CFTC continues to explore its role in voluntary carbon markets; The US Commodity Futures Trading Commission held its second "voluntary carbon markets convening" on July 19 to gather expert input on the state of the carbon markets. CFTC Chairman Rostin Behnam emphasized in his opening statement that the voluntary carbon markets are at a critical point in their development and indicated that he sees a key role for his agency in helping them mature

Nearly sous vide: More than 175 million people in the U.S. are under excessive heat warnings and advisories until at least Saturday afternoon as heat-index readings surpass 38 Celsius (100 Fahrenheit). Ocean temperatures in southern Florida reached hot-tub levels. Saguaro cacti in Arizona are losing their arms and falling over.

- July likely will be the world's hottest month on record, and human-induced climate change has played an "absolutely overwhelming" role in heatwaves across North America, Europe and China, scientists say. Here's one more freakish stat: The record-high temperatures Britain experienced in 2022 will be considered average by 2060, the Met Office says.

European Commission publishes Interim Report on climate resilience dialogue; *On 28 July 2023, the European Commission published an interim report on climate resilience dialogue.*

- The Climate Resilience Dialogue, set up by the European Commission, aims to reduce the climate protection gap through facilitating exchanges between insurers, reinsurers, public authorities, and other stakeholders, such as real-estate developers and infrastructure operators, as set out in the 2021 EU Adaptation Strategy and in the Strategy for Financing the Transition to a Sustainable Economy. Both strategies are part of the European Green Deal and aim to increase and accelerate the EU's efforts to protect nature, biodiversity, people and livelihoods against the unavoidable impacts of climate change.
- The purpose of the interim report is twofold; it aims to take stock of the discussions held so far and prepares the ground for future work of the Dialogue, which will culminate in the publication of the final report. This report frames the problem statement of the group, which includes contextualizing and defining the climate protection gap, and provides a preliminary list of the areas or gaps for future focus. This report is the result of the contributions made by the Dialogue's members and its content has been agreed by the Dialogue's members.

ESG put to the test in a high-inflation world; Prices have proved volatile as regulators probe claims of greenwashing After more than a decade on the investment scene, ESG is being put to the test as never before. The past 18 months have exposed the short-term risks of sustainable funds. Many missed out on the oil price surge in 2022, raising questions not only about their short-term performance but also their long-term strategy in a world that might need fossil fuels for longer than people had hoped. /jlne.ws/3q52K5p

ISDA publishes trading book climate scenario analysis framework; *On July 12, ISDA published a new Conceptual Framework for climate scenario analysis in the trading book based upon commissioned research with more than 30 ISDA member banks.*

- ISDA notes that climate scenario efforts so far have primarily focused on long-term impacts on the banking book and that different considerations are needed to assess shorter-term effects of climate risk on the trading book.
- ISDA plans to pilot this conceptual framework during the second half of 2023 to test its usefulness as well as to generate some estimates of potential climate risk impacts on a set of hypothetical portfolios.
- The framework focuses primarily on scenario design and implementation while breaking it down into five key stages:

1. Objective: Define the use case for the analysis across regulatory stress testing, internal risk management, disclosures and reporting, and strategy and pricing while taking into consideration applications and balance sheet assumptions.
2. Scenario development: Develop a plausible and coherent climate scenario that translates climate shocks into macro-financial variables in the short-term horizon that is consistent with longer term climate-risk scenarios.
3. Data: Identify and segment portfolio exposures, data requirements, and review data quality and granularity of GHG emissions, transition scores, historical data, and operating asset data.
4. Shock generation: Expand scenario variables, including transmission channels, liquidity horizon, calibration, and modeling capabilities to derive market risk factors
5. Impact analysis: Generate results across asset classes, regions, sectors and counterparties, validate outputs and conduct sensitivity analysis.

- This ISDA framework demonstrates growing attention on shorter-term effects of climate risk on the trading book, where many banks have less mature capabilities after having been focused mainly on their banking books. In order to expand their climate scenario analysis to the trading book, banks will need to conduct new assessments of scenarios impacting all asset classes (i.e., equities, fixed income, derivatives), identify internal and external available data sources, analyze existing stress testing methodologies to be augmented and align on newly defined metrics. With derivative instruments, there could be challenges discerning probable climate drivers or pathways, as well as mapping or selecting parameters, that lead to measurable economic impacts given the current development stage of climate scenario analysis.
- Although institutions may be comfortable with their existing risk framework and climate considerations (e.g., carbon or commodity pricing), additional impacts and pathways should account for a broader spectrum of risks, particularly physical climate risks (e.g., event severity, frequency, duration) and their application to FX or rates strategies. Given the nuances involved, it is paramount that first and second lines of

defense (e.g., climate officers, risk, trading desks) share their expertise to address product impacts, data requirements, and overall approach to close gaps and address potential challenges that could arise within the layers of their current framework. The key difference in governance and accountability between the banking book and trading book is with the frequent coordination that must occur across the business (i.e., trading desks), financial risk, model risk management, and data and technology.

- While much work is still to be done, the latest framework is a step forward in understanding and managing the impact of climate-related events on traded assets. Although expectations for US banks are not yet as rigorous for climate-related financial risk, the continued release of additional reviews and guidance are signalling that more regulatory scrutiny is likely on the horizon.

Moody's predicts $950B in 2023 sustainable bond issuance Sustainable bond issuance worldwide is poised to reach $950 billion or more this year, even as the number of issuers declines, according to Moody's Investors Service. Moody's data shows $526 billion in issuance for the first half of 2023, up 7% compared with H1 of 2022, and the company expects strong demand to continue throughout H2. Bloomberg

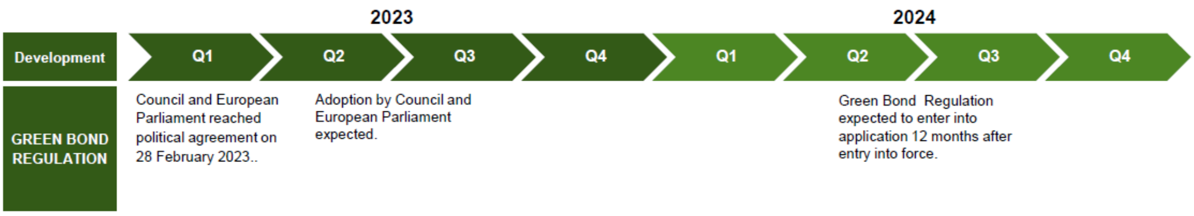
Emissions insights could cut EU-mandated carbon costs of shipping by 50%; LSEG and Siglar Carbon will enable customers to evaluate lower carbon options for shipping via LSEG's flagship product, Workspace Shipping to be included in EU Emissions Trading System (ETS) from January 2024; Increased costs for owners, charterers and traders that fail to factor in costs of carbon emissions. LSEG (London Stock Exchange Group) and Siglar Carbon, a maritime emissions analytics company, have announced an agreement to enable customers to evaluate the different carbon options for cargo programmes via Workspace. /jlne.ws/3OvWn4r

FRC publishes thematic review on quality of climate-related metrics and targets disclosures; *On 26 July 2023, the Financial Reporting Council (*FRC*) published a thematic review which assesses the quality and maturity of climate-related metrics and targets disclosures. The review analysed Taskforce on Climate-related Financial Disclosures (*TCFD*) disclosures from twenty companies' 2022 annual reports across four sectors – materials and buildings, energy, banks, and asset managers – and identified areas of better reporting practice as well as opportunities for improvement.*

- Key findings showed an incremental improvement in the quality of companies' disclosure of net zero commitments and interim emissions targets. However, disclosures of concrete actions and milestones to meet targets were sometimes unclear, and comparability of metrics between companies remains challenging. The review found that, given the large volume of information presented, many companies are finding it challenging to explain their plans for transitioning to a low-carbon economy clearly and concisely.
- The review also found that explanations of how climate targets affect financial statements still need improvement; for example, boilerplate language on climate being 'considered' provides little insight on impacts.

- Commenting on the thematic review, the FRC's executive director of regulatory standards, Mark Babington, said: "This review highlights the continued need for clearer, more decision-useful disclosures of companies' plans to transition to a low-carbon economy. We encourage companies to focus on explaining targets, actions, and any impacts on the financial statements."

GREEN BOND REGULATION

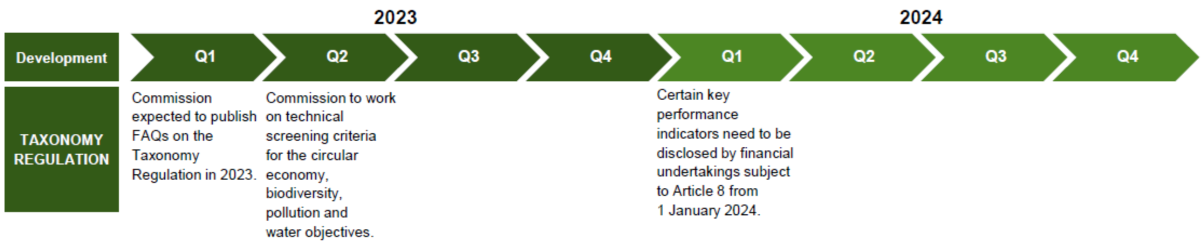


- In order to get the green bond label, the issuer needs to commit to use the proceeds from the bond issuance to finance, refinance
- or acquire assets aligned with the EU taxonomy set out in the EU Taxonomy Regulation.
- The Green Bond Regulation is designed to address the fact that, whilst green bonds play an increasingly important role in financing assets needed for the low-carbon transition, there has not, to date, been any uniform green bond standard within the EU, with Member States potentially adopting diverging measures.
- The Council and the European Parliament reached political agreement 2023.
- Once adopted by the co-legislators, the Regulation will start to apply 12 months after its entry into force.
- Key elements of the new Regulation are:
    - For designation, all proceeds of EuGBs must be invested in economic activities aligned with the Taxonomy Regulation (subject to a flexibility pocket of 15% for those sectors not yet covered by the Taxonomy and certain specific activities).
    - oCompliant bonds will have the 'European Green Bond' or 'EuGB' designation. Issuers' home state National Competent Authorities will supervise issuers' compliance with the standard.
    - oA registration and supervisory framework for reviewers of European Green Bonds will be established.
    - oThe Regulation also provides for some voluntary disclosure requirements for other environmentally sustainable and sustainability-linked bonds issued in the EU, such as those issued under the ICMA principles.

EU SFDR

- A delegated regulation incorporating nuclear and gas disclosures into SFDR disclosures was published in the Official Journal on 17 February 2023 and entered into force on 20 February 2023.
- The Commission was due to evaluate the SFDR by 30 December 2022. In December 2022, the European Commissioner for financial services, financial stability and Capital Markets Union stated that a public consultation on the SFDR should begin in early 2023.
- Commission Q&As on SFDR expected early 2023.
- In November 2022, the ESAs launched a Call for Evidence on greenwashing. A progress report is expected in May 2023 and a final report in May 2024.
- Financial market participants that are required to publish 'principal adverse impact' (PAI) statements under Articles 4(1)(a), 4(3) or 4(4) of the SFDR must comply with the disclosure requirements set out in the RTS by 30 June 2023 for the reference period 1 January 2022 to 31 December 2022.
- The ESAs are due to report to the Commission on best practices relating to voluntary disclosures annually, by 10 September of each year. The next report is due by 10 September 2023.
- The ESAs have been asked to review the indicators for principal adverse impact and the financial product disclosures under the SFDR. In November 2022 the ESAs wrote to the Commission to confirm that they would need a six-month extension to this deadline, with the result that the ESAs' review should complete by 28 November 2023.

EU TAXONOMY REGULATION



- In December 2022, the European Commissioner for financial services, financial stability and Capital Markets Union stated that the Commission intends to publish over 200 FAQs on the Taxonomy Regulation, presumably in 2023.
- The Commission has also announced its intention to work on technical screening criteria for activities that can make a substantial contribution to the remaining four environmental objectives (circular economy; biodiversity; pollution; and water). The Commission did not state a firm date by which this work would becompleted.
- Under Article 8 of the Taxonomy Regulation, undertakings that are required to publish non-financial information under Articles 19a or 29a of the Non-Financial Reporting Directive must include sustainability information in their non-financial disclosures. Under Commission Delegated Regulation 2021/2178, which supplements Article 8 of the Taxonomy Regulation,

financial undertakings will need to disclose certain key performance indicators from 1 January 2024.

- A number of reports under the Taxonomy Regulation remain outstanding with no confirmed dates for publication.

ANTI-GREENWASHING DIRECTIVE: AMENDMENTS TO UCPD

- A priority measure in the Commission's 2023 Work Programme, the proposed Directive on Empowering Consumers for Green Transition (referred to as the Anti-Greenwashing Directive) is proceeding through the EU legislative process. The new Directive aims to strengthen consumer rights and protections with respect to commercial practices, including greenwashing, that prevent sustainable purchases.
- The Directive will amend the Unfair Commercial Practices Directive (UCPD) to:
  - extend the list of product characteristics about which a trader cannot mislead consumers to cover the environmental or social impact;
  - extend the list of actions which are to be considered misleading if they cause or are likely to cause the average consumers to take a transactional decision that they would not have otherwise taken; and
  - add new practices, including forms of greenwashing, to the existing 'blacklist' of prohibited unfair commercial practice.
- In March 2022, the Commission published a package of proposed measures as part of its New Consumer Agenda and Circular Economy Action Plan, aimed at making sustainable products the norm in the EU, boosting circular business models, and empowering consumers for the green transition. The proposed *Directive on Empowering Consumers for Green Transition* (Anti-Greenwashing Directive) is designed to ensure consumers take informed and environment-friendly decisions when buying products, and the rules strive to strengthen consumer protection against untrustworthy or false environmental claims by banning greenwashing and other practices that mislead consumers.
- The European Parliament's Internal Market and Consumer Protection (IMCO) lead committee voted to adopt its Report on the proposal on 28 March 2023. The Report is tabled for a vote at a future plenary session of the European Parliament.
- The Council will continue to review the proposal under the Swedish Presidency.
- Once adopted the Directive will enter into force on the 20thday following its publication in the Official Journal. The Commission proposal envisages a 24-month transposition period, but this may be subject to change as the measure passes through trilogue negotiations.

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Ends. 02 Aug 2023