

*EVIA & LEBA Compliance reference sheet*

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

0830 Wednesday 07<sup>th</sup> February 2024

1. **Regulatory Outlook and Diary**
  - a EU and UK regulatory frameworks - alignment or divergence?
2. **Regulatory and Compliance Forward Diary**
3. **Highlights from the Regulatory Environment in March**
  - a BMR, RFRs & LiBOR Transition Update
  - b Capital Markets and Market Structure
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  - d Fintech, SupTech & Reg Tech Developments
  - e Sanctions Requirements
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Trend 1: UK / EU Divergence – Impacts & Timings

MIFID Framework (EU)	
Feb/Mar 2024	Expected timing for MIFID3 and MIFIR3 to be published in the Official Journal of the EU
Aug / Sep 2025	Expected deadline for EU Member States to implement MIFID3 (18 months after MIFID3 enters into force)
2025	Transparency changes including 'Designated Publishing Entity' change expected
N/A	See slides on Retail Investment Strategy for timing but note the trilogue process has not yet started
UK Wholesale Markets Review (MIFID UK, FSMB, etc.)	
Feb 2024	<ul style="list-style-type: none"> <li>FCA to provide update on next steps for an equities consolidated tape</li> <li>Deadline for responses to CP23/33 on payments to data providers</li> <li>Deadline for responses to CP23/27 on reforming the commodity derivatives regulatory framework</li> </ul>
6 Mar 2024	Deadline for responses to CP23/32 on improving the transparency regime for the bond/derivatives markets
5 Apr 2024	Rules in the instrument in CP23/33 for the bond consolidated tape provider should take effect if Parit approves the DRSRs 2023
Q3 2024	FCA policy statement expected on commodity derivatives regulatory framework (following CP23/27)
H2 2024	FCA policy statement expected on transparency regime for the bond/derivatives markets (following CP23/32)
H2 2025	Target date for go-live of bond consolidated tape provider
Edinburgh Reforms	
2023/2024	Various. See Edinburgh Reforms slide 7.
AIFMD	
2023/2024	Various. See AIFMD2 slide 10.

## Trend 2: Market Reform and Operational Resilience - Impact and Timings

<b>30 Dec 2023</b>	NPL: Member states to have implemented NPL Directive
<b>Basel 3 and CRD 6</b>	
<b>12 Dec 2023</b>	UK CRR: 1st set near-final rules
<b>Q2 2024</b>	UK CRR: 2nd set near-final rules
<b>1 July 2025</b>	UK CRR: New rules in force 1 July 2025 (with transitions)
<b>1 Jan 2025</b>	EU CRR3 Regulation generally (with transitionals)
<b>Q3 2026</b>	EU CRD6 Directive applies
<b>Operational Resilience</b>	
<b>16 Jan 2023</b>	EU DORA in force
<b>17 Jan 2024</b>	RTS ITS expected EU DORA
<b>15 Mar 2024</b>	Critical Third Parties: Deadline for responding to first UK Consultation Paper.
<b>H2 2024</b>	Incident and Outsourcing and Third-Party Reporting: UK Consultation Paper planned on when to report and collecting data from third parties.
<b>Q4 2024</b>	Critical Third Parties: Second UK Consultation Paper expected including data collection on such parties
<b>17 Jan 2025</b>	EU DORA to apply including technical standards.
<b>31 March 2025</b>	Deadline for UK firms to be able to show they can remain within their operational resilience impact tolerances for each important business service over time.

## Trend 3: ESG – Impacts & Timings

<b>UK SDR and investment labels</b>	
<b>31 May 2024</b>	<ul style="list-style-type: none"> <li>• Anti-greenwashing rules applies</li> <li>• SFDR L2 applies</li> </ul>
<b>31 July 2024</b>	Investment labels available for use by UK managers for UK funds + rules for distributors of UK funds
<b>2 Dec 2024</b>	Naming and marketing rules apply to UK managers and UK funds + rules for distributors of recognised funds
<b>2 Dec 2025</b>	<ul style="list-style-type: none"> <li>• Entity level sustainability report for UK managers AUM &gt; GBP 50bn</li> <li>• First product reports for UK funds caught by naming and marketing rules</li> </ul>
<b>2 Dec 2026</b>	Entity level sustainability reports for UK managers AUM > GBP 5bn
<b>EU SFDR and fund naming guidelines</b>	
<b>SFDR 1.5</b>	Timing unclear
<b>SFDR 2.0</b>	Timing unclear
<b>Fund name</b>	Final guidance expected Q2 2024 and applicable 3 months (immediate application for new funds, or within 6 months for existing funds)
<b>CSRD / ESRS / CSDDD</b>	
<b>Feb 2024</b>	Final text of CSDDD?
<b>1 Jan 2025</b>	Large PIE undertakings w/ 500 employees reporting under CSRD/ESRS (FY 2024)
<b>30 June 2026</b>	Publication of sector specific and third country ESRS?
<b>1 Jan 2026</b>	Other large undertakings reporting under CSRD/ESRS (FY 2025)
<b>1 Jan 2027</b>	Listed SMEs reporting under CSRD/ESRS (FY 2026)
<b>1 Jan 2029</b>	Non-EU companies with branch or large sub reporting under CSRD/ESRS (FY 2028)

## Regulatory Outlook and Diary

<i>Forward Regulatory Calendar: Updated 01<sup>st</sup> November 2023</i>		
Q4 2023	Hong Kong	Consultation of Hong Kong's reporting rules on adoption of UPI and CDE.

February 2024	EU	<p>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.</p> <p>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.</p>
February 2024	Australia	Expected issuance of 3rd consultation paper on OTC derivatives trade reporting.
February 13, 2024	US	<p>Effective: SEC rules for Security-Based Swap Execution and Registration and Regulation of Security-Based Swap Execution Facilities (See 88 Fed. Reg. 87156-87328 (December 15, 2023)).</p> <p>Comments due on CFTC proposed rule to amend the capital and financial reporting requirements of Swap Dealers (SDs) codifying the no-action position in CFTC Staff Letter No. 21-18, as further extended by CFTC Staff Letter No. 23-11, regarding alternate financial reporting requirements for SDs subject to the capital requirements of a prudential regulator, and amendments to revise certain Part 23 regulations regarding the financial reporting requirements of SDs, including the required timing of certain notifications; the process for approval of subordinated debt for capital; and the information requested on financial reporting forms to conform to the rules.</p>
February 16, 2024	US	<p>Comment deadline for CFTC proposed rule "Protection of Clearing Member Funds Held by Derivatives Clearing Organizations" (See 89 Fed. Reg. 286-307 (Jan. 3, 2024)).</p> <p>Comment deadline for CFTC proposed guidance and request for public comment regarding the listing for trading of voluntary carbon credit derivative contracts. (See 88 Fed. Reg. 89410-89428 (Dec. 27, 2023))</p>
February 25, 2024	US	<p>Deadline for comments to CFTC's Proposed Amendments to Swap Data Reporting Rules (Parts 43 and 45), including updates to the Technical Specifications.</p> <p>The notice of proposed rulemaking cites that the CFTC is proposing revisions to allow for continued geographic masking after the designation of the unique product identifier (UPI) for Commodities, and to add reportable data fields to Parts 43 and 45 that promote</p>

		<p>international harmonization and further the Commission's surveillance and analysis activities, among other things.</p> <p><a href="#">Link to the Proposed Technical Specifications.</a></p> <p><a href="#">Link to the draft Swap Data Rule Amendments.</a></p>
February 26, 2024	US	<p>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.</p> <p><a href="#">Link to the Proposed Technical Specifications.</a></p> <p><a href="#">Link to the draft Swap Data Rule Amendments</a></p>
March 01, 2024	<p>Australia US EU Australia Canada Hong Kong Korea Switzerland Singapore Japan Brazil Mexico</p>	<p>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.</p> <p>In Mexico, the corresponding compliance date is December 31, 2025</p> <p>Brazil is daily and all others are month-end for March, April, and May average aggregate notional amount.</p>
March 01, 2024	South Africa	<p>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).</p>
March 02, 2024	US	<p>Comment deadline for CFTC proposed Operational Resilience Framework for Futures Commission Merchants, Swap Dealers, and Major Swap Participants (See 89 Fed. Reg. 4706-4768 (Jan. 24, 2024)).</p>
March 15, 2024	Mexico	<p>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</p>
March 18, 2024	US	<p>Effective: SEC Final Rules implementing Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities (See 89 Fed. Reg. 2714-2830 (Jan. 16, 2024)).</p> <p>Please see Part III of the final rule for compliance dates.</p>
March 28, 2024	UK	<p>Publication of 3-month synthetic sterling LIBOR setting will cease.</p>
March 31, 2024	Japan	<p>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-</p>

		dealer (limited to those designated by JFSA) has been changed to March 31, 2025).  After March 31, 2023, optionality for financial institutions wishing to implement earlier than the above period must submit a notification to the Financial Services Agency (limited to those designated by JFSA).
Q2 2024	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. The technical work to finalize the agreed compromise wording came to a close in October. The European Parliament and Member States endorsed the trilogue text last December. The publication in the Official Journal and entry into force are now expected in Q2 2024 (April-May). The rules are set to apply from January 1, 2025
April 01, 2024	Japan	Go-live of revised JFSA reporting rules based on the CPMI-IOSCO Technical Guidance <u>excluding Unique Product Identifier (UPI) and Delta</u> . 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 16, 2024	Europe	Comment deadline for BCBS, CPMI and IOSCO consultation, transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals
April 17, 2024	Europe	Deadline for responding to the BCBS-IOSCO WGMR report on streamlining variation margin processes and initial margin responsiveness of margin models in non-centrally cleared markets.
April 24, 2024	US	<a href="#">Comment deadline for CFTC request for information on the use of AI in CFTC-regulated markets</a>
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	US	Compliance date for CFTC Block and Cap reporting amendments. Expiry of relief in CFTC Staff Letter No. 22-03.
July 1, 2024	US	Expected implementation of revised credit risk, operational risk, output floor, and leverage ratio frameworks and reporting-only requirement for market risk and CVA-risk
July 1, 2024	US	Expiry of CFTC Division of Market Oversight Letter 23-15, providing relief from the block and cap amendments.
July 1, 2024	Singapore	<p>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.</p> <p>For revised market risk and CVA standards, only compliance with supervisory reporting requirements will come into effect from 1 July 2024.</p> <p>The output floor transitional arrangement of 50% will commence from 1 July 2024 and reach full phase-in (72.5%) on 1 Jan 2029.</p>
July 1, 2024	Hong Kong	Implementation date for reporting-only requirement for market risk and CVA-risk
July 12, 2024	US	Compliance date: CFTC Governance Requirements for Derivatives Clearing Organizations (See 88 FR 44675- 44694 (July 13, 2023)).
August 31, 2024	South Korea	Expiry of the FSS exemption from margin requirements for non-centrally cleared equity options.
September 1, 2024	US	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	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	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	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	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	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	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	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.
	Saudi Arabia	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 28, 2024	Canada	Multilateral Instrument 93-101, Business Conduct Rules become effective.
September 30, 2024	UK	Go-live of UK EMIR Refit reporting.
September 30, 2024	UK	Publication of 1-,3- and 6-month synthetic US dollar LIBOR settings will cease.
Q4 2024/Q1 2025	EU	Earliest expected start date for the Internal Model Approach (IM) reporting requirements under the CRR II market risk standard.
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	Go-live of ASIC Derivative Transaction Rules (Reporting) 2024
October 21, 2024	Singapore	Go-live of the updated MAS OTC derivatives trade reporting regime.

December 2024	South Korea	Expected go-live of UTI reporting (Phase 1)
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	US	Expiration of relief under CFTC Letter No. 22-16 which extends no-action positions in response to Brexit for certain entity-level and transaction-level requirements, allowing reliance on EU Comparability Determinations until the earlier of (i) the effective date of any comparability determination issued for the UK to the extent such determination encompasses the subject matter of the EU Comparability Determinations; or (ii) December 31, 2024.
January 1, 2025	UK	Expected implementation of the Basel 3.1 standards
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
December 31, 2024	Mexico	Deadline for banks, broker dealers and investment funds with average (month-end) aggregate notional amount from March, April, and May 2022 of UDI 20 billion to comply with the margin requirements for uncleared derivatives under Banco de México's Circular 2/2023.
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	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.
January 1, 2025	Hong Kong	Expected implementation date for the minimum regulatory requirement for Basel III revised market risk and CVA risk.
January 1, 2025	Taiwan	Implementation date for all Basel III standards
January 1, 2025	US	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).

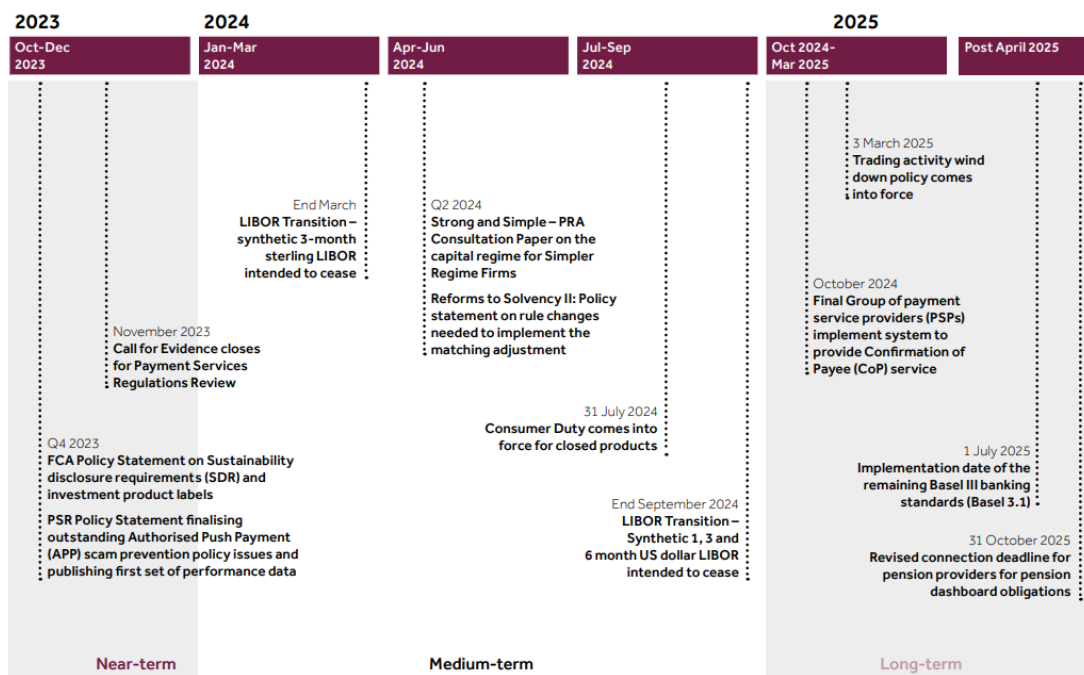


	EU	Initial margin requirements apply to counterparties with an average (month-end) aggregate notional amount from March, April, and May 2024 exceeding EUR 8 billion.
	Switzerland	Initial margin requirements apply to counterparties whose average (month-end) aggregate notional amount from March, April, and May 2024 exceeds CHF 8 billion.
	UK	Initial margin requirements apply to counterparties with an average (month-end) aggregate notional amount from March, April, and May 2024 exceeding EUR 8 billion.
March 1, 2025	Australia US EU Canada Hong Kong Korea Switzerland Singapore Japan Brazil South Africa UK Mexico SaudiArabia	<p>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).</p> <p>In the US, this calculation period only applies under CFTC regulations. In Mexico, the corresponding compliance date is December 31, 2026.</p> <p>Brazil is daily and all others are month-end for March, April, and May average aggregate notional amount.</p>
March 31, 2025	Japan	Basel III: Expected implementation of revised credit risk, CVA, market risk (FRTB) for domestic banks not using IMM.
April 07, 2025	Japan	Proposed implementation date for UPI and Delta under the revised Guideline on the JFSA reporting rules.
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.
Q3 2025	Hong Kong	Expected go-live of the updated HKMA and SFC OTC derivatives trade reporting regime.
July 1, 2025	US	The Basel III endgame proposal has an effective date of July 1st, 2025, accompanied by a 3-year phase-in period for the new ERBA RWAs that starts at 80% of total RWA and phases in incrementally each year until July 1st, 2028.

July 1, 2025	UK	Expected implementation of the Basel 3.1 standards
September 01, 2025	US	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	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	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	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	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	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	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	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	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).

September 30, 2025	Mexico	Deadline for development banks and corporates with average (month-end) aggregate notional amount from March, April, and May 2022 of UDI 20 billion to comply with the margin requirements for uncleared derivatives under Banco de México's Circular 2/2023.
Q4, 2025	South Korea	Expected go-live of UPI and CDE reporting (Phase 2)
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 01, 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 <a href="#">No. 20-37</a> and <a href="#">No. 22-14</a> .
December 31, 2025	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 (month-end) aggregate notional amount exceeds UDI 20 billion from March, April, and May 2024.
January 01, 2026	Australia	Basel III: Expected implementation of APRA FRTB and CVA risk (APS 116 and APS 180) frameworks.
January 01, 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 01, 2026	EU	Expiry of the suspension of the BMR rules allowing EU supervised entities to continue to use non-EU benchmarks.
January 01, 2026	Switzerland	Expiry of the two-year derogation from margin rules in respect of non-centrally cleared over-the-counter derivatives, which are single-stock equity options or index options.
January 04, 2026	UK	Expiry of the two-year derogation from margin rules in respect of non-centrally cleared over-the-counter derivatives, which are single-stock equity options or index options.
January 04, 2026	EU	Expiry of the two-year derogation from margin rules in respect of non-centrally cleared over-the-counter derivatives, which are single-stock equity options or index options.
January 04, 2026	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

February 12, 2026	EU	<p>CCP R&amp;R (Article 96): The European Commission (EC) shall review the implementation of this Regulation and shall assess at least the following:</p> <ul style="list-style-type: none"> <li>• the appropriateness and sufficiency of financial resources available to the resolution authority to cover losses arising from a non-default event</li> <li>• the amount of own resources of the CCP to be used in recovery and in resolution and the means for its use</li> <li>• whether the resolution tools available to the resolution authority are adequate.</li> </ul> <p>Where appropriate, that report shall be accompanied by proposals for revision of this Regulation.</p>
June 01, 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.



## Wholesale financial markets

- This section includes initiatives aimed at improving the effectiveness of regulation and reducing the burden on firms whilst maintaining the highest standards of regulation and market efficiency, both with the ultimate aim of promoting competition and innovation.
- There are three new initiatives in this section of the Grid on the Intermittent Trading Venue Sandbox, PRA/FCA consultation on margin requirements for non-centrally cleared derivatives and next steps following the recommendations of the Investment Research Review.
- There are four wholesale financial markets initiatives in the completed/stopped annex.
- There are five Wholesale Financial Markets initiatives in the new separate Smarter Regulatory Framework section.
  - Four of these initiatives were included in the previous Grid: Prospectus Regime Reform, Wholesale Markets Review, the Review of the Securitisation Regulation and the Review of the Short Selling Regulation.
  - One is a new initiative to the Grid: Data Reporting Services Regulations

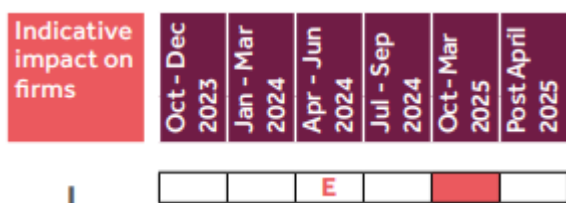
## Accessing and using wholesale data



- Market study assessing potential competition issues about benchmarks, credit rating data and market data vendors.
- Related initiatives: Amendments to derivatives reporting regime under UK EMIR ►

- Market study update published on 31 August 2023. Market study report will be published on, or before, 1 March 2024 at the latest.

**Intermittent Trading Venue Sandbox [New]**



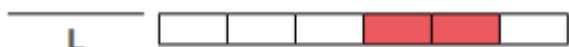
- The Intermittent Trading Venue (ITV) is being developed as a new market which will allow private companies to access global investors. The ITV will be delivered through the FMI Sandbox powers introduced in FSMA 2023. The Government has committed to have the ITV Sandbox up and running before the end of 2024.

**PRA/FCA consultation on margin requirements for non-centrally cleared derivatives [New]**



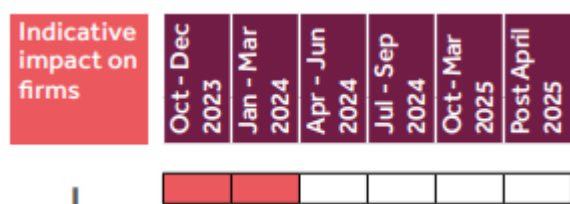
- PRA and FCA are consulting on proposals which aim to extend the temporary exemption for single stock equity options and index options from the UK bilateral margin requirements from 4 January 2024 until 4 January 2026 and set out the PRA and FCA’s proposed approach to pre-approving bilateral initial margin models.
- Consultation paper was published on 18 July 2023 and the consultation closed on 18 October 2023. The PRA and FCA will confirm the finalised amendments in a Policy Statement in Q4 2023

**Amendments to derivatives reporting regime under UK EMIR**



- The FCA and BoE have made 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.
- Related initiatives: Accessing and using wholesale data ►
- Policy Statement, schemas and validation rules were published in Q1 2023.
- The changes will be effective from 30 September 2024.

**Digital Securities Sandbox**



- Legislation to create Financial Market Infrastructure Sandboxes was introduced in FSMA 2023. Treasury has now consulted on the creation of the first of these – a Digital Securities Sandbox aimed at facilitating the use of DLT and tokenisation in the trading and settlement of traditional securities.
- Firms in the DSS, which will be run by the Bank and FCA, will be able to make use of temporarily amended legislation, particularly in the CSDR to combine functions currently performed separately by trading venues and CSDs.
- This will be done within limits set by the regulators. If successful, the Treasury will then make these changes permanently allowing participating firms to transition to unrestricted operation.
- [The Government published a Consultation Paper outlining its approach to the DSS in July 2023](#)

### Smarter Regulatory Framework

- The Treasury (HMT) has concluded its Future Regulatory Framework (FRF) Review. In their December 2022 and [July 2023 publications](#), HMT set out the Government’s plans for repealing and replacing retained EU law (REUL). This put an end to the current transitional period, allowing the UK’s financial services regulators (here the Bank of England, FCA, PRA and PSR) to tailor the rules to best suit UK markets.
- In response to stakeholder feedback, we have added this SRF section to provide an overview of the next steps for the repeal and replacement of REUL. This new SRF section sits alongside the wider regulatory initiatives set out in the other sections above. A number of initiatives included in previous Grids have now been moved into this new section (as indicated by the lack of dots under the ‘new entry’ column). These are highlighted in the introductions to each sector earlier on in the Grid.
- For each initiative within this section, we have set out the sector it would fit into to, a brief description, its expected key milestones, its indicative impact on firms and whether it is of interest for consumers. Like other initiatives in the Grid, the key milestones are set out as expected at the date of publication and may change.
- The Government and regulators want to ensure an orderly and phased transition from legislation to their rulebooks that also manages the impact of these changes on industry.
- As such, work has been broken down into ‘tranches’. Work is already underway on Tranche 1 (eg work on Solvency II, the Prospectus Regulation and the Securitisation Regulation). and Tranche 2. There is also information provided below about next steps for other initiatives included in the Grid for the first time where work is underway. We will provide updates on additional work and further tranches in future Grids.
- Forum members will also keep stakeholders updated on substantive changes through their respective websites as appropriate in advance of the next Grid publication, planned for H1 2024. You can find additional information about the new framework – including updates on wider framework reforms such as the new statutory panels to scrutinise cost benefit analyses, approach to the new secondary competitiveness duty, and rule review framework – here:

- [HMT's SRF publications webpage](#)
- [FCA's Regulatory framework reforms webpage](#)
- [PRA's future approach to policy discussion paper](#)

## Tranche 1

### Data Reporting Services Regulations (DRSRs) *[New]*

Indicative impact on firms	Oct - Dec 2023	Jan - Mar 2024	Apr - Jun 2024	Jul - Sep 2024	Oct - Mar 2025	Post April 2025
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- Repeal and replacement of the REUL related to Data Reporting Service Providers. This includes the DRSRs as well as other related EU law. One aim of this exercise is to encourage the emergence of a consolidated tape in the UK, as consulted on in the Wholesale Markets Review.
- [Draft SI of the reformed Data Reporting Service Regulation SI was published at Mansion House](#) (July 2023).
- The SI is being laid in November 2023.

### Wholesale Markets Review

Indicative impact on firms	Oct - Dec 2023	Jan - Mar 2024	Apr - Jun 2024	Jul - Sep 2024	Oct - Mar 2025	Post April 2025
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- The Financial Services and Markets Act 2023 (FSMA 2023) received Royal Assent on 29 June 2023. FSMA 2023 is a key milestone in delivering the commitments set out in March 2022 in the [consultation response to the Wholesale Markets Review \(WMR\)](#), the review of wholesale markets Treasury and the FCA conducted in 2021.
- The FCA published the policy statement on improving equity markets (PS 23/4) in May 2023, and the guidance on the trading venue perimeter (PS23/11) in July 2023. The FCA consulted on the framework for a UK consolidated tape (CP 23/15) in July 2023, and aim to publish the policy statement in Q4 2023. The FCA plan to consult on changes to the commodity derivatives regime and the transparency regime for bonds and derivatives in Q4 2023.
- FCA consultation on the framework for a UK consolidated tape (CP23/15) published in July 2023. The FCA aim to publish the policy statement in Q4 2023. FCA consultation on commodity derivatives and on transparency regime for bonds and derivatives in Q4 2023.



## Tranche 2

### Leverage ratio – contingent leverage

Indicative impact on firms	Oct - Dec 2023	Jan - Mar 2024	Apr - Jun 2024	Jul - Sep 2024	Oct - Mar 2025	Post April 2025
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- In October 2022, the PRA proposed changes to leverage ratio reporting, and new ICAAP guidance for firms. The changes aimed to monitor and mitigate risks from 'contingent' leverage (where firms cannot replicate capital-efficient trades in a stress).
- The FPC welcomed the consultation at the same time. The PRA finalised the policy through PS5/23 in May 2023, with ICAAP changes taking immediate effect, and reporting changes coming into effect on 1 January 2024.
- Consultation published October 2022.
- Finalised policy published May 2023, with ICAAP changes coming into immediate effect. Reporting changes coming into effect on 1 January 2024

### Improving Money Market Resilience as part of UK commitment to FSB 2021 review of March 2020 Dash for Cash



- Improve Money Market Fund Resilience as part of UK commitment to FSB 2021 review of March 2020 Dash for Cash and transfer the majority of Money Market Fund Regulation requirements from retained EU law into the FCA Handbook and other policy materials.
- Related initiatives: Overseas funds regime ►
- Consultation Paper Q4 2023.

### Review of the short selling regulation - including a call for evidence

Indicative impact on firms	Oct - Dec 2023	Jan - Mar 2024	Apr - Jun 2024	Jul - Sep 2024	Oct - Mar 2025	Post April 2025
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- Repeal and replace the retained EU regulation of short selling with a new short selling regime, which is proportionate and appropriate for UK markets.
- [Call for Evidence was December 2022 - March 2023.](#)

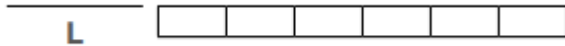
### Review of the Senior Managers and Certification Regime (SM&CR)

- The Government and regulators commenced a review of the SM&CR in March 2023. The Government launched a Call for Evidence and the FCA and PRA issued a joint Discussion Paper. Feedback is currently being assessed. The regulators will work together with the Treasury to bring forward proposals for consultation on potential improvements and reforms. Treasury's Call for Evidence published in March 2023. Joint FCA/PRA Discussion Paper published in March 2023. Consultation Paper to be published in 2024.

### Transforming data collection building on Digital Regulatory Reporting

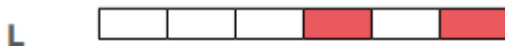
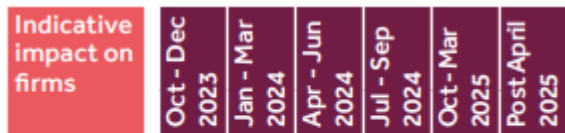
- [A joint Bank and FCA response was published in July 2023, outlining what we delivered](#) during phase 1, and plans for phase 2.
- The publication shows delivery of the following:
  - [Completion of phase one discovery and design work, with recommendations](#) for the Quarterly Derivatives statistical return (Form DQ) and Financial Resilience Survey (FRS)
  - An update on the phase two use cases – Retail Banking Business Model Data, Strategic Review of Prudential Data Collection and Incident, Outsourcing and Third Party Reporting
  - Completion of the Data Standards Review
  - A Digital Regulatory Reporting 2023 update
  - Announcement that the programme will publish a refreshed strategy in Q1 2024
  - A joint Town Hall event held on Thursday 13 July 2023
- [The joint FCA, Bank and PRA transformation programme began in June 2021, The](#) programme will have regular external engagement sessions as solutions are designed and developed.
- The Bank and FCA met their commitment in delivering on the phase one recommendations by July 2023. Phase two of the programme began in September 2022 focusing on a new set of use cases. The next update to industry will be in November 2023 and include information about the recommendations and regulator response for the phase two use cases. A website dedicated to the Transforming Data Collection programme will be launched in November 2023. The programme will publish a refreshed strategy in Q1 2024.

### Senior Managers and Certification Regime (SM&CR) for Financial Market Infrastructures (FMIs)



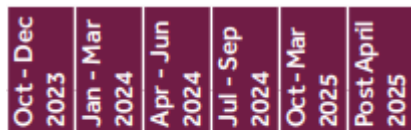
- The SM&CR for FMIs is intended to enhance the accountability of senior managers and improve governance arrangements at certain systemically important firms. Treasury introduced a new SM&CR in FSMA 2023. The new regime can be applied to CCPs and CSDs, as well as to RIEs and CRAs if deemed to be appropriate, following consultation. The new SM&CR for FMIs was introduced in FSMA 2023.
- The implementation on the regime will require secondary legislation. Treasury is considering the outcomes of the call for evidence on the wider SM&CR, before taking any further action to implement.

### Diversity and Inclusion in Financial Services *[Timing updated]*



- [Following the joint Discussion Paper \(DP21/1\) published in July 2021, the regulators \(PRA, FCA\) published their separate Consultation Papers on the 25 September 2023](#), which contain policy proposals that aim to support progress on improving diversity and inclusion across the financial sector
- [Consultation Paper published in September 2023.](#)
- Policy Statement in H2 2024.

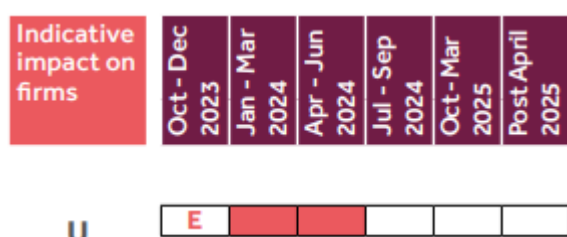
### LIBOR Transition *[Timing updated]*



- [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, April and May 2023, end dates have now been announced for all LIBOR settings.

- End-March 2024: Synthetic 3-month sterling LIBOR setting is intended to cease. End-September 2024: Synthetic 1-, 3- and 6-month US dollar LIBOR settings are intended to cease.
- Market participants must ensure they are prepared for these final synthetic LIBOR settings to cease at the end of March and end of September 2024. Parties to contracts still referencing LIBOR should be taking steps to transition to robust, appropriate reference rates, re-negotiating with counterparties where necessary. UK authorities will continue to work closely with international counterparts to monitor transition from synthetic settings in legacy contracts.

### Reforming the ring-fencing regime for banks *[Timing updated]*



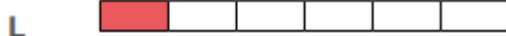
- The Government published a draft Statutory Instrument for consultation on 28 September 2023 on a package of reforms to improve the ringfencing regime. At the same time, the PRA published a consultation on third country branches and subsidiaries of ringfenced banks, in connection with HMT’s legislative proposals. Alongside that, the Government has undertaken a Call for Evidence on aligning the ring-fencing and resolution regimes in the longer term, which concluded on 7 May 2023.
- The Government published a summary of responses to the Call for Evidence on 28 September 2023.
- Q1 2024: Lay Statutory Instrument implementing the ring-fencing reforms in parliament (subject to parliamentary time).
- H2 2024: Policy statement on the alignment between ring-fencing and resolution.

### Remuneration: Enhancing proportionality for small firms [Q4 2023]

- In early 2023, the PRA consulted on the first batch of measures that will apply to Simpler-regime firms. At that time, the PRA also consulted separately on simplifying remuneration requirements for Material Risk Takers at small firms that were introduced as part of the Capital Requirements Directive V and which apply additional remuneration rules to Material Risk Takers at these firms than under the previous UK regime.
- Consultation in Q1 2023 Policy Statement and supervisory statement to be published in Q4 2023.

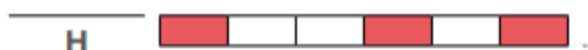
### Reviewing the maximum ratio between fixed and variable remuneration

Indicative impact on firms	Oct - Dec 2023	Jan - Mar 2024	Apr - Jun 2024	Jul - Sep 2024	Oct - Mar 2025	Post April 2025
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- The PRA and FCA have published a Consultation Paper and Policy Statement removing the maximum ratio between fixed and variable remuneration, commonly referred to as the 'bonus cap'. These changes are now in effect.
- Policy Statement Q4 2023.

**Consultation response on future financial services regulatory regime for cryptoassets** *[Timing updated]*



- In April 2022, the Economic Secretary to the Treasury set an ambition to make Britain a global hub for cryptoassets with several commitments including consulting on a future regulatory regime.
- [The consultation paper \(published in Feb 2023\) set out our initial policy proposals for](#) regulating a broad suite of cryptoasset activities in the UK. The consultation closed on 30 April 2023.
- The consultation response was published in Q4 2023. Treasury intend to lay secondary legislation in 2024 which will be accompanied by FCA publications

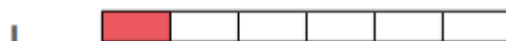
**Consultations on rules for stablecoin regime**



- The regulators will be required to consult on rules relating to the stablecoin legislation in the Financial Services and Markets Act 2023 and forthcoming secondary legislation.
- November 2023: publication of Discussion Papers from the Bank and FCA. Follow on FCA consultation papers (CP) from both the Bank and FCA will be published circa H2 2024. The timing of the FCA CP is subject to Treasury secondary legislation being laid.

**Digital pound**

Indicative impact on firms	Oct - Dec 2023	Jan - Mar 2024	Apr - Jun 2024	Jul - Sep 2024	Oct - Mar 2025	Post April 2025
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- [Treasury and the Bank published a joint Consultation Paper on a potential digital pound](#), assessing the case for a UK retail central bank digital currency (CBDC) and its proposed design on 7 February 2023. Treasury and the Bank judge that it is likely that a digital pound will be needed in the future. Whilst it is too early to commit to build the infrastructure for a digital pound, further preparatory work is justified so the Bank and Treasury have since moved to a “design phase”. The Consultation closed on 30 June and Treasury and the Bank will release a summary of responses in due course.
- Consultation Paper published in Q1 2023 and summary of responses published

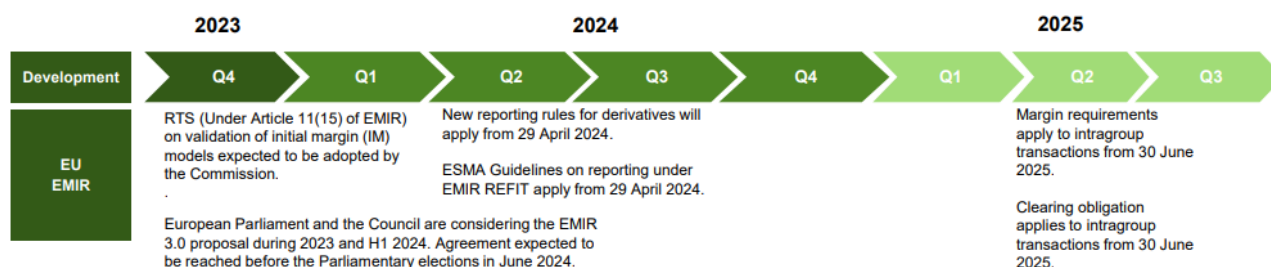
**Annex: initiatives completed/stopped**

**HMT Review of the Overseas Persons Exclusion ; Treasury is reviewing the UK’s overseas framework in relation to the Overseas Persons Exclusion regime. This work has ended**

**Benchmarks, RFRs & LiBOR Transition**

**Capital Markets and Market Structure**

**EU EMIR**

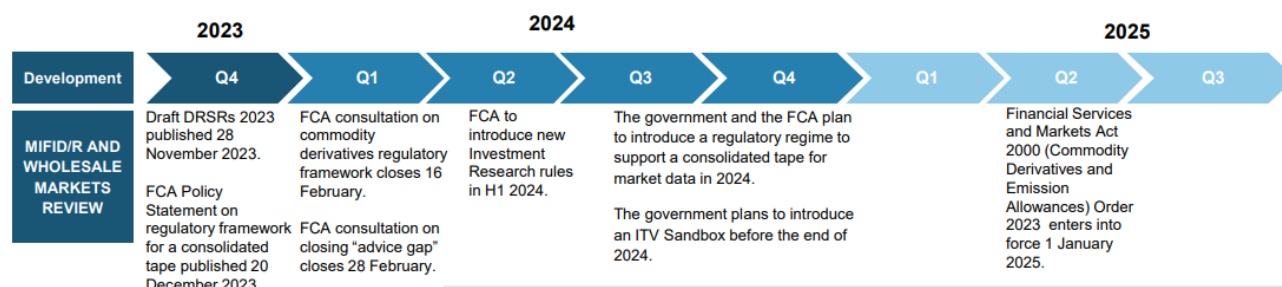


- [EU EMIR](#)
- The European Market Infrastructure Regulation (EU EMIR) places clearing, risk mitigation and reporting requirements on counterparties to derivatives contracts, central counterparties ((CCPs) and trade repositories. EU EMIR also sets out registration and supervision requirements applicable to CCPs and trade repositories.
- [Since its application, EMIR has been amended by EMIR REFIT and EMIR 2.2.](#)
- Adopted in December 2022, proposals for the EMIR 3.0 package, comprising a proposed Regulation and Directive are passing through the legislative process. 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 to intragroup transactions](#)
- 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 will enter into force on publication, and the RTS on the DTO will enter into force on application of the MiFID3/MiFIR2 package. Final draft RTS under Art 11(15) EMIR were published in July 2023 by the EBA, 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 and H1 2024. 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.

### UK MIFID/R AND WHOLESALE MARKETS REVIEW



- [The Wholesale Markets Review \(WMR\) identified areas of reform to better calibrate the post-Brexit regulatory framework to the UK's secondary markets.](#)
- [FSMA 2023 plays a key role in delivering the outcomes of the WMR by:](#)
  - (i) making immediate changes to retained EU law (including UK MiFIR) to deliver the WMR proposals considered highest priority; and
  - (ii) delivering other proposals through the planned repeal and revocation framework for retained EU law which is set out in the Act.
- [The package of Edinburgh Reforms published in December 2022](#)<sup>v</sup> (supplemented by the Mansion House Reforms published in July 2023) build on the WMR by including [MiFID/MiFIR in Tranches 1 and 2](#)<sup>v</sup> of the government's repeal and reform programme, as well as [including other measures to reform the UK wholesale market](#).
- 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. FCA's Policy Statement on the framework was published on 20 December 2023. HM Treasury has published near final draft regulations (DRSRs 2023) to replace the Data Reporting Services Regulations 2017 and relevant retained EU law. The draft regulations require approval by both houses of Parliament before they can be made.

- As envisaged by the WMR, the Financial Services and Markets Act 2000 (Commodity Derivatives and Emission Allowances) Order 2023 adopted in May 2023 will come into force on 1 January 2025, removing burdens from firms trading commodities derivatives as an ancillary activity. The FCA is also consulting until 16 February 2024 on reforms to the commodity derivatives regulatory framework.
- The FCA plans to introduce rule changes in H1 2024 implementing the July 2023 recommendations of the Investment Research Review to improve levels of investment research on UK companies.
- Specific timing not yet announced
  - [Outcome of joint work by government, the regulators and market participants to trial a new wholesale intermittent trading venue \(ITV\).](#)
  - [An ITV sandbox will be introduced by end-2024.](#)
  - [Outcome of government and FCA work on the boundary between regulated financial advice and financial guidance.](#)
  - The outcomes of the Overseas Framework Review launched by HM Treasury in December 2020 which may include proposals on potential changes to the UK's regime for overseas firms and activities, with impact on wholesale market regulation.

## EU MIFID2/MIFIR

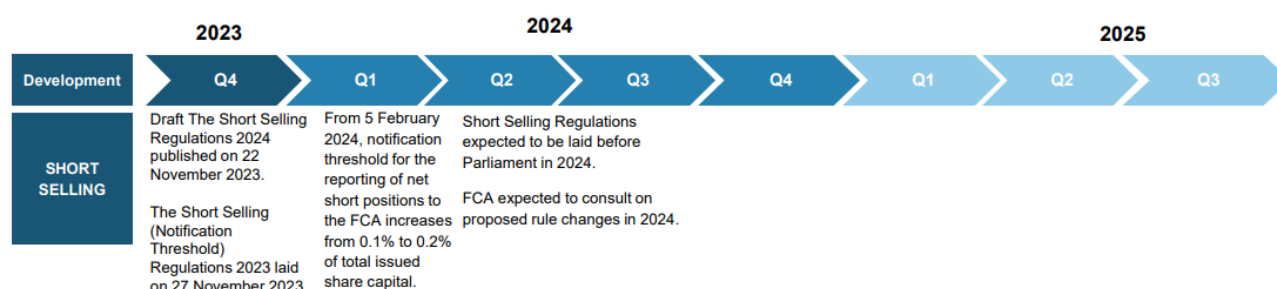


- **EU MiFID2/MiFIR package**
- The extensive legislative package known as MiFID 2 (comprising the MiFID 2 Directive and the MiFIR Regulation) has since 2018 been the cornerstone of EU legislation governing the authorisation and operation of investment firms and the buying, selling and organised trading 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, new legislative measures following a review of the framework (sometimes referred to as 'MiFID3/MiFIR2') are expected to be adopted in early 2024. MiFID2 will also see further changes due to initiatives being introduced under the Capital Markets Union (CMU) Action Plan
- The Council and the European Parliament reached provisional political agreement on the MiFID3/MiFIR2 package on 29 June 2023. Final compromise texts on the package were published on 18 October 2023. The package will make changes to MiFID2 and MiFIR to improve market data access and transparency, including measures to facilitate the introduction of an EU consolidated tape. The package is expected to be formally adopted early in 2024 and to apply 20 days after publication in the Official Journal of the European Union.
- An incoming CMU initiative to support access to public markets (known as the Listing Act package) (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 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 Commission's proposal for a Retail Investment package published on 23 May 2023 sets out measures to increase consumer participation in capital markets (see Slide 22). The package includes proposed amendments to MiFID2 (and other sectoral legislation) to introduce simplified/improved disclosures on



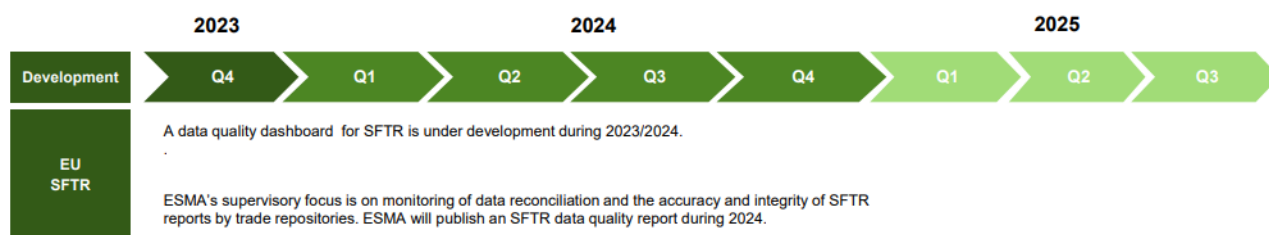
products, new provisions relating to sophisticated retail investors and harmonisation of professional standards for advisers. The European co-legislators will continue to consider the package during 2024.

## UK SHORT SELLING



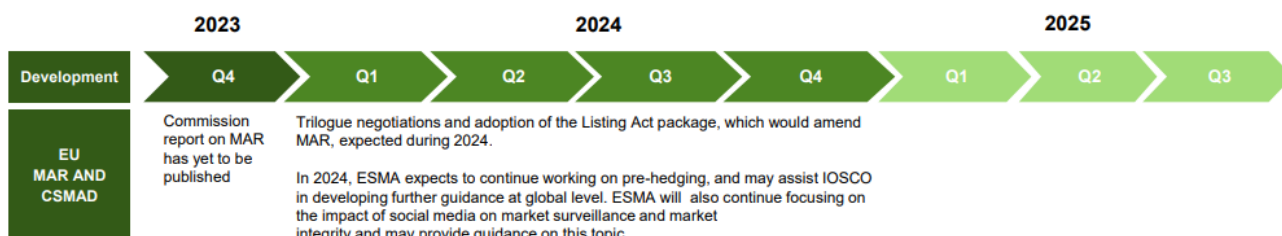
- FSMA 2023 will repeal retained EU law on financial services and will give HM Treasury powers to amend, restate and replace that law.
- HM Treasury is working on the introduction of a new replacement UK short selling regime to enter into force on repeal of the UK short Selling Regulation (UK SSR).
- HM Treasury has published its proposed policy and draft secondary legislation on replacement of the UK SSR, with the aim of ensuring that the UK's approach to regulating the short selling of shares admitted to trading reflects the specificities of UK markets, continuing to facilitate the benefits of short selling, whilst also protecting market participants and supporting market integrity.
- Reform of the UK SSR was allocated to Tranche 2 of the repeal and reform programme outlined in the Edinburgh Reform package published on 9 December 2022.
- HM Treasury's call for evidence on the UK SSR closed on 5 March 2023. Responses will inform considerations as to the appropriate framework for the regulation of short selling. HM Treasury published a response document on 11 July 2023 summarising the feedback received.
- The call for evidence did not explore other specific provisions in the UK SSR including the short selling regime for UK sovereign debt and UK sovereign credit default swaps. On 11 July 2023, HM Treasury published a separate consultation document on sovereign debt and CDS aspects of the regime, summarising views provided in response to the call for evidence and requesting feedback by 7 August 2023. [HM Treasury published its response to that further consultation on 22 November 2023.](#) The response confirms removal of restrictions on uncovered short positions in UK sovereign debt and UK sovereign debt CDS, and amendments to other parts of the short selling regime where necessary.
- The reformed UK short selling regime will be implemented via the new Designated Activities Regime (DAR) introduced under FSMA 2023. HM Treasury published the [draft Short Selling Regulations 2024](#) on 22 November 2023, [along with a Policy Note.](#) HM Treasury will lay the Regulations before Parliament in 2024.
- [The Short Selling \(Notification Threshold\) Regulations 2023 were laid before Parliament on 27 November 2023](#) and will, from 5 February 2024, increase notification threshold for the reporting of net short positions to the FCA from 0.1% to 0.2% of total issued share capital.
- The draft Regulations include empowerments for the FCA to specify firm-facing short selling requirements in its Handbook. The FCA is expected to consult on relevant rule changes in due course.

## [EU SFTR](#)



- SFTR aims to increase transparency and reduce perceived “shadow banking” risks by requiring counterparties to report securities financing transactions (SFTs) to a trade repository, requiring UCITS managers and AIFMs to make pre-contractual and periodical disclosures to investors about their use of SFTs and total return swaps and imposing conditions on the ‘reuse’ of financial instruments that have been provided as collateral.
- 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.
- The key challenge with securities financing transactions (SFTs) is that, while many core regulatory and supervisory activities of the authorities rely on the data reported and disclosed by market participants, lack of reliable data can present difficulties in identifying property rights and counterparties and monitoring risk concentration.
- In April 2023, ESMA published its third SFTR data quality report. As regards EMIR and SFTR data quality, ESMA has been transitioning to a new approach to monitoring and engaging on data quality issues with member states’ national competent authorities (NCAs), which involves:
  - a data quality dashboard with indicators covering the most fundamental data quality aspects; and
  - a data sharing framework which engages relevant authorities to follow up with counterparties in their jurisdiction upon a detection of a significant data quality issue, such as a breach of predefined levels in the agreed set of indicators
- ESMA has already worked with NCAs on implementation of a data quality dashboard for EMIR, which has undergone gradual implementation since May 2022. ESMA is continuing in 2024 with work on an implementation of the data quality dashboard for SFTR.
- Similar to previous years, ESMA will publish an SFTR data quality report to show the effectiveness of the collective supervisory efforts of ESMA and the NCAs supervising reporting entities.
- During 2024, ESMA’s supervisory focus is on monitoring the correct reconciliation of data and the adequate verification of accuracy and integrity of SFTR reports by trade repositories.

**EU MAR AND CSMAD**

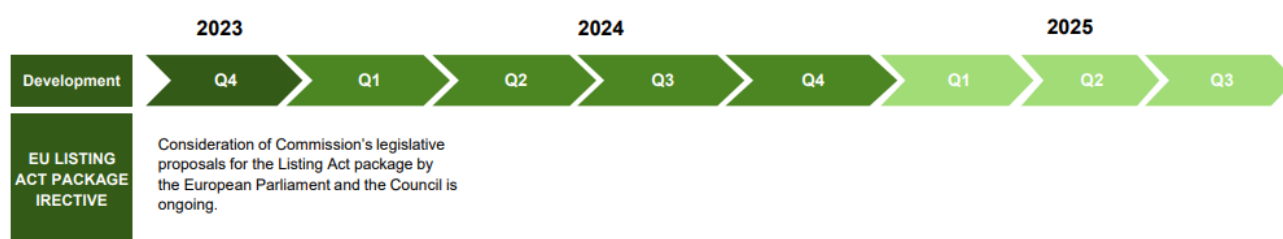


- An EU-wide framework for tackling market abuse and market manipulation was first introduced in 2005. MAR and CSMAD aimed to update and strengthen this framework. From 2016, MAR extended the scope of the market abuse regime and introduced new requirements including in relation to insider lists, disclosure of inside information and reporting of suspicious orders and transactions. CSMAD sets minimum requirements for EU

member states' criminal sanctions regimes for market abuse. The first in-depth review of MAR since its implementation was carried out by ESMA, with the outcomes published in September 2020. ESMA's recommendations will feed into the European Commission's review of MAR.

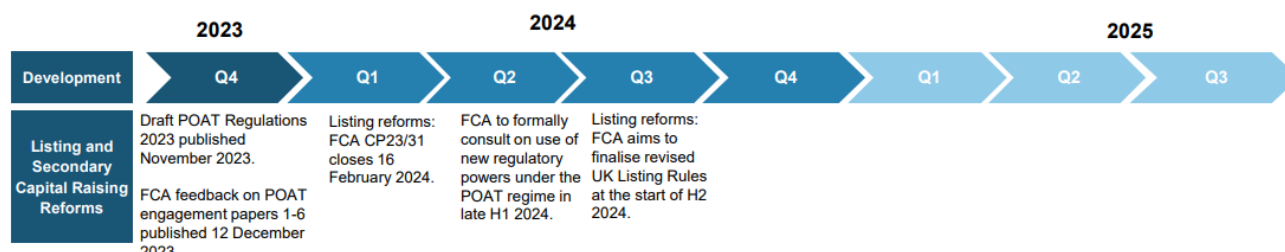
- MAR required the Commission to submit a report on MAR and, if the Commission considered this to be appropriate, a proposal for amendments to MAR, by 3 July 2019. In September 2020, ESMA published a report on MAR. The Commission's report has yet to be published.
- In December 2022, the Commission published a package of proposals to simplify EU listing rules, referred to as the Listing Act package (see Slide 19). A measure supporting the EU's Capital Markets Union agenda, this will, among 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 are continuing through the EU legislative process.
- The European Parliament's ECON committee is expected to vote on its draft reports on the Listing Act package on 24 October 2023. Third drafts of the reports were published in June 2023.
- Following its feedback report in July 2023, ESMA expects to continue working on pre-hedging in 2024 and may assist IOSCO in developing further guidance at global level. ESMA will also continue focusing on the impact of social media on market surveillance and market integrity and may provide guidance on this topic.

EU Listing Act package



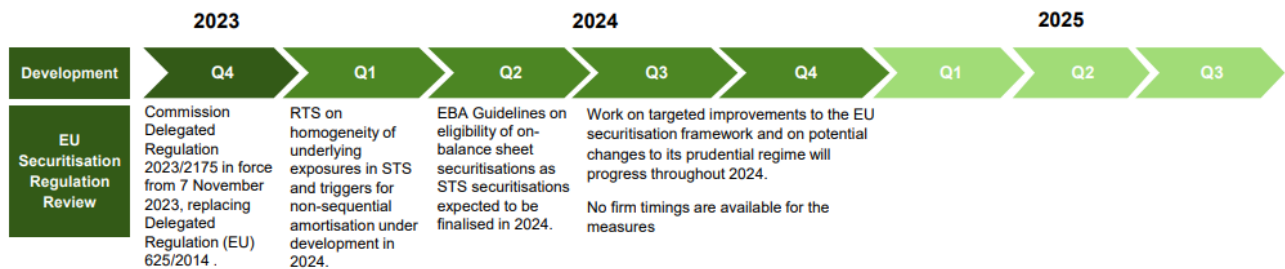
- [The EU is moving forward with its ambitious plans for a new wide-ranging "Listing Act" package](#), following a wide-ranging consultation at the start of 2022. The package comprises three legislative proposals:
  - (i) a proposed Directive to introduce targeted adjustments to MiFID2 to enhance visibility 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;
  - (ii) 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
  - (iii) 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 continue to be considered by the European Parliament and the Council during Q1 2024.
- 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.

## UK LISTING AND SECONDARY CAPITAL RAISING REFORMS



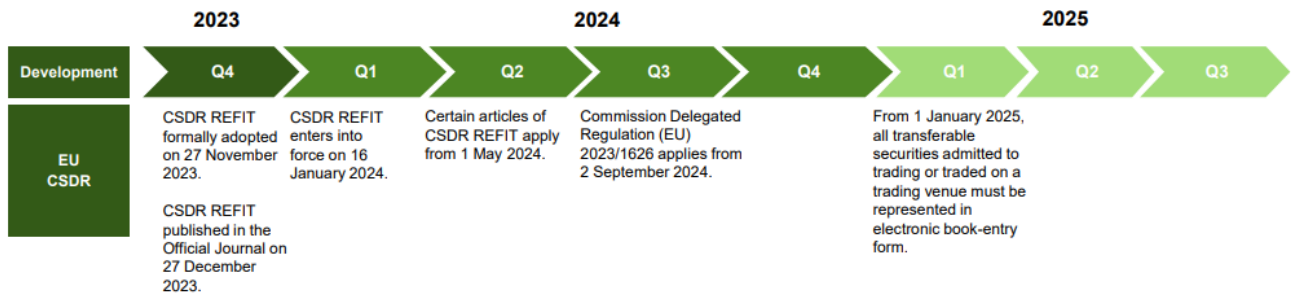
- [Listing and secondary capital raising reforms; FSMA 2023 enables the government to reform the UK's prospectus regime, to implement recommendations from Lord Hill's UK Listing Review](#) which aims to widen participation in the ownership of public companies, simplify the UK capital raising process, and make the UK a more attractive destination for initial public offerings.
- HM Treasury has also been working with the Department for Business, Energy & Industrial Strategy to deliver the recommendations made to government as part of the Secondary Capital Raising Review, and more broadly on reforms to corporate governance, aiming to further enhance the attractiveness of UK public markets.
- On implementing Lord Hill's recommendations on the proposed reform of the UK listing regime, the FCA is consulting in Primary Markets Effectiveness Review: [Feedback to CP23/10 and detailed proposals for listing rules reforms \(CP23/31\) until mid-February on restructured Listing Rules, with the aim of finalising them in H2 2024.](#)
- As part of the Edinburgh Reforms package, the retained EU Prospectus Regulation will be replaced by a new regulatory framework created under the Designated Activities Regime (DAR) introduced by FSMA 2023. Following an illustrative draft in December 2022 and a revised draft in July 2023, [in late November 2023 HM Treasury published a near final draft of the Financial Services and Markets Act 2000 \(Public Offers and Admissions to Trading\) Regulations 2023 \(POAT Regulations\)](#), on use of its powers in FSMA 2023 to amend the UK prospectus regime.
- The draft POAT Regulations require the approval of both Houses of Parliament before being made. Among other things the draft POAT Regulations would create a new prohibition on public offers of 'restricted securities' in the UK (subject to exemptions and exclusions).
- They would also:
  - establish a new regime for securities 'admitted to trading' on a regulated market or multilateral trading facility (MTF);
  - introduce a new regulated activity of operating an electronic system for public offers of relevant securities; and
  - give the FCA powers to specify the content requirements for a prospectus for admission to trading of 'transferable securities' on a UK regulated market or UK primary MTF.
- The FCA will need to consult on its proposed use of new powers. It plans to formally consult in late H1 2024. The FCA published 6 pre-consultation engagement papers in May and July 2023 on how it might use its new powers. [It issued an engagement feedback on 12 December 2023 summarising the responses to the engagement papers.](#)

## EU SECURITISATION REGULATION REVIEW



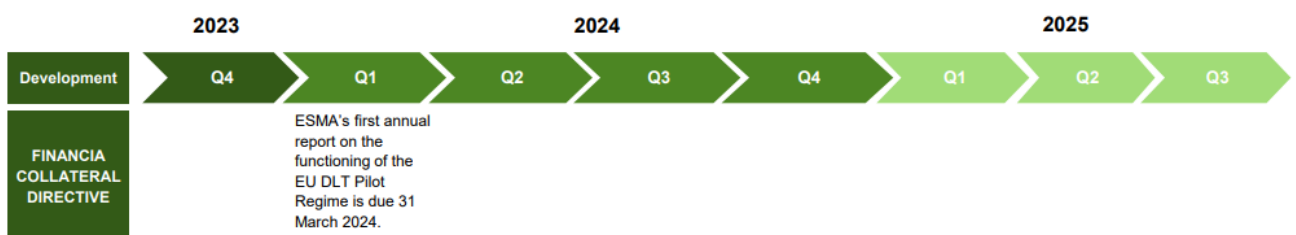
- As part of the capital markets union (CMU) action plan the Commission conducted a review of the EU securitisation framework. Fulfilling its mandate under Article 46 of the Securitisation Regulation (SR), the Commission published a report in October 2022, which set out a stocktake on the SR's functioning. The Commission highlighted some targeted improvements to the framework, which will be made without legislative revisions.
- Separately, the Commission is mandated under Article 519a of the Capital Requirements Regulation (CRR) to review the securitisation capital and liquidity frameworks. The Commission is currently considering the advice of the European Supervisory Authorities' Joint Committee, which was published in a report in December 2022.
- The Commission does not propose amending the Securitisation Regulation at this stage, but it has committed to non-legislative improvements including:
  - ESMA should revisit the disclosure templates for the information to be made available under Article 7 of the SR, to reduce prescription and to simplify them where appropriate, and should develop a dedicated template for private securitisations.
  - The Commission will clarify in a future revision of the SR the provisions of Article 2(12) of the SR, which have caused problems for AIFMs.
  - The Commission decided against establishing a dedicated framework for green securitisation, and instead contributed to work on specifying the details of securitisation within the incoming EU Green Bond Standard framework (see Slide 29). Green Bonds will include those issued by a special purpose vehicle in the context of a securitisation transaction.
  - A common EU guide should be developed on best practices for national supervisors.
  - The Commission is considering recommendations from the Joint Committee on the prudential treatment of securitisation, which may result in a relaxation of capital requirements in the significant risk transfer market and improve risk sensitivity in the framework.
  - Commission Delegated Regulation (EU) 2023/2175 entered into force on 7 November 2023, setting out technical standards on the SR's risk retention requirements for originators, sponsors, original lenders and servicers. This delegated regulation has replaced Commission Delegated Regulation (EU) 625/2014.
- The EBA consulted between April and July 2023 on proposed guidelines on the criteria for on-balance-sheet securitisations to be eligible as STS securitisations. The guidelines are expected to be finalised in H1 2024.
- The Joint Committee is expected to report to the Commission in 2024 on the implementation and functioning of the SR under Article 44 of the SR, which among other things will advise on possible areas of future revision of the SR.

## [EU CSDR](#)



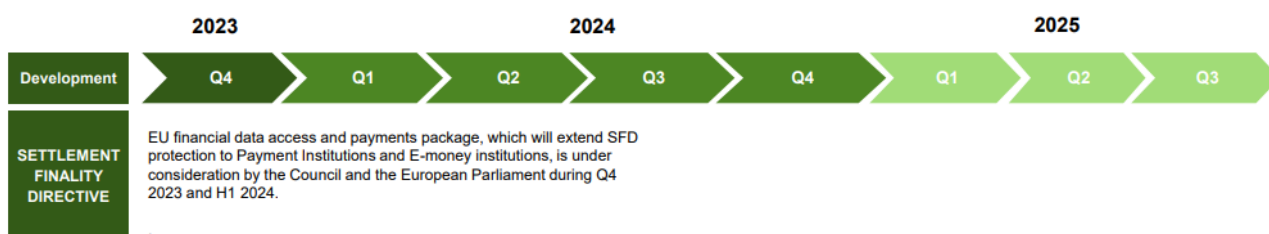
- EU CSDR aims to harmonise certain aspects of securities settlement, such as the timing of settlement and the authorisation process for EEA CSDs. The next major phase of implementation, the introduction of a mandatory buy-in regime, was intended to come into effect on 1 February 2022, but has been suspended and will now take effect from 2 November 2025. In the meantime, the legislative REFIT proposal starts to apply from 1 May 2024, amending the CSDR to:
  - Enhance supervisory co-operation;
  - Simplify the CSDR passporting process;
  - Facilitate CSDs' access to banking-type ancillary services;
  - Clarify elements of the settlement discipline regime;
  - Introduce an end-date for the grandfathering clause for EU and third-country CSDs and a notification requirement for third-country CSDs.
- From 1 January 2023, any EU issuer that issues transferable securities that are admitted to trading or traded on trading venues has been required to 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 RTS were adopted by the Commission as Commission Delegated Regulation (EU) 2023/1626 which entered into force on 31 August 2023.
  - The amendments introduced by the Delegated Regulation apply from 2 September 2024 to 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 depositories (CSDs).
- On 27 November 2023, the Council formally adopted the CSDR REFIT regulation amending the CSDR, following adoption by the European Parliament on 10 November 2023. CSDR REFIT was published in the Official Journal of the European Union on 27 December 2023 and enters into force on 16 January 2024. Certain of its articles apply from 1 May 2024 and the remainder two years after entry into force.
- In 2024, ESMA intends to deliver a CSDR report on CSD settlement efficiency and internalised settlement, and to work on mandates under the CSDR REFIT.
- 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.

### [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 posttrade context.
- The Commission consultation closed on 7 May 2021 and the Commission published a report on its review on 28 June 2023. The Commission concluded that the FCD has worked well and needs no major revisions. However, the Commission highlighted that :
  - Extending the scope of the FCD to additional market participants such as Payment Institutions and Electronic Money Institutions warrants further consideration and monitoring;
  - To keep up with market and regulatory developments, the current list of eligible financial collateral under the FCD (i.e., cash, financial instruments and credit claims) could be reviewed to consider whether its scope should be extended, but noting that and such extension would have to meet the requirements under FCD, including key concepts such as ‘possession’ and ‘control’ of the financial collateral to ensure, for example, that the collateral provider is prevented from disposing of the collateral; and
  - The FCD can apply to DLT based collateral provided that the collateral complies with the conditions set out in the FCD. However, for cryptoassets to qualify as financial instruments, the ownership provision, possession and control requirements of the FCD, might potentially raise issues and the results of the EU DLT Pilot Regime (a related provision under the EU’s Digital Finance Strategy) might provide further insights on how these issues might be addressed. ESMA is required to publish annual reports on the functioning of the EU DLT Pilot Regime, the first of which is due 31 March 2024.

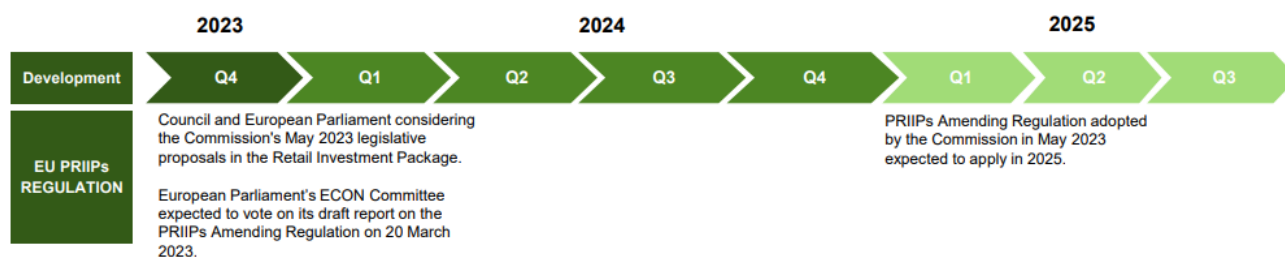
[Review of EU settlement finality directive](#)



- [The Settlement Finality Directive \(SFD\) regulates designated systems used by participants to transfer](#) financial instruments and payments. The SFD seeks to reduce the systemic risk associated with participation in payment and securities settlement systems, particularly the risk linked to the insolvency of a participant in such a system. It guarantees that transfer orders which enter into such systems are also finally settled, regardless of insolvency or revocation of transfer orders in the meantime.
  - The Commission was mandated under Article 12a of the SFD to conduct a review of its functioning and was due to have produced a report by 28 June 2021, including proposing 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 Commission consultation closed on 7 May 2021 and the Commission published a report on its review on 28 June 2023.
- The Commission concluded that, as with the related Financial Collateral Directive (FCD), no major overhaul of the SFD is required. However ,the Commission highlighted that:

- The SFD does not apply to third country settlement systems, but national authorities can exercise discretion to extend SFD protections to domestic institutions' participation in third country settlement systems. While the review found a lack of harmonisation in member states' exercise of the discretion, any future proposals to change the SFD to require further harmonisation need to be carefully weighed in terms of costs and benefits.
- There was support for Payment Institutions (PIs) and Electronic Money institutions (EMIs) to be added to the list of eligible direct participants in settlement systems. The EU financial data access and payments package adopted in June 2023 (see Slide 42) will make a targeted amendment to the SFD to add PIs to the list of institutions which have the possibility to participate directly in payment systems designated by a Member State pursuant to the SFD (but not to designated securities settlement systems).
- Consideration of applying SFD to DLT-based systems should await insights from the EU Digital Pilot Regime on the risks and benefits of DLT in trading and settlement.

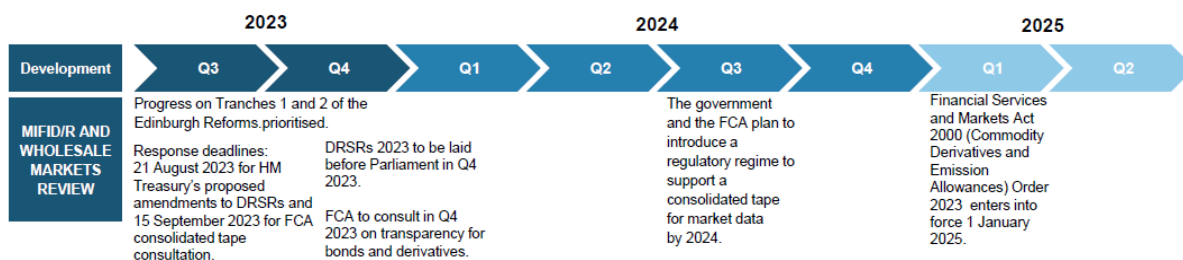
**EU PRIIPS REGULATION**



- The PRIIPs Regulation obliges manufacturers of packaged retail insurance-based and investment products (PRIIPs) to produce a concise pre-contractual disclosure document, the Key Information Document (KID), where such products are made available to retail investors. It also obliges persons who advise upon or sell PRIIPs to provide investors with the KID. It sets out rules on the content and format of the KID, as well as guidance for its review and timing of delivery.
- Delegated Regulation (EU) 2021/2259 extended the exemption from PRIIPs requirements for UCITS until 31 December 2022. This exemption has expired with the result that from 1 January 2023 PRIIPs KID requirements have applied to UCITS. In a related measure, Directive (EU) 2021/2261 amended the UCITS package to provide, from 1 January 2023, that KIDs that comply with PRIIPs are considered to satisfy the requirements for Key Investor Information Documents (KIIDs) set out in the UCITS package. As a result, EU member states must now allow provision of the PRIIPs KID to satisfy the requirement to provide a UCITS KIID.
- Delegated Regulation (EU) 2021/2268 has amended certain requirements relating to the presentation and content of KIDs. It has applied from 1 January 2023.
- The Commission has been reviewing the PRIIPs Regulation as part of a wider assessment of the EU's retail investment strategy. The retail investment package was adopted in May 2023, comprising a Directive and a Regulation relating to retail investment reforms (see Slide 22) The package includes a legislative proposal to make targeted amendments to various aspects of the PRIIPs Regulation, including the KID (PRIIPs Amending Regulation). This amending Regulation is proceeding through the EU legislative process. Based on the current draft text, it will take effect 18 months after its entry into force.

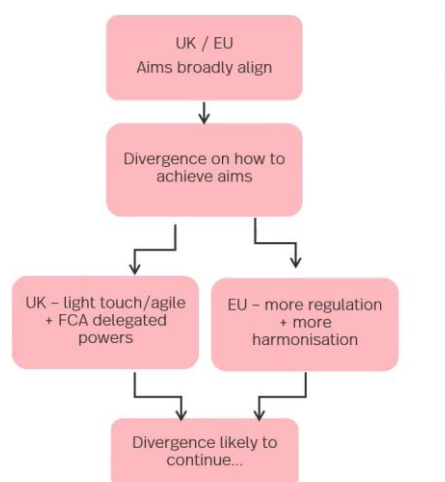
**UK Divergences**





- Financial Services and Markets Act 2023 – now in force
- Onshoring was a temporary fix
- The future:
  - **Tranche 1:** MiFID and Wholesale Markets Review (selected areas), Securitisation Regulation, Prospectus Regulation, PSD safeguarding, Solvency II
  - **Tranche 2:** Rest of MiFID and Wholesale Markets Review, PRIIPS, SSR, MMFR, PSD2, EMD, IDD, CRR, LTIF, PAR consumer information rules
  - **Tranche 3:** discussion in progress

### Key areas of divergence



### Key UK developments timeline

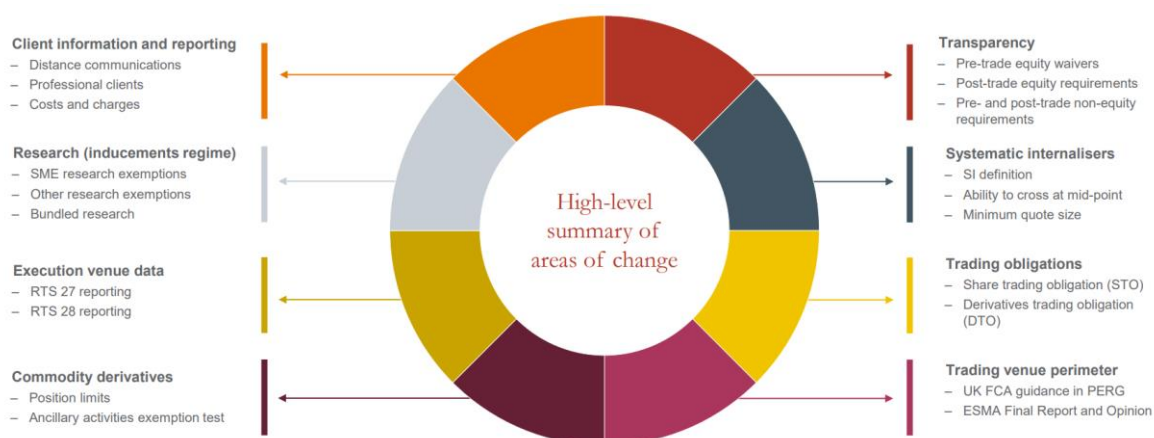


### MiFID II/MiFIR changes since Brexit

In the UK...	In the EU...
<ul style="list-style-type: none"> <li>• Designated reporter regime for post-trade transparency, equity and non-equity (April 2024)</li> <li>• Inducements and research: PFOF already effectively banned. MiFID quick fix relaxation.</li> </ul>	<ul style="list-style-type: none"> <li>• Proposal to introduce 'Designated Publishing Entity' for post-trade transparency, equity and non-equity</li> <li>• Retail Investment Strategy: proposal to ban retail PFOF and other changes e.g.</li> </ul>

<p>Investment Research Review recommendations July 2023</p> <ul style="list-style-type: none"> <li>• Transaction reporting changes unclear: proposed replacing ToTV test but no firm changes</li> <li>• Double volume cap (DVC) already removed</li> <li>• STO already removed</li> <li>• RTS 27 and 28 already removed</li> <li>• UK seeking to onshore MiFIR into the UK rules and legislation</li> </ul>	<p>inducements, suitability, benchmarking, categorisation, appropriateness,</p> <ul style="list-style-type: none"> <li>• Transaction reporting: proposal to reduce scope for off-venue transactions to align to post-trade transparency /ToTV underlying</li> <li>• Systematic internaliser (SI) definition: proposal to move to qualitative test</li> <li>• Pre-trade transparency: limit scope, DVC to be SVC, SIs removed from non-equity and other changes</li> <li>• STO to be pared back to EEA ISINs</li> <li>• Proposal to remove RTS 27 and 28</li> </ul>
<p>Brexit changes</p> <p>The UK implemented nonpolicy changes to the MiFID legislation and rules so that they continued to be functional after the UK left the EU</p>	<p>UK status post-Brexit</p> <p>The EU did not need to make legislative changes but did issue statements and commentary about the practical impact of the UK's departure</p>
<p>"Quick fix" changes</p> <p>In response to Covid-19, the UK implemented changes to the MiFID legislation and rules to accommodate the pressures on firms. The UK also made related changes to the rules on investor reporting in 2022</p>	<p>"Quick fix" changes</p> <p>In response to Covid-19, the EU implemented changes to the MiFID legislation and rules to accommodate the pressures on firms</p>
<p>Review</p> <p>In 2021, HMT carried out the Wholesale Markets Review (WMR), which proposed changes to the MiFID legislation and rules</p>	<p>Review</p> <p>In 2022, the Commission launched a review which resulted in a proposed directive and regulation amending the MiFID regulatory framework</p>
<p>WMR rule changes</p> <p>In 2022, the FCA consulted on changes to its rules which it was able to make under its existing powers – some of these changes are in force (but not all)</p>	<p>Political agreement</p> <p>In June 2023, the Parliament and the Council reached political agreement on the amending proposals</p>
<p>WMR legislative changes</p> <p>FSMA 2023 makes changes to MiFIR and the MiFI Regulations 2017, which implement WMR proposals and/or give the FCA powers needed to implement them</p>	<p>Next steps</p> <p>Currently technical trilogues are ongoing, and publication in the OJ is not currently expected to be earlier than Q1 2024</p>

**Overview: key areas where there is movement** *Since the UK left the EU, the UK and/or the EU have made or proposed changes in the following key MiFID areas.*



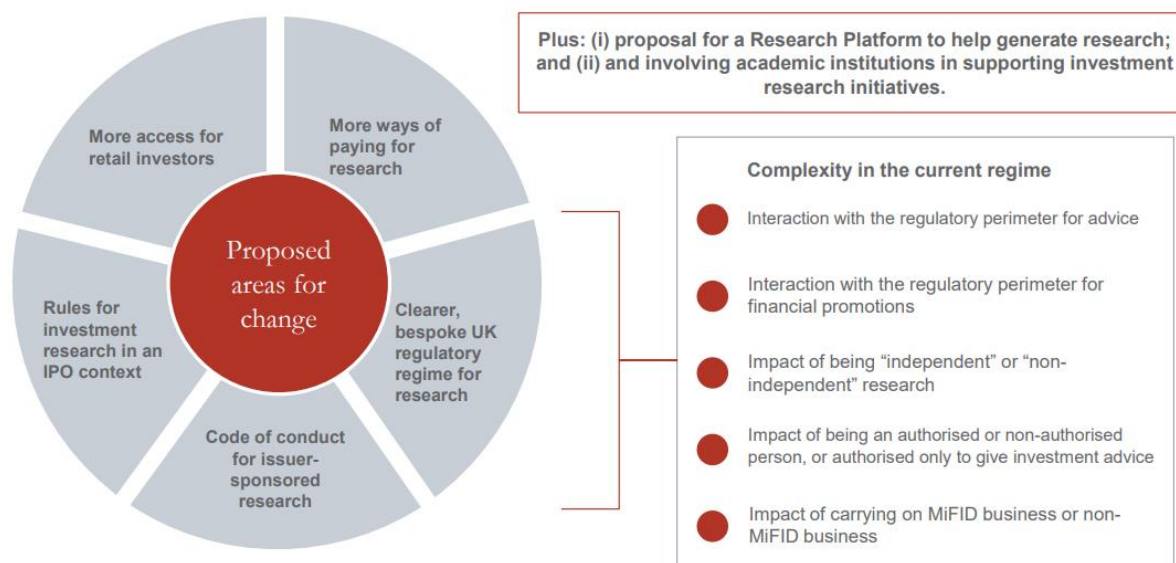
Plus limited changes in relation to: (i) consolidated tape; (ii) market making agreements; (iii) ETD open access; (iv) payment for order flow; (v) DEA limitation for the dealing on own account exemption; (vi) product governance

Topic	UK change?	EU change?	Summary comment
Clarifying the trading venue perimeter	Yes	Yes	Both jurisdictions have issued guidance with a very similar approach to breaking down the definition of trading venue
Commodity derivatives. <i>For the UK and EU there are pre-existing changes to the scope of the regime as a result of the UK FCA Statement on Supervision of Commodity Position Limits and the EU quick fix amendment</i>	Yes	Yes	Both jurisdictions are revising the ancillary activities exemption test and changing the scope of the position limits regime, but in slightly different ways
Waivers from the transparency requirements for equities	Yes	Yes	Both jurisdictions are looking at the reference price waiver rules, but further changes are expected in the UK following the FCA's further review
Double Volume Cap	Yes	Yes	UK has removed the cap; EU proposes a 7% single volume cap
Systematic internalisers	Yes	No	Both jurisdictions are looking at the treatment of SIs in slightly different ways and notably the UK is introducing the new designated reporter regime
STO	Yes	Yes	UK has removed the obligation; EU is limiting scope
DTO	Yes	Yes	Both jurisdictions are aligning DTO with EMIR CO and both are reviewing the scope of post-trade risk-reduction services [ <i>the concept of post-trade risk reduction services is also relevant to other areas such as the application of best execution requirements</i> ]

Topic	UK change?	EU change?	Summary comment
Providing client information electronically	Yes	Yes	<i>Broadly the same – the change shifts the default method of providing clients with information to electronic means</i>
Relaxation of distance communications requirements	Yes	Yes	<i>Broadly the same – the change allows costs and charges information to be provided after the transaction concludes where the client consents</i>
Relaxation of costs and charges disclosure requirements for professional clients	Yes	Yes	<i>Broadly the same – the change removes the costs and charges requirements (Article 50 of the MiFID Org Reg) for professional clients</i>
Exemption from the research payment rules for SME research	Yes	Yes	<i>Same intention but different thresholds of market capitalisation – UK threshold is below £200m and EU threshold is below EUR 1bn</i>
Exemptions from the research payment rules in other cases	Yes	No	<i>It is possible that the UK research regime will differ significantly from the EU research regime in future – see next slide</i>
Relaxation of reporting requirements for professional clients	Yes	Yes	<i>Broadly the same – the change removes, for professional clients: (i) the “adequate reports” requirement and (for investment advice and portfolio management); and (ii) the cost-benefit analysis requirement</i>
Removal of RTS 27 reporting for execution venues	Yes	Yes	<i>Same effect – on the EU side, this is currently not a legislative change, but ESMA has made a statement that there is no regulatory expectation of compliance</i>
Removal of RTS 28 reporting for firms	Yes	No	<i>EU firms still have to make RTS 28 reports</i>

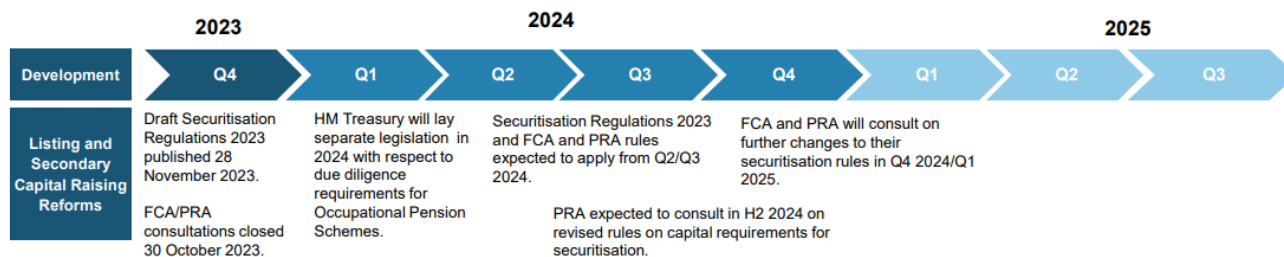
### Timetable

1. 29 Jun 2023 FSM Bill received Royal Assent.
2. 31 Dec 2023 Expiry of EU onshored law (Brexit Freedoms Bill) except where rules have been preserved and codified.
3. H1 2024 A policy paper and proposals for further aligning ringfencing and resolution regimes is expected.
4. 2024 Possible new designated activities regime to be introduced by FSMA 2023



## UK "smarter regulatory framework"

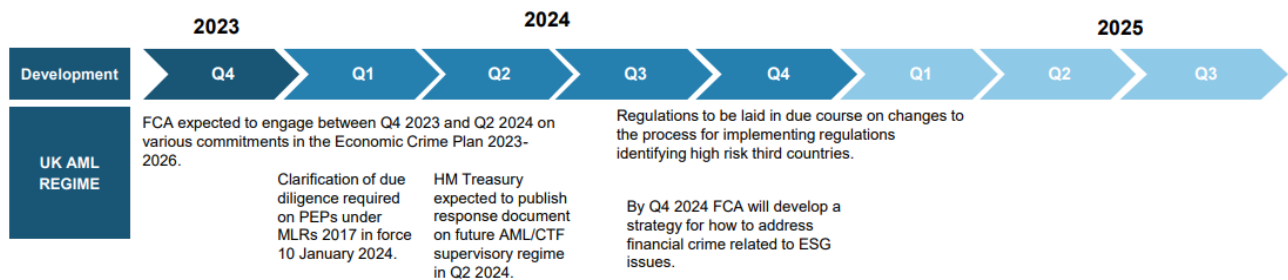
PS 23/4 changes	FSMA 2023 changes
- Streamlining the lists of non-price forming transactions used for different purposes in the context of equity transparency	- New FCA rule-making powers for pre-trade transparency requirements for equity instruments and pre- and post-trade transparency requirements for non-equity instruments (including waivers, waiver suspensions and deferrals)
- Amending the definition of most relevant market for the purposes of liquidity to remove restrictions in relation to the tick size regime [*in force*]	- Removal of the double volume cap (DVC) mechanism and the share trading obligation (STO) [*in force*]
- Remove the size threshold for OMF order waivers [*in force*]	- New definition of SI and new FCA power to make rules for this purpose
- Introduction of the designated reporter regime	- Extended ability for SI to trade at midpoint [*in force*]
- Amendments to reporting fields and trade flags	- Syncing up the derivatives trading obligation (DTO) with the EMIR clearing obligation [*in force*]
- guidance on the trading venue perimeter	- New FCA rule-making powers to suspend/modify the DTO
	- New FCA rule-making powers for risk reduction services
	- Changes to the scope of the commodity derivatives position limits regime



- [FSMA 2023 enables the government to reform the UK's securitisation regime and deliver the recommendations of the 2021 Securitisation Review with the aim of:](#)
  - (i) bolstering securitisation standards in the UK, in order to enhance investor protection and promote market transparency; and
  - (ii) supporting and developing securitisation markets in the UK, including through the increased issuance of STS securitisations, in order to ultimately increase their contribution to the real economy.
- The UK Securitisation Regulation was allocated to Tranche 1 of the repeal and reform programme announced in December 2022 as part of the Edinburgh Reforms package.
- Following an illustrative draft in December 2022 and a revised draft in July 2023, [in late November 2023 HM Treasury published a near final draft of the Securitisation Regulations 2023](#). The draft Regulations require the approval of both Houses of Parliament before being made. Among other things the draft Securitisation Regulations 2023 would:
  - grant powers to the FCA and PRA to make securitisation-related rules – including by designating certain sell-side activities for regulation under the Designated Activities Regime introduced by FSMA 2023;
  - give directions to the FCA and PRA about how to regulate securitisation (including both firm and systemic financial stability considerations) and instruct them to have regard to the “coherence of the overall framework for the regulation of securitisation” when making rules applicable to firms;
  - grant powers to the FCA to dispense with its rules in some circumstances; and
  - provide detail on the equivalence regime for allowing UK institutional investors to treat non-UK securitisations as simple, transparent and standardised, or “STS”.
- The PRA (in respect of credit institutions and large investment firms) and FCA (in respect of other firms) will write the rules for sell-side firms by moving the relevant rules to the Rulebooks.
- The FCA and PRA consulted in Q3 2023 on their proposed use of new powers to make rules to replace the relevant firm-facing provisions in the Securitisation Regulation (and related technical standards) and expect to issue Policy Statements in Q2 2024. Further consultations will also take place later in 2024/early 2025.

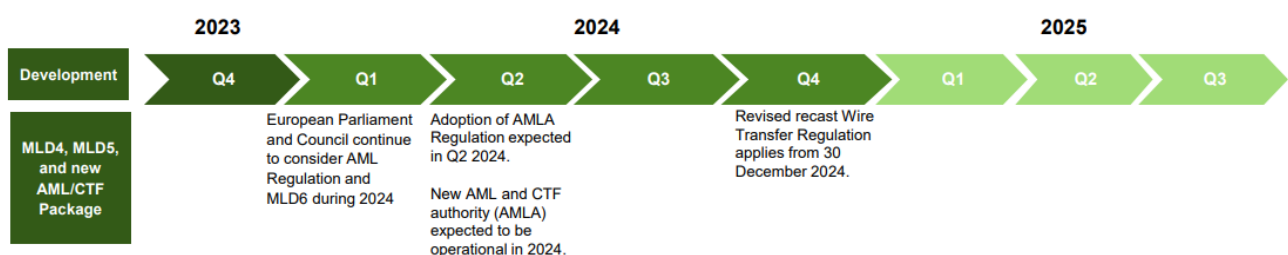
## AML & MAR

### 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 were all phased in by 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 should be expected.
- In March 2023, the Government published its second Economic Crime Plan, covering the period 2023-2026, outlining an ambition for an improved end-to-end response to tackling money laundering, which will require further targeted consultations.
- Amendments to the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs 2017) enter into force on 10 January 2024, to clarify the application of the customer due diligence requirements in the MLRs 2017 with respect to PEPs.
- The FCA is exploring (in DP 23/4, published November 2023) how the UK's AML framework and the FCA's financial crime rules and guidance should apply to stablecoin issuers and custodians when Phase 1 of the UK's cryptoasset framework is implemented. See Slide 61 for further details.
- On 30 June 2023, HM Treasury published a consultation on reform of the anti-money laundering and counter-terrorism financing supervisory regime, which set out four possible models for a future AML/ CTF supervisory system. The consultation closed for comments on 30 September 2023, with HM Treasury planning to issue a response document in Q2 2024.
- On 20 June 2023, the government published an impact assessment on proposals for a change in the process by which regulations identifying high-risk third countries for money laundering purposes are implemented. Regulations will be laid in due course laid to make the proposed legislative amendments.
- [The Economic Crime Plan 2023-2026 sets out a range of commitments aimed at combatting the criminal abuse of cryptoassets.](#) The FCA is engaging between Q4 2023 and Q2 2024 on various commitments, including: delivering training to law enforcement and partner agencies to improve understanding of the UK cryptoasset regime; updating its cryptoasset business registration webpages and providing tailored communications where necessary to improve understanding of cryptoasset regulation; and engaging with cryptoasset businesses and monitoring their compliance with the "travel rule".

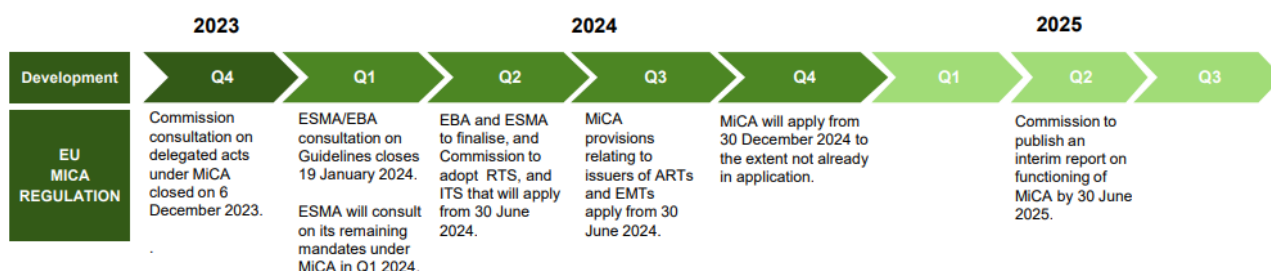
## EU MLD4, MLD5 AND THE NEW AML AND CTF PACKAGE



- 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 and update the AML and CTF framework.
- In July 2021, the Commission adopted a package of legislative proposals:
  - (i) a regulation establishing a new EU AML and CTF authority (AMLA Regulation);
  - (ii) a new regulation on AML and CTF (AML Regulation);
  - (iii) a sixth directive on AML and CTF (MLD6); and
  - (iv) a regulation on information accompanying transfers of funds and certain cryptoassets (revised recast Wire Transfer Regulation).
- [The package continued its progress through the EU legislative process in 2022 and 2023, with the Council agreeing its general approach in June and December 2022 and the European Parliament agreeing its negotiating position in April 2023.](#) The revised recast Wire Transfer Regulation was adopted in May 2023 and published in the Official Journal on 9 June 2023. It will apply from 30 December 2024.
- Trilogue negotiations with respect to the AML Regulation and MLD6 are ongoing. Political agreement has been reached on the AMLA Regulation, with adoption expected in Q2 2024.
- Following a consultation between December 2022 and February 2023, in March 2023 the EBA published new and revised guidelines on
  - (i) policies and controls for the effective management of money laundering and terrorist financial risks when providing access to financial services; and
  - (ii) customer due diligence.
- On 31 May 2023, EBA launched a consultation on proposals to change the scope of its guidelines on AML and CTF risk factors under MLD4 to include the specific features of cryptoassets and cryptoasset service providers (CASPs). The consultation closed on 31 August 2023 and revised guidelines will be published in due course.
- On 24 November 2023, EBA launched a consultation on new guidelines on preventing the abuse of funds and certain cryptoassets transfers for money laundering under the revised recast Wire Transfer Regulation. That consultation closes on 26 February 2024 and revised guidelines will be published in due course.

## Crypto & DLT

### EU MiCA REGULATION

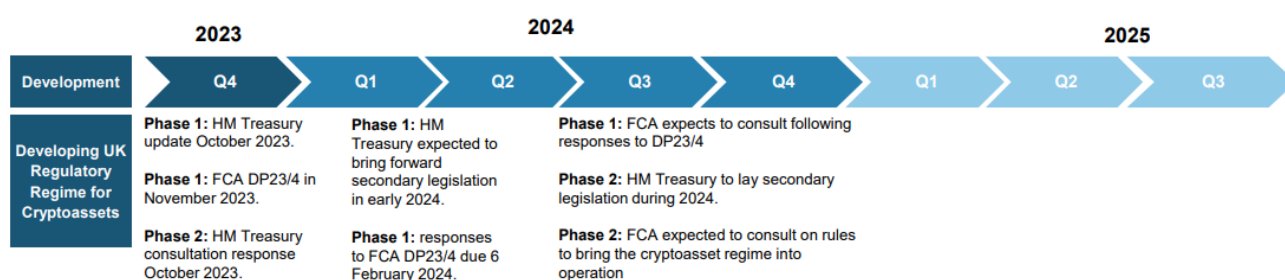


- [The Markets in Cryptoassets Regulation \(MiCA\) aims to harmonise cryptoasset regulation across the EU.](#)



- [MiCA applies with respect to cryptoassets that do not qualify as MiFID financial instruments, deposits or structured deposits or traditional e-money under existing EU financial services legislation.](#) In-scope cryptoassets are stablecoins ('Asset Referenced Tokens' (ARTs) and 'e-money Tokens' (EMTs)) and utility tokens ('other cryptoassets').
- [As well as placing obligations on those who issue or offer cryptoassets to the public, MiCA provides a framework for service providers \('CASPs'\),](#) which will bring in separate authorisation and ongoing requirements for activities such as trading and custody of this asset class. It will ensure among other things that customer assets are properly segregated from a cryptoasset firm's own assets and will ensure the cryptoassets firm has enough liquidity on hand in the form of reserves to meet customer withdrawals. It will also introduce a market abuse regime.
- [MiCA was published in the Official Journal on 9 June 2023 and entered into force on 29 June 2023.](#)
- MiCA's provisions related to stablecoins (Asset Referenced Tokens and E-Money Tokens) apply from 30 June 2024, with the remainder of its provisions applying from 30 December 2024.
- MiCA will be supported by further 'Level 2' delegated acts, regulatory technical standards (RTS) and implementing technical standards (ITS), and 'Level 3' guidelines:
  - The Commission launched a consultation from 8 November 2023 to 6 December 2023 on four delegated acts, which it plans to adopt before the application of the relevant parts of MiCA on 30 June 2024.
  - In July, October, November and December 2023, the EBA launched a series of consultations on draft RTS, draft ITS and guidelines related to ART issuers. These RTS, ITS and guidelines also apply to issuers of significant EMTs by virtue of Article 58 of MiCA.
  - In July and October 2023, ESMA published two sets of consultations on eleven draft RTS and four draft ITS related to CASPs.
  - In October 2023, the EBA and ESMA jointly consulted on two sets of guidelines on suitability assessments of the management body and holders of qualifying holdings of issuers of ARTs or CASPs. The consultation closes on 19 January 2024.
  - ESMA plans to publish a third set of consultations on its remaining mandates under MiCA in Q1 2024.

### DEVELOPING UK REGULATORY REGIME FOR CRYPTOASSETS



- Proposals for a UK regulatory regime for cryptoassets have been under consideration for several years and substantial progress is expected to be made in 2024. FSMA 2023 enables HM Treasury to expand the UK's regulated activities framework and (if necessary) make use of the new designated activities regime (DAR) to provide for regulation of cryptoasset related activities. The government plans to introduce regulation in two phases:
  - **Phase 1: fiat-backed stablecoins used as a means of payment; and**
  - **Phase 2: other stablecoins and unbacked cryptoassets.**
- Phase 1: (fiat-backed stablecoins used for payments) - FSMA 2023 has introduced a flexible, amendable definition of 'Digital Settlement Asset' (DSA) that will initially capture fiat-backed

stablecoins and has made the necessary amendments to other legislation to provide for regulation of payment systems using DSAs and their service providers.

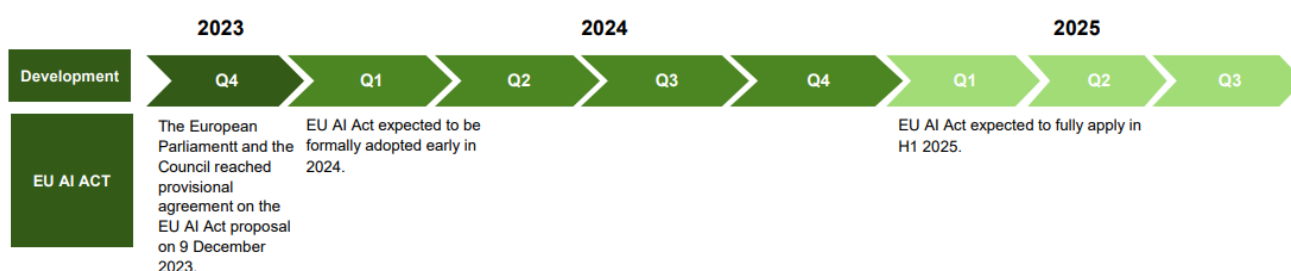
- The FCA will have powers to regulate firms issuing or facilitating the use of DSAs, the BoE will have powers to supervise recognised systemic DSA payment systems and the PSR will have powers to regulate designated DSA payment systems and their participants. These changes will allow fiat-backed stablecoins used for payments to be brought within regulation.
  - HM Treasury provided an update in October 2023 on its proposals to establish an authorisation and supervision regime for the issue and use of DSAs. HM Treasury plans to bring forward the necessary legislation in early 2024 to bring issuance and custody of fiat-backed stablecoins within the regulatory perimeter.
  - [The FCA issued a discussion paper \(DP23/4\) on its proposed approach in November 2023](#), inviting comments by 6 February 2024. This will be followed by a consultation on draft rules and guidance.
- Phase 2: (wider cryptoassets) – FSMA 2023 inserted a definition of ‘cryptoasset’ into s.417 of FSMA. Cryptoassets and related activities will be brought into regulation via amendments to the Regulated Activities Order and via the DAR.
  - [HM Treasury consulted in February 2023 on its developing proposals and issued its consultation response in October 2023 confirming its proposals for new regulated activities, authorisation](#), territorial scope and market abuse provisions. HM Treasury will lay secondary legislation in 2024. FCA is expected to consult on draft rules.
- Marketing: Separate proposals have also been finalised to bring promotions of cryptoassets of all types within the scope of the UK financial promotions regime (see Slide 60).

Table 4.A Proposed scope of cryptoasset activities to be regulated under Phase 2		
Activity category	Phase 2 sub-activities (indicative, non-exhaustive)	Chapter
Issuance activities	Admitting a cryptoasset to a cryptoasset trading venue	Chapter 5
	Making a public offer of a cryptoasset	Chapter 5
Exchange activities	Operating a cryptoasset trading venue which supports: <ul style="list-style-type: none"> <li>▪ the exchange of cryptoassets for other cryptoassets</li> <li>▪ the exchange of cryptoassets for fiat currency</li> <li>▪ the exchange of cryptoassets for other assets (e.g. commodities)</li> </ul>	Chapter 6
Investment and risk management activities	<ul style="list-style-type: none"> <li>• Dealing in cryptoassets as principal or agent</li> <li>• Arranging (bringing about) deals in cryptoassets</li> <li>• Making arrangements with a view to transactions in cryptoassets</li> <li>• Making arrangements with a view to transactions in cryptoassets</li> </ul>	Chapter 7
Lending, borrowing & leverage activities	Operating a cryptoasset lending platform	Chapter 10

Safeguarding and /or administration (custody) activities	Safeguarding or safeguarding and administering (or arranging the same) a cryptoasset other than a fiat-backed stablecoin and/or means of access to the cryptoasset (custody)	Chapter 8
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## Digital finance, SupTech, RegTech & FinTech

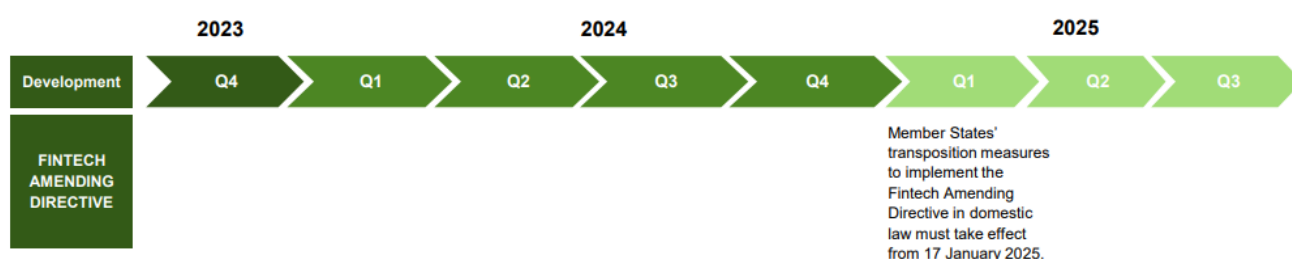
### EU AI ACT



- [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 according to level or risk.
- [AI uses that are deemed to present unacceptable risk will be prohibited.](#)
- High risk AI systems and their providers, users/deployers and other operators will be subject to detailed requirements (including conformity assessment, risk and quality management, data governance, documentation and recordkeeping, registration, transparency, human oversight, accuracy, robustness and cyber security).
- Certain other AI systems will be subject to transparency requirements. Both the European Parliament and Council have introduced further obligations that may be agreed on in the finalised text of the Act.
- The AI Act will apply to all sectors including financial services, except for private, non-professional use of AI. The measures in the proposed Regulation will extend to
  - (i) providers placing on the market or putting into service AI systems in the EU; and
  - (ii) users ("deployers") of AI systems located in the EU;
  - (iii) providers and deployers based outside the EU to the extent the output produced by the AI system is used in the EU; and
  - (iv) other actors in the AI value chain such as importers and distributors of AI systems.
- A number of amendments were made during the passage of the legislation through the EU legislative process, for example new provisions have been introduced with respect to management of so-called foundation models.
- 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, or another 'operator' in the AI value chain and comply with the associated requirements according to the risk classification of the system.

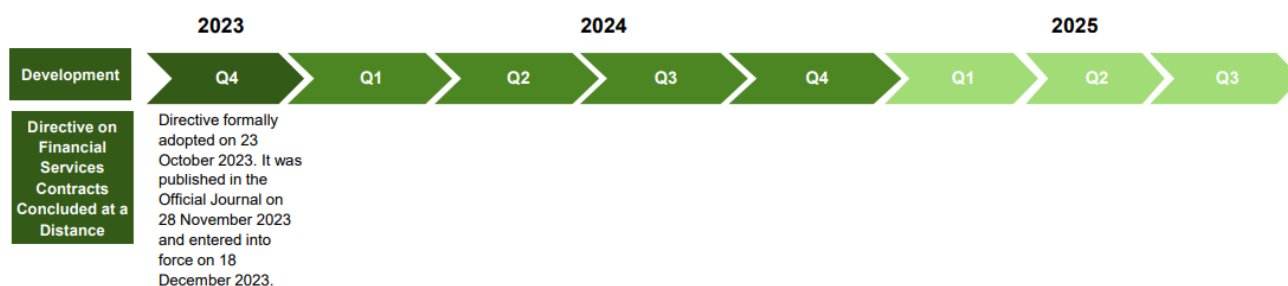
- The Council and the European Parliament reached provisional agreement on the EU AI Act proposal on 9 December 2023. Formal adoption of the legislation and its publication in the Official Journal is expected to take place in early im 2024.
- It is expected that the adopted legislation will contain transitional periods of six months for prohibition requirements, 12 months for general purpose AI requirements and 24 months for everything else.
- Given the extreme speed of AI development, and that the legislative proposal is not expected to fully apply before 2025, [the European Commission plans a temporary voluntary AI Pact with global technology companies which will operate prior to the application of the legislation.](#)

**Fintech amending directive**



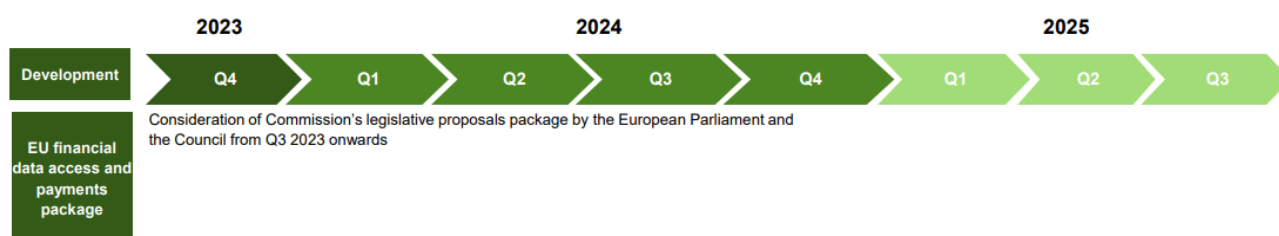
- The Fintech Amending Directive (EU) 2022/2556 of 14 December 2022 was published in the Official Journal in December 2022 and entered into force on 16 January 2023. It supports the DORA Regulation (see Slide 35) as part of the EU’s Digital Finance Strategy.
  - The Fintech Amending Directive makes amendments to various sectoral Directives to ensure that their requirements on operational risk and risk management are crossreferenced 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 Fintech 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.

**DISTANCE MARKETING OF FINANCIAL SERVICES**



- Directive on Financial Services; Contracts Concluded at a Distance; Following a regulatory fitness (REFIT) evaluation, the Commission found that the protections of the Distance Marketing Directive (DMD) remain useful as a horizontal safety net where more recent sector-specific legislation has not been enacted, but that the DMD's protections need to be updated to account for technology developments since its adoption.
- The Commission adopted a legislative proposal in May 2022 for a Directive on financial services contracts concluded at a distance. The Directive entered into force on 18 December 2023. The Directive will repeal the DMD and transfer its contents to a new chapter within the Consumer Rights Directive (CRD) and extend certain CRD rules to financial services contracts concluded at a distance. Existing DMD protections are also modernised.
- National implementing measures will need to include targeted amendments to the framework of protections in relation to pre-contractual information, the consumer right to withdrawal, and adequate explanations of proposed financial services contracts, to include a right to the customer to request human intervention where online services (for example chatbots) are used. A new protection will also be included regarding online interfaces.
- [The Council and the European Parliament reached provisional agreement on the proposed Directive on 21 June 2023. The Council formally adopted the Directive on 23 October 2023. It was published in the Official Journal on 28 November 2023 as Directive \(EU\) 2023/2673 and entered into force on 18 December 2023.](#)
- The Directive requires member states to transpose the rules into national law with 24 months, and to apply them six months later.
- The Directive will apply from 19 June 2026. The Distance Marketing Directive will be repealed on the same date.

### PSD3 AND OPEN FINANCE: EU FINANCIAL DATA ACCESS AND PAYMENTS PACKAGE



- [The European Commission has put forward a financial data access and payments package](#), which comprises:
  - proposals for a new Payment Services Directive (PSD3);
  - a Payment Services Regulation (PSR); and
  - a Regulation on a framework for financial data access (FIDA).
- The current Payment Services Directive (PSD2), and second e-money Directive, will be repealed and together become PSD3 and be complemented by the new PSR. Measures include proposals to further level the playing field between banks and non-banks, improve the functioning of open banking, combat fraud and improve consumer rights. The financial data access regulation will promote open finance, by establishing a framework of clear rights and obligations to manage customer data sharing in the financial sector beyond payment accounts. The proposals will now be considered by the European Parliament and the Council.
- The PSD3 and PSR proposals combine the existing payment services and electronic money regimes into a single set of proposals. PSD3, which will need to be transposed into national law by EU member states, covers the authorisation and supervision of payment institutions and e-money issuers. The PSR sets out conduct of business requirements for payment services including the rights and obligations of the parties involved.

- The FIDA builds upon and expands the scope of the existing third-party provider (TPP) access provisions in the PSR, extending the open banking principle to other types of accounts and financial products under a broader “open finance” initiative. It introduces financial sector-specific rules as envisaged by Chapter III of the proposed EU Data Act.
- While PSD3 and PSR do not materially change the current list of regulated payment services, firms’ existing licenses will only remain valid for 30 months after PSD3 enters into force. This means that existing payment institutions and e-money institutions will be required to reapply for a licence under the new regime within 24 months of PSD3 coming into force.
- The PSD3 proposal requires Member States to transpose and apply implementing legislation from 18 months after entry into force (apart from certain amendments which are to apply from 6 months after entry into force).
- The PSR proposal states that it will apply from 18 months after entry into force.
- [Rules on financial data sharing schemes and authorisation of financial information service providers under FIDA are also due to apply from 18 months after entry into force, with other provisions applying from 24 months after entry into force.](#)

**LSEG establishes Technology Centre of Excellence in Hyderabad;** Plans to hire over 1000 engineers and professionals by the end of 2025; Hyderabad chosen for its alignment with LSEG’s ambitions in talent, innovation, infrastructure, and financial services. LSEG (London Stock Exchange Group) announces the opening of its Technology Centre of Excellence in Hyderabad, India, a key step in the company’s global expansion efforts. The facility aims to spearhead new product and service development by prioritising low-latency technology development and capitalising on the local startup ecosystem. [/lne.ws/48EPNjy](https://lne.ws/48EPNjy)

**CFTC Advisory Group Proposes Regulatory Approach to DeFi and AI;** *In a new Report, a CFTC Technology Advisory Subcommittee (“Advisory Group”) [described](#) the “promising opportunities and complex, significant risks to the U.S. financial system, consumers, and national security” associated with decentralized finance (“DeFi”) and generative artificial intelligence (“AI”).*

- In the “Report of the Subcommittee on Digital Assets and Blockchain Technology,” the advisory group warned that “in the absence of effective regulation, enforcement, and compliance, many of these DeFi projects, enterprises, and ecosystems have been vulnerable to fraud, mismanagement, and serious regulatory violations” and that the “risks have been compounded by periods of extremely high market volatility, exposing investors, customers, and other stakeholders to significant losses.” The advisory group said that the “central concern relating to DeFi systems is the lack of, and some industry designs to avoid, clear lines of responsibility and accountability” and summarized that the benefits of these technologies “depend significantly on the design and features of specific systems.”
- The advisory group said that the Report should be used as “a conceptual framework for understanding and taking steps to address these opportunities and risks across these diverse enterprises, projects, and ecosystems.” The advisory group stated that the framework is “grounded” in a “technical understanding of the core features of DeFi, the current state of play, and the likely consequences—both positive and negative—stemming from its continued development and growth.”
- The advisory group recommended that policymakers:
  - improve their resource assessment and data gathering;
  - map “the existing regulatory perimeter”;
  - “systematically identify, define, and catalogue the risks arising in connection with DeFi, including those pertaining to asymmetric information and conflicts of interest, operational and security vulnerabilities, liquidity and maturity mismatches, over-leverage, hardwired algorithmic failures

- and procyclicality, complexity and concentration risks in DeFi compositions, and market manipulation and illicit finance”;
- identify and evaluate the range of potential policy responses;
  - foster greater engagement and collaboration with domestic and international standard setters, regulatory efforts and DeFi builders; and
  - apply the "recommended framework to drive near-term, prioritized progress on digital identity, 'know your customer'" and anti-money laundering (AML) regimes, and calibration on privacy in DeFi."
- [CFTC Statement Christy Goldsmith Romero: Opening Statement of Commissioner Christy Goldsmith Romero, Sponsor of the CFTC Technology Advisory Committee, on Responsible Artificial Intelligence, Cyber Resilience & Decentralized Finance](#)
  - [CFTC Technology Advisory Committee Report: Report of the Subcommittee on Digital Assets and Blockchain Technology](#)
  - [FIA Market Voice Article: CFTC technology advisory committee discusses AI](#)
  - [CFTC Statement Christy Goldsmith Romero: CFTC's Digital Assets and Blockchain Technology Subcommittee Release of Decentralized Finance Report](#)

[Hong Kong Government consults on proposal to implement regulatory regime for stablecoin issuers](#); *The Financial Services and the Treasury Bureau (FSTB) and the HKMA have jointly launched a [public consultation](#) on a legislative proposal to regulate issuers of stablecoin.*

- In view of the roles played by stablecoins in the Web3 and virtual asset (VA) ecosystem, and the rising interconnectedness between the traditional financial system and the VA markets, the Government considers that a regulatory regime should be introduced for fiat-referenced stablecoin (FRS) issuers.
- The legislative proposal takes into account the feedback received on the HKMA's January 2022 discussion paper on cryptoassets and stablecoins. Amongst other things, the proposal involves:
  - introducing a new piece of legislation to implement a licensing regime requiring all FRS issuers that meet certain conditions to be licensed by the HKMA;
  - requiring that FRS can only be offered by specified licensed entities, and only FRS licensed by the HKMA can be offered to retail investors;
  - prohibiting the advertising of FRS issuance by unlicensed entities or non-specified licensed entities' offering of FRS;
  - providing the necessary powers for the authorities to adjust the parameters of in-scope stablecoins and activities having regard to the rapid VA market development; and
  - providing a transitional arrangement to facilitate the implementation of the regulatory regime.
- The HKMA also plans to introduce a sandbox arrangement to communicate its supervisory expectations and compliance guidance to entities with a genuine interest in and a reasonable plan for issuing FRS in Hong Kong. Relevant details of the sandbox arrangement will be announced separately.
- Comments on the consultation are due by 29 February 2024.

[EU Council and Parliament reach provisional agreement on Artificial Intelligence Act](#); *The EU Council and Parliament have [reached](#) a provisional political agreement on the proposed Artificial Intelligence (AI) Act. The proposed regulation is intended to introduce harmonised rules to promote investment and innovation in AI, and to ensure that AI developed and used within the EU is trustworthy and subject to an appropriate legal framework.*

- The provisional agreement differs from the EU Commission's initial proposal in several areas, including:
  - the definition of AI systems now aligns with that proposed by the Organisation for Economic Co-operation and Development (OECD). Systems that are used exclusively for military, defence, research and innovation or non-professional purposes are excluded from the regulation;

- AI systems are classified as posing minimal risk, high risk or unacceptable risk, with each classification subject to different obligations and transparency requirements. Unacceptable uses of AI, including cognitive behavioural manipulation, social scoring, emotion recognition in the workplace and educational institutions, and biometric categorisations that use sensitive characteristics, are prohibited within the EU;
  - certain adjustments have been made relating to the use of AI systems for law enforcement purposes, including clarifying the circumstances under which law enforcement can use real-time remote biometric identification systems in publicly accessible spaces;
  - new provisions have been added to address 'general purpose AI' (GPAI) (i.e. AI systems that are used for many different purposes) and 'foundation models' (i.e. large systems capable of performing a wide range of distinctive tasks);
  - an AI Office will be set up within the EU Commission, responsible for overseeing advanced models, such as GPAIs;
  - penalties for violations of the Act have been adjusted to make them more proportionate for SMEs and start-ups;
  - high-risk AI systems will be subject to increased transparency requirements and must undergo a fundamental rights impact assessment before being put on the market; and
  - AI regulatory sandboxes will allow for testing of innovative AI systems in real world conditions.
- The political agreement is now subject to formal approval by the EU Council and Parliament, and will enter into force 20 days after its publication in the Official Journal. The AI Act would then become applicable two years after its entry into force, with some exceptions for specific provisions.

**BIS Innovation Hub** head [Cecilia Skingsley](#) spoke at the “Central Bank Digital Currencies: State of Play” panel at the Ideas Hub of the [World Economic Forum](#). *Sharing the stage with Javier Perez-Tasso, CEO of SWIFT, Mrs. Skingsley pointed out that continuous technological progress increases humankind's appetite for better goods and services.*

- Therefore, it is “critical to upgrade our global financial system” to meet users’ growing expectations. “This could be done by improving existing systems as well as building new ones,” she said. Connecting fast payments services across borders is one promising way of upgrading the existing infrastructures, she said, as illustrated by the Innovation Hub’s Project Nexus.
- In the second case, of creating new systems, the BIS Innovation Hub and several central banks are active researching [CBDCs](#), which could be described as possible new version of money fit for the needs in our increasingly digital societies. “For those of us who believe that the fiat money system is still the best version of money that can be offered in our society, we need to study it very seriously,” she said.
- Central banks are increasingly exploring how wholesale CBDCs, in particular, can be helpful in improving the functioning of financial services. In addition to that, many central banks also explore if offering retail CBDCs could support public policy objectives making sure everybody can have access to a safe and stable version of money.
- At the same time, safety and security are essential pre-requisite for achieving enhanced payment services in a sustained manner. Efficiency could never come at the expense of safety, she added, as it is clear from the G20 priorities in this area.

**EU Commission FAQs on EU AI Act** ; *Previous issues of [AI View](#) have covered the development of the EU AI Act.*

- On 12 December 2023, the EU Commission published a helpful list of FAQs providing guidance on some of the details of the AI Act and about AI regulation more generally.
- The FAQs cover topics such as:



1. Why AI needs to be regulated;
2. Which risks the AI Act addresses
3. How the use of risk categories will work, and how higher-risk systems are identified;
4. How the AI Act seeks to future-proof the regime;
5. How the AI Act aims to protect fundamental rights; and
6. How the AI Act will be enforced.

- Read the Commission's FAQs [here](#).

**Updated Product Liability Directive brings Artificial Intelligence into scope;** *On 14 December 2023, the Council of the European Union and the European Parliament reached a consensus on modernising the EU's Product Liability Directive (PLD) to address the challenges posed by the digital age and the circular economy.*

- The PLD is intended to impose strict liability on producers and other economic operators for products that cause harm. Harm under the current regime means personal injury or death, damage to property. However, the proposed new PLD is likely to add destruction or irreversible corruption of data not used for professional purposes.
- The final text of the revised PLD is yet to be published; however, it is expected to include an expanded definition of scope of 'products' that claimants can pursue claims in relation to, to include digital manufacturing files and software, including AI.
- In previous drafts the revised PLD was said not to impose liability in relation to free and open-source software not used commercially, unless such software has been offered for a price or for personal data not exclusively used for improving the software's security or compatibility. It will be interesting to see if the final draft retains this exclusion, which is intended to encourage innovation for public benefit, without fear of liability.
- The revised PLD will apply to products placed on the EU market 24 months after its enactment, with EU countries required to incorporate the directive into national law by that time. The agreement awaits formal endorsement by Member States' Council representatives. If approved, the text will go through the formal adoption process.
- Read the press release [here](#).

**ISO introduces international standard for AI management systems;** *On 18 December 2023, the International Organisation for Standardisation (ISO) introduced a new management system standard ([ISO/IEC 42001:2023 \(paywalled\)](#)) for organisations involved in developing, providing or using AI-based products or services. The standard underwent a public consultation phase and is designed to be applicable to organisations across all industries, of any size and type.*

- ISO/IEC 42001 is a management system standard, sharing common features with other ISO standards such as ISO 9001 (quality management) and ISO 27001 (information security management). These standards provide a set of best practices, rules, and guidance to help organisations manage risks and operational aspects, and ISO/IEC 42001 can be integrated with these existing management systems.
- The standard aims to ensure the development and use of AI systems that are trustworthy, transparent, and accountable, and stresses the importance of ethical principles like fairness, non-discrimination, and privacy. ISO/IEC 42001 is designed to assist organisations identify and mitigate AI-related risks, enhancing efficiency and reducing costs. It is also intended to help maintain regulatory compliance, including data protection requirements.

**Council of Europe's Committee on Artificial Intelligence publishes draft Framework Convention on Artificial Intelligence, Human Rights, Democracy and the Rule of Law;** *On 18 December 2023, the Council of Europe's Committee on Artificial Intelligence (CAI) advanced its Draft Framework Convention on Artificial Intelligence,*

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*Human Rights, Democracy, and the Rule of Law, which is currently undergoing refinement and is expected to undergo a third and final reading (AI Convention).*

- The AI Convention aims to create a legal framework applicable worldwide, ensuring that AI systems respect human dignity, democracy, and legal principles, with a strong focus on ethical AI practices. It also proposes controlled environments for the testing and development of AI, to encourage safe innovation without compromising human rights or democratic principles. Additionally, the framework sets out mechanisms for effective implementation, such as international cooperation, periodic reviews, and the inclusion of non-state actors in the oversight process.
- The need for such a framework is underscored by various high-profile AI initiatives that raise critical questions about AI's influence on democracy, education, and healthcare. For example, AI has enormous transformative potential in fields like the [Human Genome Project](#), prompting reflection on the ethical and societal implications of AI's advancements, reinforcing the importance of the AI Convention in guiding ethical AI development and use.
- Access the draft AI Convention [here](#).

**UKSC: AI cannot be an 'inventor' under UK patent law;** *On 20 December 2023, the UK Supreme Court ruled that AI cannot be recognised as an 'inventor' under UK patent law, in the case of *Thaler v Comptroller-General of Patents, Designs and Trade Marks*.*

- The decision came after Dr. Stephen Thaler and his team argued for an AI system named 'DABUS' to be credited as the inventor of two creations related to food and beverage packaging and light beacons. The Court emphasised that the question of whether AI-generated inventions should be patentable, or if the definition of 'inventor' should include AI, are issues that require legislative action.
- The Court made three key findings:
  1. Under the Patents Act 1977, an 'inventor' must be a natural person, which excludes AI systems like DABUS;
  2. Thaler could not claim patents by virtue of owning DABUS, as the doctrine of accession (a mode of acquiring property that involves the addition of value to the property through labour or the addition of new materials) does not apply to intangible inventions; and
  3. Thaler's failure to name a human inventor meant that his patent applications were considered withdrawn after the prescribed 16-month period.
- The ruling aligns with decisions made in the United States and Europe, and underscores the current legal stance that only human beings can be inventors for the purposes of patent law. While this does not affect the patentability of AI-generated inventions per se, it does clarify that patents can only be granted if a human is named as the inventor. This outcome has significant implications for the AI industry, highlighting the potential need for legislative updates to address the evolving role of AI in innovation.
- Read the UK Supreme Court's judgment [here](#).

**UN AI Advisory Body publishes an interim report: Governing AI for Humanity;** *In December 2023, the United Nations Secretary-General's AI Advisory Body published its interim report, *Governing AI for Humanity*, calling for better alignment between international norms and AI technology development and deployment.*

- The report is segmented into discussions on AI governance, detailing opportunities, risks, challenges, and initial recommendations. The report focusses on the global governance deficit in the AI sector, but questions as to how far and how quickly regulators should be moving remain, striking the balance between precaution and progress.

- The AI Advisory Body and its members will engage with all stakeholders over the coming months. Individuals, groups, and organisations are encouraged to provide feedback via the [online submission form](#).
- The deadline for submitting inputs is 1 April 2024, 04:59am GMT. The final report will be released in the summer of 2024, ahead of the [Summit of the Future](#).
- Read the interim report [here](#).

**EU AI Act Leaked: Key Changes and Implications for High-Risk AI Systems, General Purpose AI, and Deepfakes;** *In our 11 December 2023 edition of the AI View, we reported that a political deal was reached on the EU AI Act but that the finalised text was yet to be agreed. The final text for the proposed regulation, which is set to become a global standard, was **leaked** online earlier this week [here](#).*

- **Three key changes** are:
  1. How **high-risk AI systems**, which have the most onerous obligations and restrictions applied to them, are classified. The AI systems listed in **Annex 3** will not be considered high risk if they **do not pose “a significant risk** of harm to the health, safety or fundamental rights of natural persons”, including if they do not “materially influence” the outcome of decision-making. A provider seeking to benefit from this exemption will have to document its risk assessment of the AI system before it is put to market and register (i) themselves and (ii) the AI system in the EU database.
  2. **“General Purpose AI” (GPAI) concept introduced.** The definition of GPAI models focuses on the generality of the model and the capability to competently perform a wide range of distinct tasks (foundation models, for example). A new chapter provides **specific rules for GPAI**, which includes a requirement for providers to keep and provide technical documents and to establish a copyright policy. The chapter also sets out the additional requirements for GPAI that pose **systemic risks**. GPAI will be deemed to pose a systemic risk if (i) it has high impact capabilities (i.e. its total computational power exceeds  $10^{25}$  floating points of operations) or (ii) it is as designated as such by the Commission. Providers of GPAI will have additional obligations to comply with.
  3. A hot topic and one of the most controversial uses of AI, **deepfakes** have fallen under the scrutiny of the EU AI Act. Deployers of AI systems which could generate deepfakes will need to disclose that content has been artificially created or manipulated by labelling the output accordingly and disclosing its origin.

**European Commission Set to Launch AI Office;** *The European Commission is on the verge of establishing the European Artificial Intelligence Office (AI Office), a crucial step in **enforcing** the upcoming EU AI Act.*

- Its main function will be to oversee the enforcement of rules concerning GPAI, which include some of the most advanced AI technologies e.g. foundation models powering generative AI. It will develop methodologies for evaluating these powerful AI models, focusing on those that might pose **systemic risks**. The Commission has made it clear that the AI Office should not affect the powers of national authorities, who will otherwise enforce the remainder of the EU AI Act at a Member State level.
- The AI Office's other responsibilities include supporting the **implementation of the EU AI Act**, including the preparation of secondary legislation, standardisation requests, and the establishment of regulatory sandboxes. It will also provide secretariat services for the AI Board and facilitate collaboration with various stakeholders, including the open-source community.
- Read the press release [here](#).

**FTC launches inquiry into biggest AI Investments and Partnerships;** *The Federal Trade Commission (FTC) is launching an **inquiry** into the deals between: (i) Microsoft and OpenAI, (ii) Amazon and Anthropic, and (iii) Google and Anthropic.*

- 
- The FTC will seek information about these relationships, including their strategic rationale, governance structures, and competitive impacts, such as market share and potential sales growth. The FTC has previously emphasised the importance of guarding against practices that could **undermine fair competition** and innovation in the AI industry.
  - Access the press release [here](#).

**ICO consultation series on generative AI and data protection;** *The Information Commissioner's Office (ICO) has launched the first chapter of a **consultation series** on generative AI (GenAI), defined as AI models that can create new content e.g., text, computer code, audio, music, images, and videos.*

- The first chapter focusses on the application of data protection law in the development and use of GenAI models and particularly around "lawful basis of processing" in this context and legitimate interests specifically.
- The first chapter of this series is open for feedback until 1 March 2024 and stakeholders, including developers, users, legal advisors, and civil society groups, are invited to contribute.
- Access the consultation [here](#).

**Singapore proposes Model AI Governance Framework for Generative AI;** *On 16 January 2024, the AI Verify Foundation and Infocomm Media Development Authority of Singapore published their draft **Model AI Governance Framework for Generative AI**.*

- The framework builds on the foundation of Singapore's existing Governance Framework for Traditional AI and has evolved to deal with the advent of GenAI. This framework introduces **nine dimensions** to foster a trusted AI ecosystem, with reference to principles including **explainability, transparency, and fairness**. It is the latest step in Singapore's policy to adopt a practical approach to AI governance.
- Singapore is accepting feedback on its draft GenAI governance framework until March 15.
- Read the draft Framework [here](#).

**Australian Government publishes interim response to Safe and Responsible AI Consultation;** *On 17 January 2024, the Australian Government announced its interim response to the [2023 Safe and Responsible AI in Australia](#) consultation, setting out a **targeted strategy** which focuses specifically on high-risk applications.*

- In contrast to the EU's single regulation approach, the Australian Government's proposes to address potential harms in areas such as the justice system with **AI safety guardrails** whilst allowing existing applications of AI in lower-risk sectors to continue largely unimpeded. A temporary expert advisory group has been set up to guide the development of the guardrails.
- The strategy reflects the growing **international consensus** of a risk-tiered regulatory approach to AI systems. Download the Australian Government's response [here](#).

## EU 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

**1 entry amended on the consolidated list;** *On 6 February 2024 the Foreign, Commonwealth and Development Office updated the [UK Sanctions List](#) on GOV.UK. This list provides details of those designated under regulations made under the Sanctions Act.*

- The following entry has been amended under the [Russia financial sanctions](#) regime and remains subject to an asset freeze and trust services sanctions:
- Oleg Alexandrovich Mashtalyar (Group ID: 15353)

**2 General licences updated;** *On 06 February 2024, general licences INT/2023/2711256 and INT/2022/2009156 have been extended and amended respectively.*

- [INT/2023/2711256 - Syria Humanitarian Activity](#)
- OFSI has extended the duration of this licence by 6 months, which will now expire on 14th August 2024 at 11.59 pm.
- [INT/2022/2009156 - Permitted Payments to UK Insurance Companies](#)
- OFSI has amended this licence as below:
  - Permitted Payments can only be made for UK properties and UK vehicles;
  - Insurance Brokers may make all types of Return Payments to a DP's frozen bank account including payments due from successful claims;
  - The language in 5.2 and 6.5 has been clarified;
  - The definition of Return Payments was expanded to include other types of refunds;
  - The reporting and record-keeping requirements also apply to Insurance Brokers;
  - Those reporting must now report to HM Treasury within 10 working days

**On 31 January 2024 the Foreign, Commonwealth and Development Office updated the [UK Sanctions List](#) on GOV.UK. This list provides details of those designated under regulations made under the Sanctions Act. The following entry has been amended under the [Russia financial sanctions regime](#) and remains subject to an asset freeze and trust services sanctions:**

- Vladimir Aleksandrovich Dmitriev (Group ID: 15577)
- Furthermore, one entry has been corrected under the [Iran financial sanctions regime](#) and remains subject to an asset freeze. Further information can be found in the relevant notice on the respective regime page.
- [OFSI's consolidated list](#) of asset freeze targets has been updated to reflect these changes.

**Still frozen;** The EU is sceptical about a Belgian plan to leverage debt for Ukraine against Russian state assets immobilised under sanctions.

- Context: Ukraine, the US and other allies are pushing to use the \$300bn-odd of immobilised Russian sovereign assets to help Kyiv as it defends against Moscow's invasion. The majority of the assets are frozen in Europe, and the EU's G7 members – France, Italy and Germany – fear the financial and legal repercussions of such an unprecedented move.

- One idea, floated by Belgian Prime Minister Alexander De Croo that has got traction with the US, offers a canny middle-ground: G7 members would set up a special purpose vehicle that would issue debt in the name of the Russian state using those assets as collateral in case Russia refuses to pay for damages it caused in Ukraine. The G7 is assessing the legal feasibility of this option.
- But it did not get a ringing endorsement from the EU. “We have a very gradual approach. We go step by step . . . at the moment we took one single decision,” EU economy commissioner Paolo Gentiloni told the FT, referring to the EU’s move to separate profits arising from the assets immobilised in the bloc, with a view to confiscating them for Ukraine at a later stage. “Within the G7, we are discussing different scenarios, opinions,” the Italian said, adding: “We need common decisions and solidarity at G7 level, but at the same time this is especially a European issue, because the assets are mostly here.”
- The US idea of confiscating and providing the assets to Kyiv had gathered momentum given Hungary’s blockade of €50bn of EU aid for Ukraine, as well as \$60bn in military aid for Kyiv being stuck in Congress, which is coming to a head this week.
- But the bloc’s unanimous decision to aid Ukraine last week, and a possible solution to the US impasse, takes some of the pressure off, according to Gentiloni. “The fact that we decided and possibly the US is also deciding on financial support [for Ukraine] gives us a little bit more time to avoid addressing these issues in a rushed way,” he added.

**European banks re-enter Iran sanctions hurt locker;** *Santander ([SAN.MC](#)), opens new tab* and *Lloyds Banking Group ([LLOY.L](#)), opens new tab* are in an uncomfortable spot. On *[Sunday](#), opens new tab*, the Financial Times reported that the two lenders banked entities ultimately owned by Iran’s Petrochemical Commercial Company (PCC), subject to U.S. sanctions since 2018. For the European banks sector, it harks back to some seriously unpleasant times.

- In the 2010s, banks including Standard Chartered HSBC and BNP all got dinged by U.S. authorities for sanctions violations involving Iran, with BNP wearing a \$9 billion fine. StanChart, for example, was [deemed](#), opens new tab to have knowingly helped clients swerve the controls. With regular news of attacks by Iranian proxies in the Middle East, it’s not a great time for any western financial institution to be linked in any form to the Islamic Republic.
- Advertisement · Scroll to continue
- In the latest case, neither Santander nor Lloyds is accused of banking PCC directly, and their direct clients weren’t sanctioned by either the UK or U.S. Rather than mega fines or a revoking of U.S. dollar-clearing rights, that implies their main punishment may be a public airing of potential shortcomings to their “know your customer” procedures. Still, the U.S. constituted a quarter of Santander’s net interest income in 2023, perhaps explaining why its shares dipped 6% on Monday, against a 2% fall for UK-focused Lloyds. That suggests European bank investors’ jitters about Iranian sanctions die hard.

**OFAC [sanctioned](#) six officials in the Iranian Islamic Revolutionary Guard Corps responsible for a series of cyber-attacks against infrastructure in the United States and other countries.**

**According** to OFAC, the Iranian-affiliated cyber actors hacked programmable logic controllers used in industrial control systems for water and other critical infrastructure systems. OFAC warned that although the operation did not disrupt any services, unauthorized access to infrastructure systems can enable actions that harm the public and cause devastating humanitarian consequences.

OFAC said the activity is part of a pattern of cyber operations by Iran against the U.S. and international targets, including ransomware attacks and an attempted operation against Boston Children’s Hospital in 2021. OFAC designated the individuals pursuant to the counterterrorism authority set out in [Executive Order 13224](#).

- [U.S. Department of the Treasury, Press Release: Treasury Sanctions Actors Responsible for Malicious Cyber Activities on Critical Infrastructure](#)

## Conduct / Enforcement / Reporting

### Building Firm Culture: What to celebrate and what to work on

Figure 11. Actions to maintain good conduct

	Total	Total		
		Leading	Embedding	Developing
Revisiting core training programmes to ensure they adequately address organisational and risk culture and conduct themes	70%	92%	72%	59%
Ensuring firm values are embedded into all elements of the people strategy	69%	87%	81%	53%
Focus on wellbeing and psychological safety in the workplace	69%	89%	81%	52%
Ensuring the performance and talent management process supports the firm's values and risk culture	69%	89%	77%	55%
A diverse senior leadership team/board	68%	88%	80%	50%
Ensuring employees have adequate career development opportunities	66%	88%	74%	50%
Underscoring the importance of diversity, equity and inclusion	66%	83%	75%	51%

Type of question: single option per row. Scale: Rank on scale with the following options: completely uninvested; slightly uninvested; neither; slightly invested; fully invested; unable to say. Results in table show percentage of respondents who chose the two most favourable options on scale.



**Understand the present**  
Gather information on where you are now including your culture goals, current areas of strength, and key themes to improve on. Understand what truly works well in your organisation.



**Create the culture strategy**  
An information-driven, holistic culture strategy aligned to the firm's values, objectives and strategic priorities.



**Focus on ownership**  
Engage with boards and management to discuss the importance of ownership, accountability and governance. Clarify what this looks like in your organisation and how they can be the best culture advocates.



**Bring employees on the journey**  
Rather than a top-down approach, all employees should feel invested in the culture strategy as if they are owners of the initiative themselves. Employee engagement sessions support embedding of culture change.



**Leverage the research**  
Consider self-assessment against the A&O research report, benchmark against others and see what it takes to move along the culture maturity curve.



**Continuous improvement**  
Engage with the workforce to gather feedback on how the cultural strategy is felt throughout the organisation. Focus on sustainability and creating an enduring approach to culture.

D&I in the financial sector: FCA CP23/20		
Proposal	Scope	Details
Non-Financial Misconduct	All Part 4A firms	Updated guidance in COCON, SYSC 22 and FIT relating to the application of those parts of the Handbook to instances of bullying, harassment and other similar conduct towards colleagues
Annual reporting of employee numbers	Part 4A firms but not Limited Scope SMCR firms	Firms are required to annually report their average number of employees via the RegData platform. Firms will have a 3-month reporting window from implementation of the rules
Monitoring D&I (PRA only)	Dual-regulated CRR & Solvency II firms of any size	The PRA requires firms to internally monitor D&I for the purposes of taking appropriate actions to improve D&I where necessary
D&I strategies	Large Firms only, but not Limited	Firms must develop an evidence-based D&I strategy that contains: (1) the firm's D&I objectives and goals, (2) a plan for meeting those objectives and

	Scope Firms SMCR	goals and measuring progress, (3) a summary of the arrangements in place to identify and manage any obstacles to meeting the objectives and goals, and (4) ways to ensure adequate knowledge of the D&I strategy amongst staff
<b>Data collection &amp; reporting on "demographic characteristics" and inclusion measures</b>	Large Firms only, but not Limited Scope Firms SMCR	<p>Firms must annually collect and report data on six mandatory "demographic characteristics": Age; Sex or Gender (which is stated to be aligned with the Listing Rule reporting/disclosure requirements); Disability or long-term health condition; Ethnicity; Religion; and Sexual orientation. Firms can voluntarily report on five "demographic characteristics": Parental responsibilities; Gender identity; Socio-economic background; Carer responsibilities</p> <p>Inclusion metric collection and reporting based on employee engagement survey questions (e.g. in relation to psychological safety and speaking up and cultivation of an inclusive environment) and the FCA will see the responses as "a significant indicator of firm culture"</p>
<b>Setting targets</b>	Large Firms only, but not Limited Scope Firms SMCR	Firms must set targets to address underrepresentation. At a minimum a firm must have three targets: (i) Board level; (ii) "Senior leadership"; and (iii) the employee population as a whole
<b>Data disclosures</b>	Large Firms only, but not Limited Scope Firms SMCR	The following public disclosures must be made (e.g. including it on the firm's website) on an annual basis: (i) D&I strategies (and Board D&I strategy, as relevant for PRA firms); (ii) targets set by firms and details on their progress (amongst other things); and (iii) D&I data based on reporting done to the Regulators
<b>Risk &amp; governance</b>	Large Firms only, but not Limited Scope Firms SMCR	Matters relating to D&I are to be considered as a non-financial risk and treated appropriately within firms' governance structures
<b>Individual accountability</b>	All Part 4A firms (noting PRA variance)	FCA and PRA taking different approaches. The FCA have said that there does not need to be one Senior Manager with responsibility for D&I within the firm although firms may choose to allocate responsibility to certain SMFs. The PRA has said that it will update the wording relating to the two culture prescribed responsibilities (PR (I) and PR(H)).
<i>"Large" firms are those with Part 4A permissions and 251 UK employees or more over a 3-year rolling average.</i>		

## Financial Stability, Operational Resilience

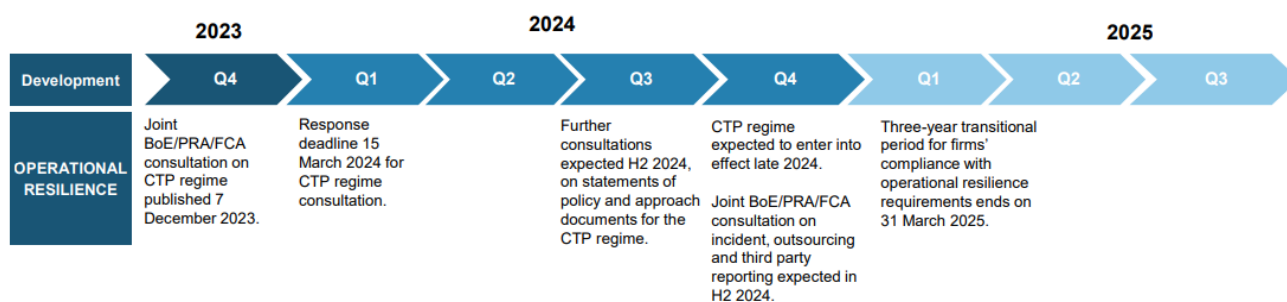
### [EU Digital Operational Resilience Act \(DORA\)](#)





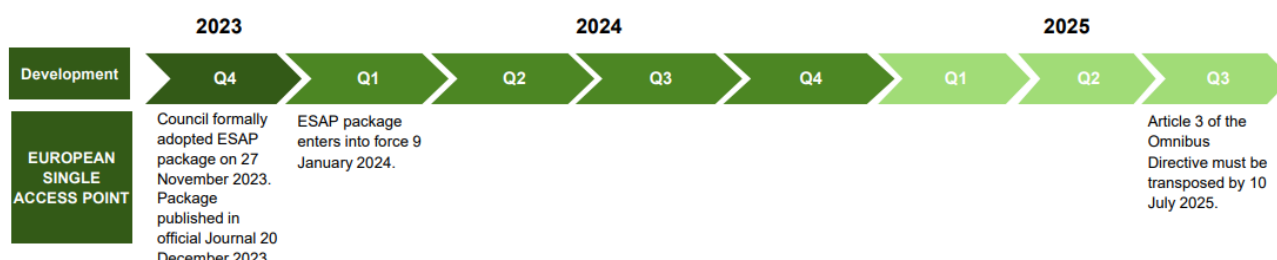
- [Regulation \(EU\) 2022/2554 on digital operational resilience for the financial sector \(DORA\) was published in the Official Journal of the European Union in December 2022](#) and entered into force on 16 January 2023.
- DORA puts in place a detailed and comprehensive framework on digital operational resilience for EU financial entities. EU entities must ensure they have the capacity to build, assure and review their operational integrity to ensure that they can withstand all types of disruptions and threats relating to information and communication technologies (ICT).
- [DORA introduces an EU-level oversight framework to identify and oversee ICT third party service providers deemed "critical" for financial entities.](#)
- DORA will be supported by 'Level 2' technical standards and 'Level 3' guidelines, which are under development.
- 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 issued a 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 submitted their advice on 29 September 2023. The Commission is mandated to adopt the related delegated acts by 17 July 2024.
- The ESAs are mandated to develop, and submit to the Commission by January and July 2024, draft implementing and regulatory technical standards (ITS and RTS) and guidelines supporting various aspects of the DORA framework. The RTS, ITS relate to ICT risk management frameworks, the criteria for the classification of ICT related incidents, materiality thresholds for major incidents and significant cyber threats, digital operational resilience testing, ICT third-party arrangements management and the oversight framework.
  - The joint committee of the ESA's published consultation papers on draft ITS and RTS under Articles 15, 16, 18 and 28 of DORA on 19 June 2023, for responses by 11 September 2023.
  - The joint committee published a second set of consultation papers on 8 December, for responses by 4 March 2024, on RTS and ITS under Articles 20, 26, 30 and 41 of DORA, and guidelines under Articles 11(11) and 32(7) of DORA.

## [UK OPERATIONAL RESILIENCE](#)



- [The FCA, PRA and BoE introduced a new operational resilience regime in 2021.](#) The regime included an implementation period, under which firms and FMIs needed to complete certain actions before 31 March 2022.
- [The initial implementation deadline has been followed by a transitional period, ending on 31 March 2025.](#) Firms and FMIs should use this transitional period to implement strategies, processes and systems that enable them to address risks to their ability to remain within their impact tolerance for each of their important business services in the event of a severe but plausible disruption.
- [FSMA 2023 introduced the framework for a Critical Third Parties regime \(CTP regime\) for oversight of the resilience of cloud service providers and other designated 'critical third parties' providing services to UK regulated firms and FMIs. Work is underway for the introduction of the CTP regime in 2024.](#)
- FSMA 2023 introduced (from 29 August 2023) a new Part 18 Chapter 3C into FSMA, to establish the CTP regime. The regime gives HM Treasury a power to designate third party providers of services to financial sector firms and FMIs as critical third parties (CTPs) and gives a range of powers to the regulators with respect to CTPs. Between July and December 2022, the FCA, PRA and BoE sought feedback on a joint discussion paper (DP22/3) on the operational resilience of CTPs and on how the regulators might use their new powers.
- [This was followed by a joint consultation on their developing proposals, closing 15 March 2023.](#) The regulators also expect to consult further in H2 2024 on statements of policy and approach to CTP oversight. The regulators expect to finalise their rules with a view for the CTP regime becoming operational by end-2024.
- In H2 2024, the BoE, 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:
  - clarify what information firms should submit when operational incidents occur; and
  - 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.
- Firms and FMIs have until 31 March 2025 to 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.

**EUROPEAN SINGLE ACCESS POINT (ESAP)**

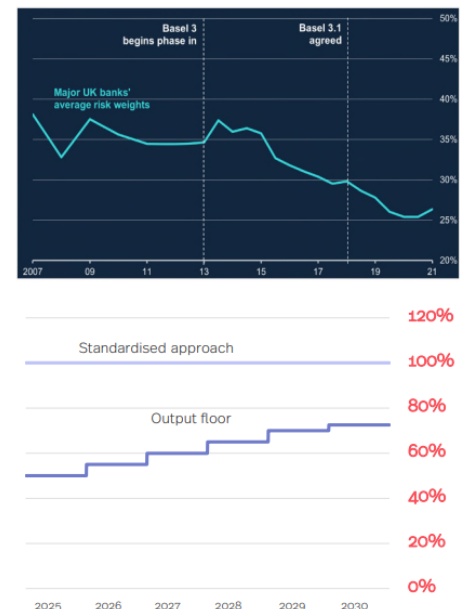
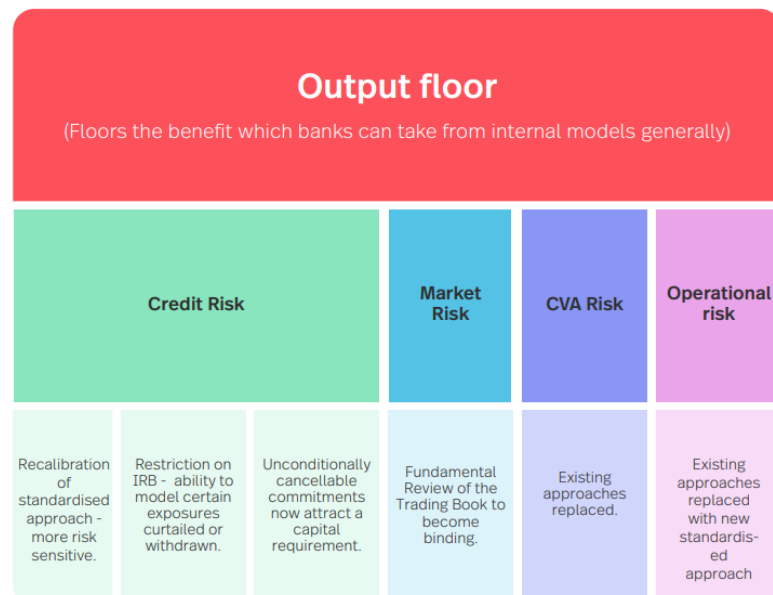
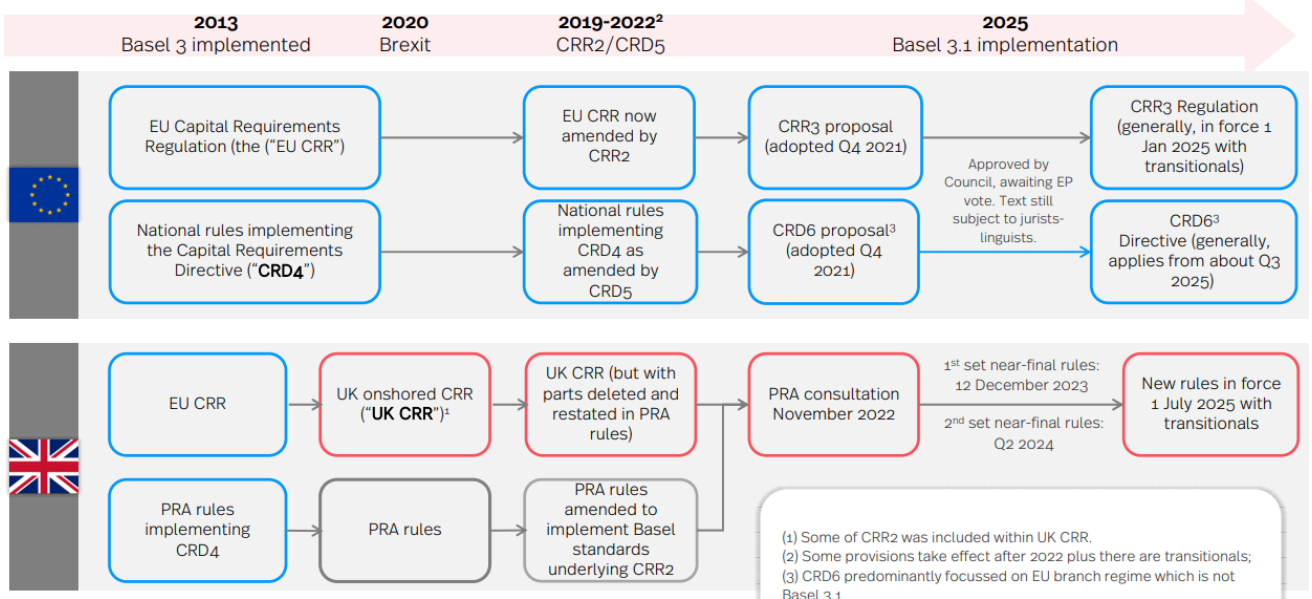


- The Commission is proposing a new Regulation enabling ESMA to create and maintain a single access point to financial and non-financial company data for investors. This data is currently fragmented across EU member states, in many access points, in different languages and in various digital formats.
- The ESAP will instead provide free and non-discriminatory information about EU companies and investment products, regardless of where in the EU they are located or originated.
- The ESAP is part of the Commission's second Action Plan on Capital Markets Union (CMU). It is designed to facilitate access to funding for EU companies and contribute to achieving the CMU objective of making it easier and safer for citizens to invest.
- The ESAP Regulation is accompanied by an Omnibus Directive and an Omnibus Regulation, which amend a range of the relevant EU legislation to specify the information to be made accessible in the ESAP, as well as certain characteristics of that information in relation to formats.
- The Council formally adopted the legislative package on 27 November 2023. The package was published in the Official Journal on 20 December 2023.
  - The ESAP Regulation, the Omnibus Regulation and the Omnibus Directive enter into force on 9 January 2024 (the 20th day following publication in the Official Journal).
  - Article 3 of the Omnibus Directive must be transposed by Member States by 10 July 2025. The remainder of the Directive must be transposed by 10 January 2026.
- From a timing perspective, under the provisional agreement, the ESAP platform is expected to be available from summer 2027 and gradually phased in.
  - Phase I will include in ESAP's scope information relating to the Short Selling Regulation, Prospectus Regulation and Transparency Directive.
  - Six months after the ESAP has been made public (i.e., 48 months after its entry into force), Phase II will begin – scope will include among other things information relating to SFDR, Credit Rating Agencies Regulation and the EU Benchmarks Regulation.
  - Phase III (the final phase) will include relevant information from around 20 additional pieces of legislation, including MiFIR, CRR and the EU Green Bonds Regulation.

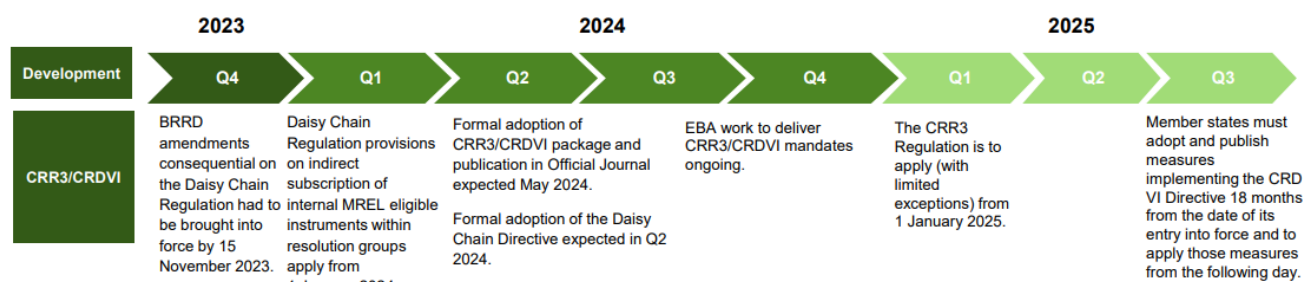
## Prudential & Risk

Operational resilience	
UK	EU
PRA/FCA Consultation Paper 26/23 'Operational Resilience: Critical Third Parties to the UK Financial Sector' published on 7 December 2023	EU Digital Operational Resilience Act (DORA) Oversight framework, second batch of RTS and ITS published 17 Jan 2024 :
Second UK Consultation paper expected Q4. This will include how and when data is collected on the use of third parties and will overlap with existing outsourcing notification requirements.	<ul style="list-style-type: none"> <li>• ICT risk management framework</li> <li>• Classification of ICT-related incidents</li> <li>• Harmonised templates for the register of information</li> <li>• Policy on ICT services performed by ICT third-party providers EU Commission reviewing before adopting the technical standards</li> </ul>

## 3.1: Basel 3.1 in the EU and UK – simplified timeline

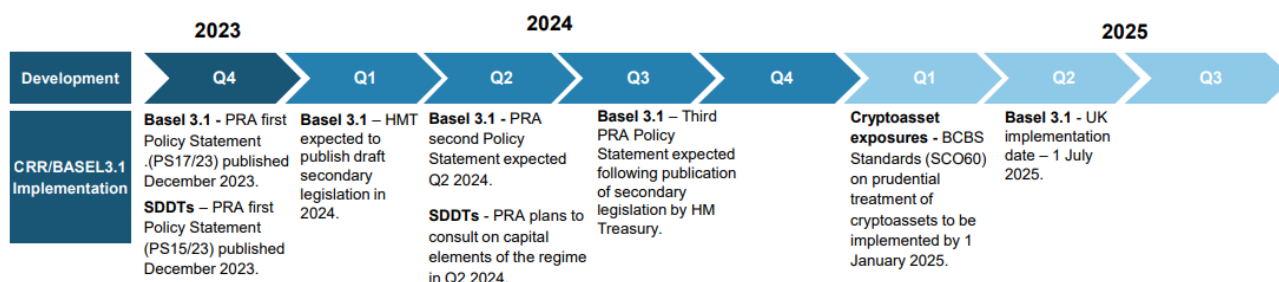


### CRR3/CRDVI



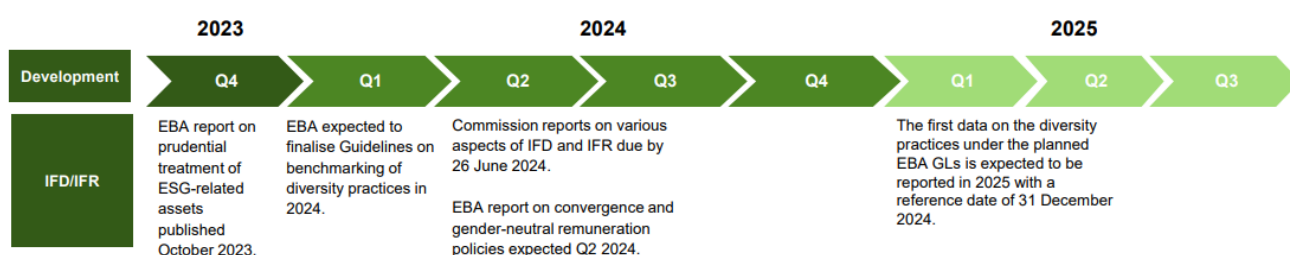
- [Revisions to the Capital Requirements Regulation \(CRR\) and the Capital Requirements Directive \(CRDIV\) known as the CRR3/CRDVI package](#) are being made to implement in the EU the final reforms agreed by the Basel Committee on Banking Supervision in December 2017 (known as Basel 3.1).
- Other 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 prudential regime, and measures on supervisory powers (including authorisation and 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. A further Daisy Chain Directive will be formally adopted in 2024
- 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 were required to be brought into force by member states by 15 November 2023.
- Political agreement on a directive (Daisy Chain Directive) making further targeted amendments relating to MREL was reached on 6 December 2023. Formal adoption is expected in 2024.
- Provisional agreement on the draft texts of CRR3 and CRDVI was reached in June 2023. Following further technical trilogues the final compromise texts were released in December 2023. Formal adoption is expected in late April 2024 with publication in the Official Journal, and entry into force, expected in May 2024.
- The CRDVI includes provisions prohibiting certain activities from being conducted on a cross-border basis by non-EU ('third country') firms, requiring them to establish a branch in the EU and apply for authorisation unless they fall within an exemption. Third country branches will need to comply with prudential requirements including detailed reporting obligations.
- [The EBA has developed a roadmap for delivery of its many mandates under CRR3/CRDVI.V](#)
- Under the agreed text, 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.

## UK CRR/BASEL 3.1 IMPLEMENTATION



- [UK implementation of the final revisions to the Basel III framework agreed in December 2017 \(referred to as Basel 3.1\) requires a combination of legislation](#) (revocation of parts of the retained Capital Requirements Regulation (575/2013) (UK CRR)) and revisions to PRA rules and supervisory materials. This will form part of the government’s repeal and reform programme enabled by FSMA 2023 and outlined in the Edinburgh Reforms.
- In November 2022, HM Treasury consulted on the repeal of provisions of the UK CRR, and since November 2022, the PRA has been consulting on the PRA rules that will replace UK CRR, to implement the Basel 3.1 standards with effect from 1 July 2025. These proposals will all be finalised in 2024.
- The PRA also plans adapted application of Basel 3.1, a ‘strong and simple’ prudential framework, to non-systemically important or internationally active UK banks and building societies. Initial work is focused on small domestic deposit takers (SDDTs). This framework will take several years to establish.
- Implementation of the Basel 3.1 standards in the UK is to take effect from 1 July 2025, with full implementation by 1 January 2030.
- In 2024, HM Treasury is expected to publish the draft secondary legislation to implement Basel 3.1.
- The PRA published its first Policy Statement (PS17/23) in December 2023 – near final rules on market risk, CVA risk, counterparty credit risk and operational risk.
- The PRA plans to publish a second Policy Statement in Q2 2024 – near final rules on credit risk, the output floor, reporting and disclosure requirements. The PRA also plans a third Policy Statement after the publication of the draft secondary legislation by HM Treasury
- With regard to SDDTs, the PRA published its first Policy Statement (PS15/23) in December 2023 – scope criteria, liquidity and disclosure requirements. The PRA plans to consult in Q2 2024 on the capital elements of the SDDT regime.
- [The BCBS expects member jurisdictions to implement by 1 January 2025 its standards \(SCO60\) on prudential treatment of banks’ cryptoasset exposures. BCBS is consulting until 28 March 2024 on proposed amendments to SCO60.](#)
- The Government has recognised that the planned repeals will still leave a complex prudential regulatory framework across legislation, PRA rules and remaining technical standards. Following Basel 3.1 implementation, HM Treasury and the PRA will work to complete the repeal and replacement of the remainder of the prudential legislative framework as soon as possible.

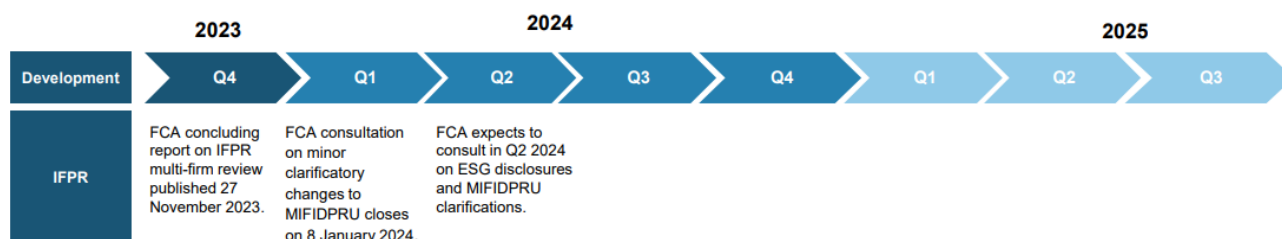
**EU IFD/IFR**



- [The Investment Firms Directive \(IFD\) and Investment Firms Regulation \(IFR\) created a new harmonised prudential regime for EU investment firms, replacing the application of the CRDIV prudential regime.](#)
- While certain larger investment firms remain treated as credit institutions and subject to the capital regime under CRDIV, firms that are not subject to CRDIV are subject to the new IFD and IFR prudential regime.
- [The IFD/IFR regime includes requirements on capital, consolidation, reporting, governance and remuneration.](#)
- The IFD and IFR are supported by a number of ‘Level 2’ implementing and regulatory technical standards (ITS and RTS) and ‘Level 3’ guidelines, not all of which have been finalised.
- An EBA report on the application of gender-neutral remuneration policies is expected in Q4 2023.

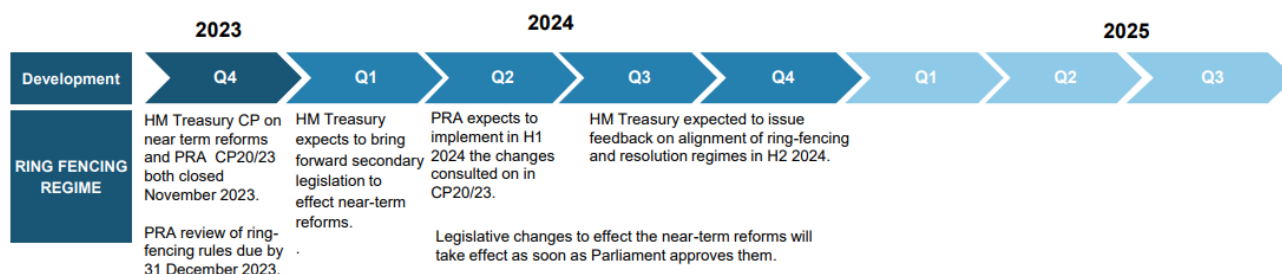
- The EBA was required to report by 26 December 2021 on whether dedicated prudential treatment of assets exposed to activities associated substantially with environmental or social objectives, in the form of adjusted K-factors or adjusted K-factor coefficients, would be justified from a prudential perspective.
- [Following a discussion paper in May 2022, In October 2023, the EBA published a report with short- and medium-term recommendations on integration of environmental and social risks in the prudential framework.](#)
- The EBA consulted between April and July 2023 on draft Guidelines on the benchmarking of diversity practices including diversity policies and gender pay gap under on the IFR and IFD. Finalised guidelines are expected in due course. EBA plans that first data on the diversity practices under these guidelines should be reported in 2025 with a reference date of 31 December 2024,
- An EBA report on the application of gender-neutral remuneration policies by investment firms is expected in Q2 2024 (originally envisaged in 2023).
- An EBA report on the degree of convergence of the application of the Chapter 2 of the IFD (Review process) among member states was expected by the end of 2023. This has not yet been published.
- 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.

**UK INVESTMENT FIRMS PRUDENTIAL REGIME (IFPR)**



- The UK introduced the IFPR, a revised prudential regime for FCA-authorized investment firms, on 1 January 2022. The IFPR is based on, but not identical to, the EU IFD and IFR package. It incorporates key concepts from that package, including the calculation of capital using the so-called 'K-factors', governance and risk management requirements and a new remuneration code. The IFPR applies to a significant number of FCA-authorized firms including, in addition to MiFID investment firms, collective portfolio management investment firms (so-called 'CPMI firms'), i.e., UCITS managers and AIFMs that, in either case, have MiFID top-up permissions.
- IFPR applies to investment firms engaged in MiFID (Markets in Financial Instruments Directive) activities such as fund managers, asset managers, investment platforms, firms which deal on their own account, depositaries, and securities brokers. The majority of the FCA rules relating to the IFPR are located within the MIFIDPRU sourcebook.
- IFPR requires all in-scope firms to complete an Internal Capital Adequacy and Risk Assessment (ICARA) process, by which firms identify the risk of harm in their operations and assess appropriate resources to mitigate harm, whether as a going concern or when winding down.
- The FCA has undertaken a multi-firm review of how firms have been implementing requirements on the ICARA process and reporting under the IFPR. [It published its concluding report on 27 November 2023, recommending that firms review the good and poor practices in the report and that they consider the applicability of the FCA's observations to their own processes.](#)
- The FCA consulted in its Quarterly Consultation in December 2023 (CP23/25) on proposed minor amendments to MIFIDPRU to clarify its requirements. That consultation closes on 8 January 2024.
- The FCA indicated in the November 2023 edition of the Regulatory Initiatives Grid that it expects to issue a further consultation paper in Q2 2024 in relation to ESG disclosures and MIFIDPRU clarifications.

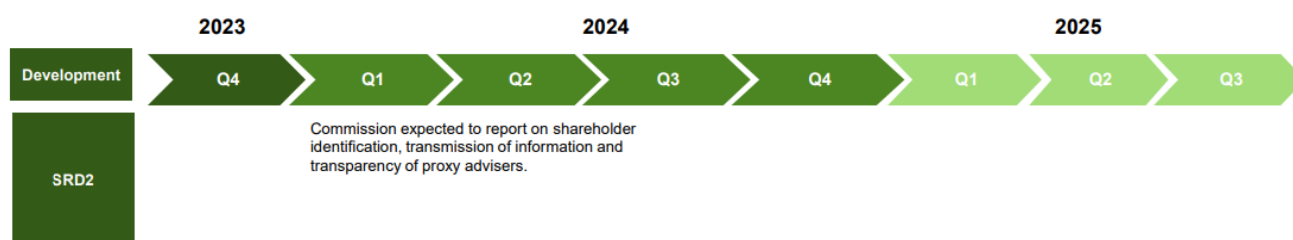
**UK RING FENCING REGIME**



- The UK’s ring-fencing regime requires banking groups within the scope of the ring-fencing requirements (those with more than £25 billion of core retail deposits) to split out their retail banking activities from their investment banking activities. This threshold is set to rise from £25 billion to £35 billion. The independent panel appointed by HM Treasury to review the operation of the regime, led by Keith Skeoch, published its report in March 2022. The panel noted that the regime has been beneficial for financial stability and should be retained, but that its benefit is likely to reduce with time once the UK’s resolution regime is fully embedded. The panel made some recommendations for reforms to the scope of the regime, the scope of excluded activities, the restrictions on servicing relevant financial institutions and the ability of firms to establish operations or service customers outside the EEA.
- HM Treasury published its response to the panel’s recommendations in December 2022, committing to consult in 2023 on proposals for near-term reforms to the regime. [HM Treasury published its consultation on near term reforms in September 2023](#). That consultation closed on 26 November 2023.
- HM Treasury expects to bring forward in Q1 2024 the secondary legislation ([of which a draft version was made available with the consultation](#)) that will amend the main statutory instruments relating to ring-fencing. These are:
  - the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014 (SI 2014/1960); and
  - the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 (SI 2014/2080).
- The [PRA consulted in September 2023 \(CP20/23\)](#) on how ring-fenced banks (RFBs) should manage risks from third country subsidiaries and branches, reflecting HM Treasury’s proposal to remove the legislative prohibition on RFBs having non-EEA branches and subsidiaries. That consultation closed on 27 November 2023. The PRA expects to implement the proposed changes in H1 2024.
- [HM Treasury launched a Call for Evidence on alignment of the ring-fencing regime with the resolution regime in March 2023](#), focused on the practical challenge of how the two regimes might be better aligned with each other and the wider regulatory framework. The Call for Evidence closed on 7 May 2023 and HM Treasury is expected to issue its formal response in H2 2024.
- The PRA is required under FSMA to carry out its next review of its ring-fencing rules by 31 December 2023, to report to HM Treasury on that review and to publish the report. The outcome of the review will feed into HMT and/or PRA work.

**SRD2**





- The original Shareholder Rights Directive (SRD) established rules promoting the exercise of shareholder rights at general meetings (GMs) of companies with offices in the EU and whose shares were admitted to trading on a regulated market within the EU.
- The revised Shareholder Rights Directive (SRD2) introduced amendments to SRD to enable shareholders to exercise voting and information rights in EU companies traded on regulated markets across the EU. Amendments to the SRD addressed perceived shortcomings relating to transparency and a lack of shareholder engagement.
- The amendments relate to the link between directors' pay and performance, related party transactions, advice given by proxy advisers and facilitation of the cross-border exercise of voting and information rights.
- EU Member States were required to transpose SRD2's amendments to SRD by 10 June 2019. Review clauses in Articles 3f(2) and 3k(2) of the SRD require the Commission to report on aspects of the regime.
- By 10 June 2023, the Commission was due to report on and, if appropriate, propose amendments to provisions on:
  - Shareholder identification, transmission of information and facilitation of exercise of shareholder rights; and
  - Implementation of the provisions on the transparency of proxy advisers.
- The Commission requested that both ESMA and the EBA be involved in the preparation of the input to be provided regarding Chapter Ia of the SRD2, in particular Articles 3a-3e, which regulate companies' and intermediaries' rights and obligations regarding 9 shareholder identification, transmission of information and the facilitation of the exercise of shareholder rights. ESMA was also asked to provide input on the implementation of Article 3j of the SRD2, which regulates the transparency of the proxy advisory industry.
- [On 27 July 2023, ESMA and the EBA published a report on Implementation of SRD2 provisions on proxy advisors and the investment chain.](#)
- The Commission's report is awaited.

### **CRD6: Branch authorisation**

- CRD6 harmonises authorisation requirements for EU branches of third country banks or systemic investment firms carrying out "core banking activities" in the EU.
- Section A MIFID activities remain covered by MIFID, and certain accommodating ancillary services also excluded.
- Note that an EU subsidiary may exercise passporting rights under EU Directives to provide services in other EU Member States: such activities do not fall within the CRD6 branch regime.



- (To note that CDIDE (data WG of the FSB) has not formalised any concept of “UPI+” because it is bound to propagate a universal UPI. Rather, the concept stems from the replacement of ISIN for derivatives allied to necessary data fields for CTP fulfilment, and it is therefore currently a regional matter. There are multiple global derivatives reporting rewrites in 2024, all of which will mandate the use of UPI for at least a subset of reportable transactions. As such, the majority of market participants are already working on assigning UPIs to their existing reportable trade population.)
- The adoption of UPI+ as a replacement for OTC ISIN would mandate the use of the existing ISO4914 UPI for OTC derivatives in transparency reporting, supplemented with the addition of key trade-level attributes that would result in meaningful transparency data for recipients.
- There are likely to be in the region of 700,000 UPIs available to market participants when the service goes fully live by the end of 2023, in comparison to 112 million OTC ISINs that have been created since their inception.
- Clearly none of this addresses the current failings and complexities of Total Return Swap [“TRS”] reporting data sufficiency. That’s another matter.
- Earlier this month an ISDA “UPI+ working group” analysed trade level attributes in order to determine which have a material impact on Price and should therefore be included in the final proposal to augment UPI for transparency purposes.
- The working group also reviewed existing fields in Table 2 of RTS2 to confirm whether any further changes were needed.
- The below table details the attributes that were discussed and confirmed as being included in the final proposal to use UPI for transparency reporting, augmented with 5 additional trade level attributes. We have also included the reason agreed for inclusion for future reference.
- These are being advocated to the FCA via the attached letter.

Type	Attribute	Financial Instruments	Comments
Amendments to Existing Fields	Instrument identification code type	For all financial instruments	This field should be updated to mandate the usage of UPI for OTC derivatives
	Instrument identification code	For all financial instruments	This field should be updated to mandate the usage of UPI for OTC derivatives
New Field to be added to Table 2 of RTS 2	Effective Date	For derivatives	The combination of Effective Date, Termination Date and the existing “Trading Date and Time” field will allow the tenor of the contract to be derived
	Termination Date	For derivatives	The combination of Effective Date, Termination Date and the existing “Trading Date and Time” field will allow the tenor of the contract to be derived
	Clearing House LEI	For derivatives	This field should be added to provide visibility of differing prices between CCPs
	Upfront payment	For CDS instruments	Only relevant in the context of CDS, the up-front payment is considered a price-impacting field and therefore warrants inclusion

	Spread	For derivatives	The spread for certain IRS trades containing a floating leg is considered a price-impacting field and therefore warrants inclusion. As this is only relevant for a subset of IRS, a value of 0 should be allowed where no spread exists
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Proposed Attribute	Reason for descopeing from UPI+
Term of Contract Value Term of Contract Unit Forward Starting Period Forward Starting Period Unit	The UPI+ working group agreed not to include these fields in the proposal as Effective date / termination date are preferable values for reporting due to ease of implementation and the fact that users of transparency data can derive tenor from the reported dates.
Execution Venue LEI	Details referring to the Execution venue are already included within the existing "Venue of Execution" field and therefore the LEI would not be required
Day Count Fraction	Due to the inclusion of whole year tenors, this field is not relevant. Where there are varying day count fractions there would not be a significant enough impact on price to justify inclusion in UPI+. This decision is based on the starting assumption of the inclusion of whole year tenors only - should this change, then the day count fraction would become a relevant attribute
Payment Frequency	This field has a relatively low impact on the price and non-standard instances of payment frequency are rare. Therefore, it was agreed not to include this field
Price Multiplier	The majority of products will have a Price Multiplier of 1 and therefore there is no value including this field within transparency reporting
Look Back	It was agreed not to include Look back in transparency reporting due to the low volume of trades with a non-standard look back period. The majority of trades analysed appeared to be of a "non-standard" nature which would bring them out of scope of transparency reporting
Standard / Non-Standard Flag	The proposal for UPI+ is centred on the inclusion of centrally cleared "standard" trades and therefore there is no need to differentiate by including a specific flag
Price Forming Flag	There are already provisions in RTS2 for market participants to report a flag of 'NPFT' to identify submissions which do not contribute to price formation
Package Flag	There are already provisions in RTS2 for market participants to report a flag of 'TPAC' to identify package transactions

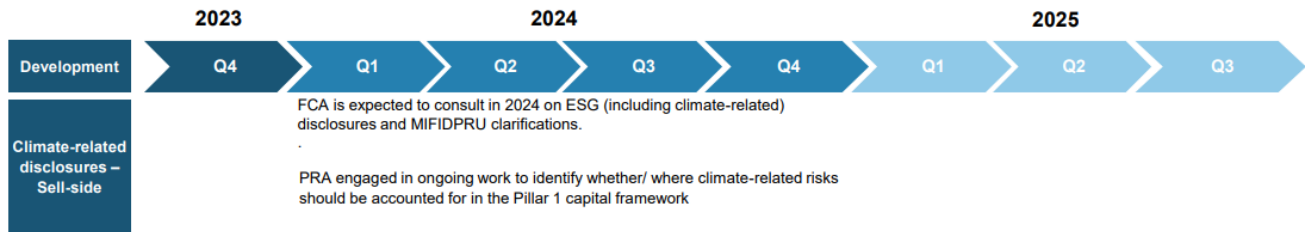
## Carbon Emissions, Green finance, ESG & Disclosures

### EU SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)



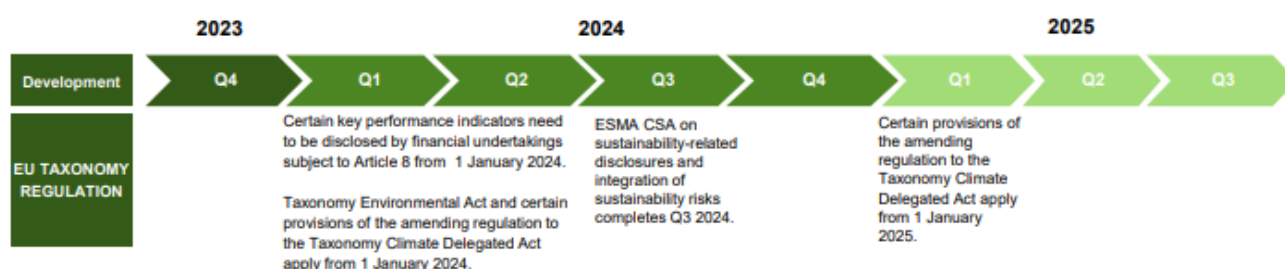
- The Sustainable Finance Disclosure Regulation (SFDR) sets out harmonised rules on disclosures to investors regarding the integration of sustainability risks and the consideration of adverse sustainability impacts in investment decision-making and investment advice.
- Whilst many of SFDR's provisions began to apply in 2021, staggered implementation deadlines and the development of underlying technical standards have meant that firms' implementation projects continued long past this date.
- The European has evaluated the SFDR and has proposed possible measures to improve the framework, which may result in changes to disclosure requirements and potentially a classification system for financial products.
- The ESAs submitted a final report to the Commission on 4 December 2023 on amendments to the RTS on content and presentation of principal adverse impact (PAI) and product disclosures. The Commission is expected to adopt the RTS in due course.
- In July 2023 ESMA launched a Common Supervisory Action (CSA) with National Supervisors to assess asset managers' compliance with sustainability-related disclosures in SFDR and the EU Taxonomy Regulation and provisions in UCITS and AIFMD on integration of sustainability risks. The CSA will run until Q3 2024.
- Between September and December 2023, the Commission consulted on SFDR implementation and on options to improve the framework. The focus is on assessing shortcomings in the SFDR to improve legal certainty, enhancing usability and improving the legislation's role in mitigating greenwashing. The Commission intends to adopt a report on the SFDR in Q2 2024.
- In November 2022, the ESAs launched a Call for Evidence on greenwashing. Each of the ESAs delivered a progress report on 1 June 2023, with final reports to be delivered in May 2024.
- 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 2024.
- ESMA consulted between November 2022 and February 2023 on guidelines on funds' names using ESG or sustainability-related terms. In December 2023 ESMA confirmed it would postpone the issue final guidelines until after the entry into force of amendments to the AIFMD and UCITS regimes.

### UK CLIMATE-RELATED DISCLOSURES – SELL-SIDE



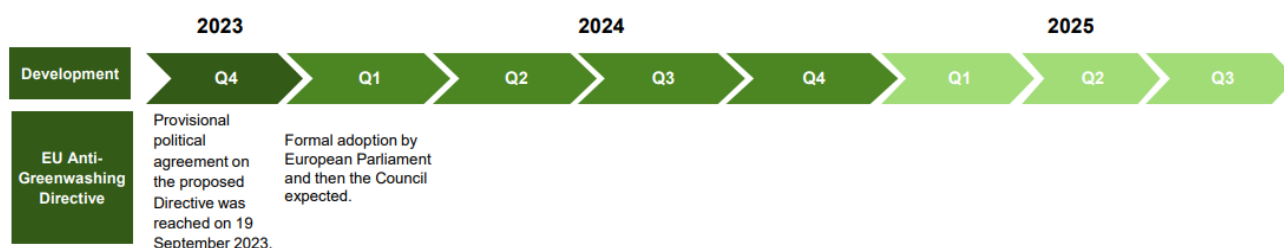
- Climate related disclosures – sell-side The UK formally committed in 2017 to using the recommended disclosures from the Task Force on Climate-related Financial Disclosures (TCFD) as a basis for mandatory climate related financial disclosures in the UK.
- Sell side firms are subject to an expanding range of climate-related disclosures obligations. For banks and PRA regulated investment firms, this includes Pillar III disclosures under the prudential framework, obligations arising under the PRA’s expectations as set out in SS3/19, the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 and the Listing Rules. FCA-only regulated MiFID investment firms are not currently required to make specific disclosures under the FCA’s MIFIDPRU rules, but the FCA is expected to consult in 2024 on ESG (including climate-related) disclosures and MIFIDPRU clarifications.
- FCA is expected to consult during 2024 on ESG disclosures under the Investment Firms Prudential Regime (IFPR). This will affect firms subject to MIFIDPRU.
- The PRA is continuing in 2024 with active supervision of PRA-regulated firms’ compliance with its expectations under SS3/19, including its to expectations for disclosures (qualitative and quantitative) against the TCFD framework. The PRA will continue to support international and domestic efforts to promote the implementation of consistent and comparable disclosure standards for climate risks, including by the International Sustainability Standards Board (ISSB). The ISSB issued its first IFRS Sustainability Disclosure Standards in June 2023: (i) IFRS S1 (General requirements for disclosure of sustainability related financial information); and (ii) IFRS S2 (Climate related disclosures).
- Developments arising from the UK’s revised Green Strategy published in March 2023 are likely to have a bearing on disclosure obligations, for example one impact of the code of practice for ESG data and ratings providers (see Slide 54) is that it may help address some of the data gaps which impair firms’ ability to make quantitative disclosures.
- In a March 2023 report on climate related risks and the regulatory capital framework, the PRA explained it is engaged in ongoing work to establish if there are ‘regime gaps’ in the capital framework, including with the Basel Committee on Banking Supervision (BCBS) to establish whether climate related risks should be accounted for in banks’ Pillar 1 capital framework.

## EU TAXONOMY REGULATION



- [The Taxonomy Regulation sets out criteria that an activity must satisfy to be referred to as 'environmentally sustainable'](#). Two such criteria are that the activity must contribute substantially to at least one 'environmental objective' and that the activity must not significantly harm an 'environmental objective'.
- The six 'environmental objectives' are set out in the Taxonomy Regulation. The Taxonomy Regulation also creates disclosure obligations for certain products that are within the scope of the related Sustainable Finance Disclosure Regulation (SFDR).
- Two delegated acts supplementing the Taxonomy Regulation were published in the Official Journal on 21 November 2023 and apply mainly from 1 January 2024:
  - [A taxonomy environmental act – setting out technical screening criteria for economic activities that make a substantial contribution to one or more of the non-climate environmental objectives \(circular economy; biodiversity; pollution; and water\); and](#)
  - [An amending regulation which will add additional activities that are not currently included in the existing Taxonomy Climate Delegated Act \(which sets out technical screening criteria for economic activities that make a substantial contribution to climate change mitigation or climate change adaptation\). Some provisions apply from 1 January 2024, with others applying from 1 January 2025.](#)
- In July 2023 ESMA launched a Common Supervisory Action (CSA) with National Supervisors to assess asset managers' compliance with sustainability-related disclosures in SFDR and the EU Taxonomy Regulation and provisions in UCITS and AIFMD on integration of sustainability risks. The CSA will run until Q3 2024.
- 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.

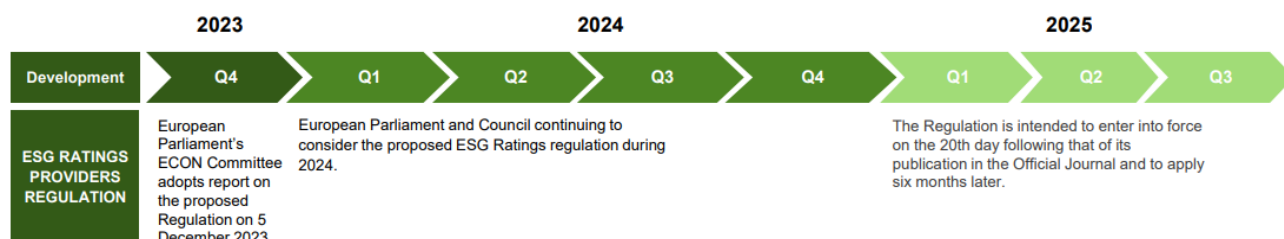
## EU ANTI-GREENWASHING DIRECTIVE: AMENDMENTS TO UCPD



- **Anti-Greenwashing Directive;** 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 Council adopted its negotiating mandate on the proposed Directive on 3 May 2023. The European Parliament adopted its position at its plenary meeting of 11 May 2023. Provisional political agreement on the proposed Directive was reached on 19 September 2023 and the final compromise text was agreed in October 2023. Formal adoption of the Directive is awaited.
- Once adopted the Directive will enter into force on the 20th day following its publication in the Official Journal. The final compromise texts proposal envisages a 24-month transposition period with the Directive applying 30 months after its entry into force.

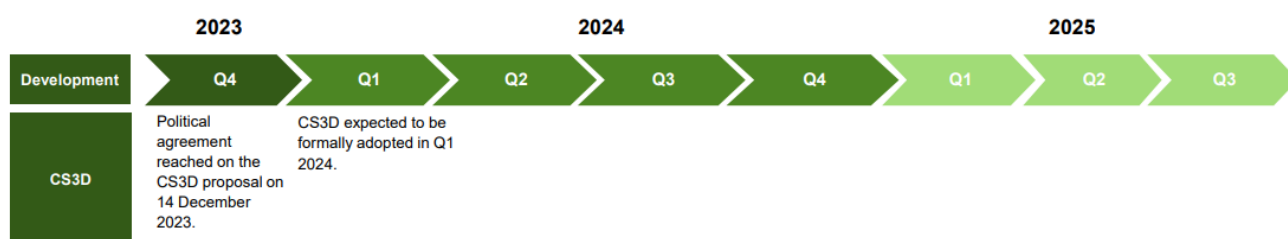
**EU REGULATION OF ESG RATINGS PROVIDERS**





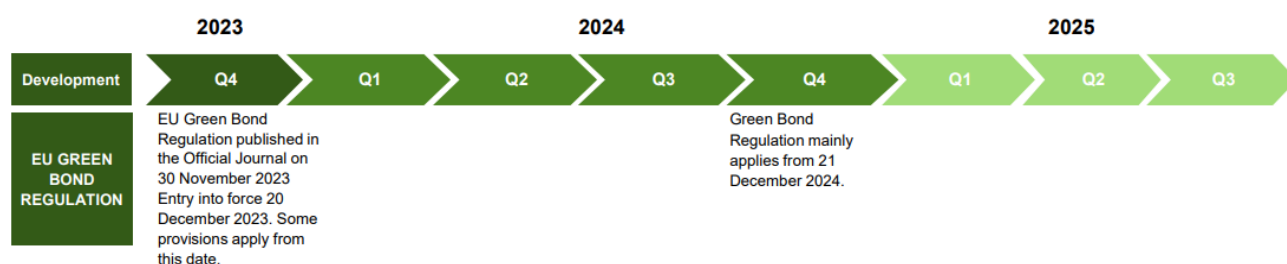
- EU regulation of ESG ratings; providers ESG ratings providers offer products that opine on the ESG characteristics or exposure of products and firms.
- Provision of ESG ratings plays an important role in the ESG ecosystem but is not currently regulated at EU level.
- Following a consultation and call for evidence in April 2022, in June 2023 the Commission published a legislative proposal for a Regulation on the transparency and integrity of ESG rating activities.
- The proposal is intended to require ESG rating providers offering services to investors and companies in the EU to be authorised and supervised by ESMA.
- The proposed regulation is intended to complement existing legislation such as the Sustainable Finance Disclosure Regulation (SFDR), the Taxonomy Regulation, the Corporate Sustainability Reporting Directive (CSRD) and the EU Green Bonds Regulation.
- The Commission's June 2023 legislative proposal for a Regulation is aimed at addressing deficiencies in ESG ratings provision, including:
  - (i) lack of transparency on the characteristics of ESG ratings, their methodologies and their data sources;
  - (ii) the lack of clarity on how ESG rating providers operate; and
  - (iii) conflicts of interest at ESG rating providers' level The Regulation sets out provisions to:
    - Appoint ESMA as supervisor of ESG ratings providers and impose an authorisation requirement on ESG ratings providers (subject to a transitional period for certain providers);
    - Introduce a regime for third country ESG ratings providers;
    - Set out transparency requirements and principles on the integrity and reliability of ESG rating activities;
    - Impose obligations relating to the independence and management of conflict of interests of ESG rating providers.
- The scope of the Regulation will not extend to: internal or private ESG ratings that are not intended for public disclosure or distribution; raw ESG data; or credit ratings.
- The Council and the European Parliament are currently considering the legislative proposal with a view to reaching their negotiating positions.
- Once adopted the Regulation will enter into force 20 days after its publication in the Official Journal of the European Union and apply six months later.

## [CORPORATE SUSTAINABILITY DUE DILIGENCE DIRECTIVE \(CS3D\)](#)



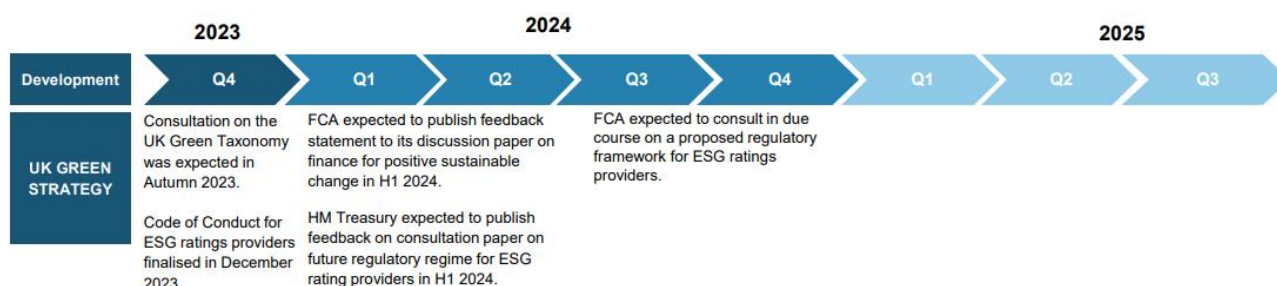
- [The Corporate Sustainability Due Diligence Directive \(CS3D\) sets out an EU legal framework on sustainable corporate governance, including cross-sector corporate due diligence along global value chains.](#)
- [The main effect of the CS3D will be to introduce obligations on in-scope EU and non-EU companies to adopt and implement due diligence policies and processes to identify and address adverse human rights and environmental impacts](#) (known as human rights and environmental due diligence, or "HREDD") with which the companies may be involved, either through their own operations, those of their subsidiaries or through business relationships in their value chain.
- Trilogue negotiations between the co-legislators began on 8 June 2023, and political agreement was reached on 14 December 2023. This "provisional agreement" is unlikely to change substantively between now and its final adoption by the Council and Parliament.
- CS3D will apply to large EU companies and large non-EU companies active in the EU.
  - "EU Companies" are defined as those with more than 500 employees and a net global turnover of more than EUR 150 million, or that operate in specific high-impact sectors with more than 250 employees and a net global turnover of EUR 40 million.
  - "High-impact sectors" are defined as the manufacture and wholesale trade of textiles, clothing and footwear, agriculture including forestry and fisheries, manufacture of food and trade of raw agricultural materials, extraction and wholesale trade of mineral resources or manufacture of related products and construction.
  - non-EU Companies are defined as those that have a EUR 300 million net turnover generated in the EU, with no requirement to meet an employee threshold.
- Most of the due diligence rules will not apply to financial institutions, including banks, insurers, institutional investors and asset managers. The agreed compromise will however impose some obligations on financial institutions. EU and non-EU financial institutions conducting enough business to fall within the scope of the CS3D will be required to conduct HREDD on the upstream elements of their value chain.
- Once CS3D is adopted, Member States will have two years to transpose the Directive into national law. Based on the compromise text, non-EU Companies will then have a further year to comply with the CS3D. It is also likely that smaller in-scope companies will have longer to comply with the Directive, though this is as yet unconfirmed.

## [EU GREEN BOND REGULATION](#)



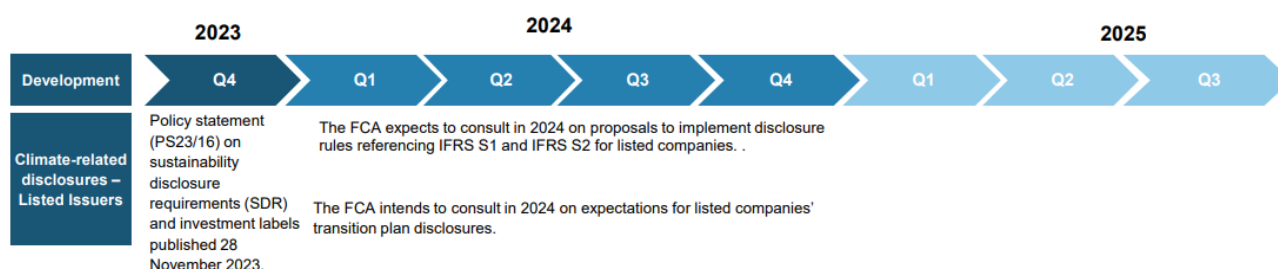
- [The Commission published its proposal for an EU Green Bond Standard \(EuGBS\) in July 2021](#)<sup>V</sup> and [political agreement was reached in February 2023](#). The Regulation was formally adopted in October 2023 and published in the Official Journal on 30 November 2023.
- [The EU Green Bond Regulation is intended to be a voluntary EU framework for green bonds](#), including those issued by a special purpose vehicle in the context of a securitisation transaction ([see Slide 20 for securitisation developments](#)).
- 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 deliver the commitment in the European Green Deal Investment Plan of 14 January 2020, which announced the establishment of a uniform standard for environmentally sustainable bonds to increase investment opportunities and facilitate the identification of environmentally sustainable investments through a clear label.
- Key elements of the new Regulation are:
  - Compliant bonds will have the 'European Green Bond' or 'EuGB' designation. Issuers' home state National Competent Authorities will supervise issuers' compliance with the standard. There will be a registration and supervisory framework for reviewers of European Green Bonds.
  - 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).
  - Provisions allowing some voluntary disclosure requirements for other environmentally sustainable and sustainability-linked bonds issued in the EU, such as those issued under the ICMA principles.
- [The Regulation was published in the Official Journal on 30 November 2023 as Regulation \(EU\) 2023/2631](#)<sup>V</sup>. It entered into force on 20 December 2023 and mainly applies from 21 December 2024. However, by way of derogation, certain provisions apply from 20 December 2023 and others from 21 June 2026 (Article 72).

## [UK GREEN STRATEGY](#)



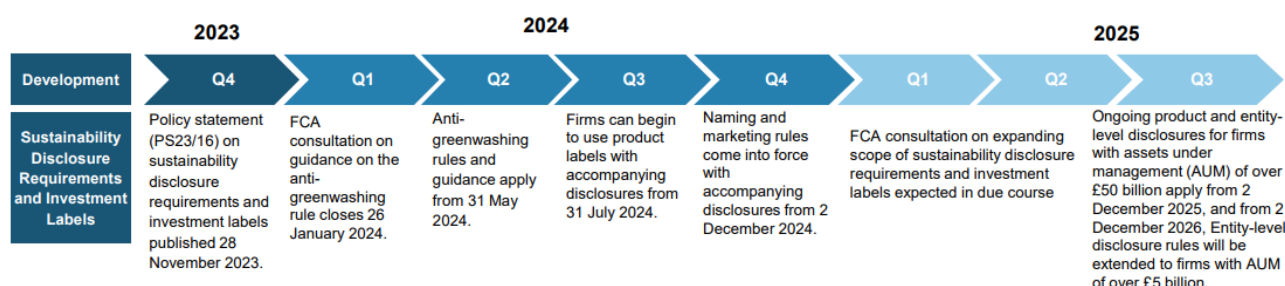
- [The UK is reforming its financial services regulation outside the EU and working towards a 'Smarter Regulatory Framework' for UK financial services.](#)
- The three key elements for the reforms are:
  - (i) FSMA 2023, which will revoke EU-derived financial services and markets legislation;
  - (ii) the Retained EU Law (Revocation and Reform) Act 2023, which will revoke other EU-derived legislation; and
  - (iii) the December 2022 Edinburgh reforms, a package of reforms to modernise and improve UK financial services regulation.
- The Edinburgh Reforms have been further supplemented by the Mansion House Reforms published in July 2023.
- In February 2023, the FCA published a discussion paper (DP23/1) on 'Finance for positive sustainable change: governance, incentives and competence in regulated firms.', to encourage dialogue on firms' sustainability-related governance, incentives and competencies. FCA will use the to consider the direction for evolution of its future regulatory approach. DP23/1 closed for feedback in May 2023 and a feedback statement is expected in H1 2024.
- A consultation on the production of a UK Green Taxonomy was expected in Autumn 2023 but has not yet been published. The UK Green Taxonomy is expected to include nuclear energy.
- HM Treasury consulted between 30 March 2023 and 30 June 2023 on proposals for bringing ESG ratings providers within the scope of regulation and for the scope of a regulatory regime for ESG ratings providers. These proposals seek to improve transparency on providers' methodologies and objectives and improve conduct in the ESG market. This is likely to need changes to the Regulated Activities Order and – for a subset of firms – legislation under the Designated Activities Regime introduced under FSMA 2023. The consultation closed on 30 June 2023 and HM Treasury is expected to provide feedback in H1 2024.
- Separately, [the FCA has indicated \(in FS22/4\) that it supports regulatory oversight of these providers](#) and an approach informed by IOSCO's November 2021 recommendations on ESG data and ratings.
- [A voluntary Code of Conduct for ESG ratings and data products providers was finalised on 14 December 2023.](#) Although providers of pure ESG data products will not be subject to FCA regulation, they may choose to adopt this Code of Conduct.

## UK CLIMATE-RELATED DISCLOSURES – LISTED ISSUERS



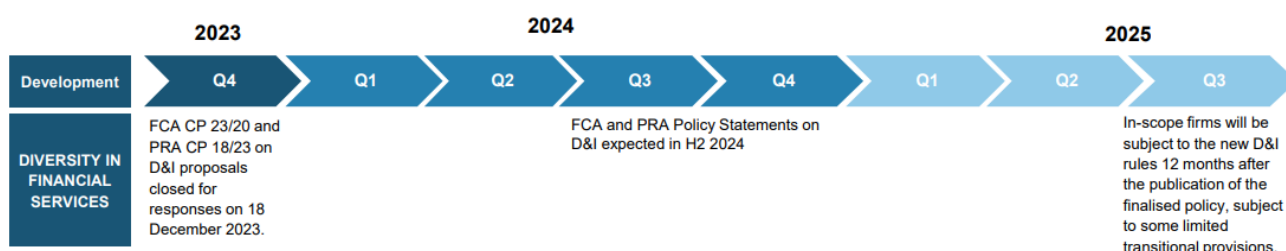
- [Climate-related disclosures – listed issuers; On 17 December 2021, the FCA published its final rules on extending the application of its climaterelated disclosure requirements from equity issuers with a premium listing to issuers](#) of standard listed shares and standard listed issuers of (GDRs), in each case excluding standard listed investment entities and shell companies.
- [The FCA intends to consult in 2024 on updating its Taskforce on Climate-Related Financial Disclosures \(TCFD\) aligned disclosure rules for listed companies to reference the disclosure standards developed by the International Sustainability Standards Board \(ISSB standards\)](#)
- In line with the UK Government’s commitment to introduce mandatory TCFD-aligned disclosure requirements across the UK economy by 2025, the FCA first introduced climate-related disclosure rules for listed issuers with a premium listing in 2020, followed by extension of the requirement to standard listed issuers in 2021. For issuers with a premium listing, the first annual financial reports subject to the new rule were to be published in early 2022. For issuers with a standard listing, the new rules took effect for accounting periods beginning on or after 1 January 2022, [with the result that the first annual financial reports subject to the new rule were to be published in early 2023](#).
- The International Sustainability Standards Board (ISSB) launched the first of its IFRS Sustainability Disclosure Standards in June 2023:
  - (i) IFRS S1 (General requirements for disclosure of sustainability related financial information); and
  - (ii) IFRS S2 (Climate related disclosures).
- The FCA has confirmed, most recently in its [November 2023 policy statement \(PS 23/16\)](#) on Sustainability Disclosure Requirements and investment labels (see Slide 52), that it intends to consult on adapting its current TCFD-aligned disclosure rules for listed issuers to reference the ISSB’s standards, once finalised and made available for use in the UK. The FCA expects to consult in 2024 on proposals to implement disclosure rules referencing IFRS S1 and IFRS S2 for listed companies, taking into account inputs to the Government’s endorsement process.
- At the same time. the FCA will consult on expectations for listed companies’ transition plan disclosures, drawing on the outputs of the government’s Transition Plan Taskforce (TPT). This is consistent with the UK Government’s expectation that the ISSB standards will form the ‘backbone’ of the corporate reporting element of SDR regime.

## [SUSTAINABILITY DISCLOSURES AND INVESTMENT LABELS](#)



- [In November 2021, the FCA published a discussion paper \(DP21/4\) on sustainability disclosure requirements and investment product labels.](#) In the discussion paper, the FCA sought views on the introduction of a standardised product classification and labelling system to help consumers understand the sustainability characteristics of different financial products.
- In October 2022, the FCA published its consultation paper on these requirements (CP22/20) and its finalised policy was published in November 2023 (PS23/16).
- The FCA published Policy Statement PS23/16 on 28 November 2023, setting out its final rules on sustainability disclosure requirements and investment labels. In summary, the finalised policy sets out:
  - An anti-greenwashing rule, requiring all FCA-authorized firms making sustainability-related claims about their products and services to ensure those claims are fair, clear, and not misleading, and consistent with the sustainability profile ([the FCA is consulting until 26 January 2024 on guidance on the rule](#));
  - Product labels, disclosure, naming and marketing rules for asset managers; and
  - Targeted rules for distributors of investment products to retail investors in the UK
- The new requirements enter into force on a range of dates between 31 May 2024 and 2 December 2026.
- In its policy statement on sustainability disclosure requirements and investment labels, the FCA indicates that it intends in future to expand the scope of the regime to include portfolio management and financial advice, and to expand the scope of investment products captured under the regime to include, for example, overseas products, pensions and other investment products.
- The FCA also intends to build on its disclosure requirements over time in line with other UK and international developments. Consultation on expansion of the scope of the regime is expected in due course.

## UK DIVERSITY IN FINANCIAL SERVICES



- [On 7 July 2021, the FCA, PRA and Bank of England published a joint discussion paper \(DP21/2\) on diversity and inclusion \(D&I\) in the financial services sector.](#) The discussion paper sought views on how to accelerate the rate of change in D&I in the financial services sector. It set out the roles of the regulators in this context, steps that the regulators have taken to promote D&I, the regulators' existing requirements and expectations, and a series of questions intended to seek views on ways of improving D&I measures. The discussion paper was followed by further consultations in September 2023, and finalised policy on supporting D&I in financial services is expected to be published in H2 2024
- The FCA and PRA are continuing their focus on culture and D&I. For financial years starting on or after 1 April 2022, FCA rules for public company boards and executive committees have requires firms to meet 'comply or explain' targets on gender and ethnic diversity and make annual disclosures.
- As a follow-up to the 2021 joint FCA-PRA discussion paper, the FCA published feedback in December 2022 on its study of how financial services firms are designing and embedding D&I strategies.
- Originally expected in H1 2023, the regulators' consultations ([PRA CP 18/23](#) and [FCA CP 23/20](#)) on draft measures to support D&I in the financial sector were published on 25 September 2023 and closed for responses on 18 December 2023. The regulators have worked closely together to produce consistent and coordinated proposals for consultation. However, their respective proposals differ as they have been framed to meet their respective underlying statutory objectives. In broad terms, the regulators consultations' proposed measures across several policy areas: Non-financial misconduct, D&I Strategies, Data Reporting, D&I Disclosure obligations and setting D&I Targets.
- Firms will be subject to different proposals depending on the number of employees, their Senior Managers and Certification Regime (SM&CR) categorisation and whether they are dual-regulated. Smaller firms with fewer than 251 employees will be exempt from many of the requirements. In-scope firms will be subject to the new rules 12 months after the publication of the finalised policy, subject to some limited transitional provisions.
- [In July 2023, the House of Commons Treasury Committee launched an inquiry into Sexism in the City, looking at the barriers faced by women in finance. The Inquiry was accompanied by a call for evidence inviting responses by 8 September 2023.](#)

## EVIA ESG Roundup Jan 2024

This year's global sustainability agenda got off to a roaring start with the annual World Economic Forum (WEF) meeting in Davos last week. The annual meeting was accompanied by the release of the [Global Risk Report 2024](#), which provided a stark warning that extreme weather events will be high on the risk radar both in the short and long term. It comes as little surprise given [recent news](#) that 2023 was the hottest year since records began.

- However, the WEF meeting also saw positive news, with the Taskforce on Nature-related Financial Disclosures (TNFD) [announcing](#) that 320 organisations have committed to be early adopters of the framework. This commitment means we will see TNFD-aligned disclosures as early as the end of this financial year.

- On the nature theme, this month Simmons & Simmons have launched a new 18-part podcast series in partnership with the [Marine Conservation Society](#) called [Seas of opportunity: navigating the Blue Economy](#). They will be short episodes but 'sea'soned with insights on conservation, regulation and investment relating to SDG 14: Life Below Water. You can listen to the first episode [here](#) and we encourage you to join us on this ocean adventure by tuning in throughout the year.
- Another notable development from this month was the European Parliament overwhelmingly voting to adopt a [new anti-greenwashing law](#) (as covered in our [October ESG View](#)). These new rules will likely create a ripple effect globally by requiring more robust and transparent environmental claims in commercial marketing materials.

## GLOBAL DEVELOPMENTS

### 1. UN PRI publishes new guides for the new year (asset management)

- **What:** On 9 January, the United Nations Principals for Responsible Investment (PRI) published two updated guides on [human rights](#) and [corporate governance](#) for asset owner staff and their advisers.
- **Key details:** The human rights guide provides a useful summary of the relevance of human rights issues for asset owners, whilst the one on corporate governance focuses on corporate governance expectations and requirements for listed companies, but also briefly covers those applicable to private firms. It also considers the relevance of corporate governance and sets out approaches asset owners can take to promote robust corporate governance practices among investees.
- **Our view:** With the increasing regulatory focus on governance, oversight and corporate responsibility in supply chains, firms should review these guidelines and implement any adjustments needed to enhance existing policies and processes.

### 2. Publication of the First Global GHG Accounting and Reporting Standard for Capital Markets (financial institutions)

- **What:** In December, the Partnership for Carbon Accounting Financials (PCAF), which is an industry-led financial sector initiative, published the first-ever ["Global Greenhouse Gas \(GHG\) Accounting and Reporting Standard for Capital Markets \(Part B\)"](#) (Facilitated Emissions Standard), that will account for carbon emissions associated with capital market deals completed by banks globally. This is the final of the three GHG standards developed by the PCAF, the former being ["Part A- Financed Emissions"](#) and ["Part C- Insurance-Associated Emissions"](#).
- **Details:** The Standard covers loan syndication and the primary issuance of capital markets instruments, which refers to new securities to provide debt-based or equity-based financing, including new issuance of various types of bonds issued for general purposes, common stock, equity and debt investments in private companies, preferred shares and syndicated loans.
- Notably, this Standard requires financial institutions to "report their facilitated emissions using a 33% weighting factor and disclose the applied weighting factor clearly in its public reports" with the option to disclose 100% of facilitated emissions separately and with clear rationale.
- **Next steps:** On 16 January, the PCAF announced areas for [standard development in 2024](#), which include transition finance and green finance, fluctuations in absolute GHG inventory, additional



insurance products, and securitised and structured products. Keep an eye out for these over the coming months on the [PCAF website](#).

## EUROPEAN DEVELOPMENTS

### 1. EU Taxonomy related developments (financial institutions)

- **What:** In December 2023, the European Commission published a [draft notice](#) containing Frequently Asked Questions (the 2023 FAQs) to help interpret and implement certain legal provisions under the EU Taxonomy Regulation.
- **Details:** The 71 FAQs contained in the 2023 FAQs are divided into (1) General Questions and (2) Questions related to specific financial undertakings. More information is contained in our [detailed note](#).
- **Our view:** The 2023 FAQs provide clarity to financial undertakings on a number of important points as they prepare for the first year of reporting Taxonomy-alignment. It is interesting that several of the FAQs refer to the difficulties that financial undertakings will face in respect of the availability and accuracy of counterparty data.

### 2. EU reaches provisional agreement on the Ecodesign for Sustainable Products Regulation (multi-sector)

- **What:** In December, the European Parliament and the Council reached [provisional agreement](#) on the [Ecodesign for Sustainable Products Regulation](#) (ESPR). ESPR aims to make products sold in the EU, including a broad range of end-use products like textiles, furniture, toys, as well as intermediary products like iron, steel and plastics, subject to performance and information-related requirements, to ensure greater sustainability.
- **Details:** The agreed ESPR requirements aim to improve circularity, covering, among others things:
  - Product durability, reusability, upgradability, and repairability.
  - The presence of chemical substances that prevent reuse and recycling of materials.
  - Recycled content of products.
  - Carbon and environmental footprints.
  - Available product information. The ESPR introduces a “Digital Product Passport”, an easily accessible tag on products providing instant access to its sustainability information. These are intended to support consumer purchasing choices and to promote transparency to facilitate repairs and recycling.
- Notably, the ESPR also introduces a direct ban on destruction of unsold textiles and footwear products, with an expectation that this rule will be expanded to other sectors in the future. Large companies will be expected to disclose annually how many unsold consumer products they discard.
- **Our view:** This Regulation, when combined with extended producer responsibility obligations, the [General Product Safety Regulation \(EU\) 2023/988](#) governing product safety in modern supply chains, and the proposed new [Product Liability Directive](#), demonstrate the EU’s commitment to increasing product regulation and liability, for the protection of consumers and the environment. They create very significant additional obligations on producers and other economic operators in the supply chain.

- **Next steps:** the European Parliament and the Council will now have to formally adopt the regulation prior to it being published in the Official Journal and entering into force. Once the ESPR is in force, further work will be done to finalise the list of products to fall under the new rules.

### 3. France publishes revised SRI label standards (asset management)

- **What:** On 12 December, the French Ministry of the Economy and Finance published the full framework for the [revised Socially Responsible Investment \(SRI\) label](#). Further background to this update can be found in our [November ESG View](#).
- **Details:** The SRI standards are evolving in three major ways:
  - Firstly, the SRI label will be more selective, while retaining its generalist nature. From now on, funds will have to exclude the 30% of companies in the investment universe with the lowest ESG ratings, instead of the current 20%.
  - Secondly, there is a systematic requirement for double materiality in the management of labelled funds, in line with the EU Sustainable Finance Disclosure Regulation (SFDR). Investments made by labelled funds will have to take into consideration the principal adverse impacts (PAI) of issuers, in accordance with article 7 of the SFDR.
  - Lastly, this version now includes a climate dimension in its base, by excluding companies that exploit coal or non-conventional hydrocarbons, as well as those that launch new projects to explore, exploit or refine hydrocarbons (oil or gas). In addition, the SRI label should help companies to make the transition, with the aim of gradually bringing SRI portfolios into line with the Paris Agreement.
- **Timing:** The new standards will come into force on 1 March 2024. For funds already using the SRI label, there will be a transition period to comply until 1 January 2025 and for funds in the process of being labelled on 1 March 2024, the initial audits will have to refer to the new standard.

### 4. France removes from the exclusion list the nuclear sector of the Greenfin Label standards (asset management)

- **What:** On 8 January, the French Ministry for Ecological Transition and Territorial Cohesion published the [new Greenfin label standards](#). This new standard now includes nuclear energy in its eligible activities.
- **Details:** As a result, the nuclear sector is no longer considered to be excluded from up to 5% of the turnover generated by the investments of a fund wishing to be awarded the Greenfin label. Nuclear energy has been defined as follows "*all economic activities enabling the production of energy from nuclear technology, including fuel cycle and radioactive waste management technologies (in accordance with current European regulations (EURATOM directive 2011/70) or equivalent)*". This development is consistent with the nuclear energy sector's eligibility for the EU Taxonomy.
- **Timing:** The new Greenfin label standards have come into force on 23 January 2024.

## UK DEVELOPMENTS

### 1. FRC publishes the revised UK Corporate Governance Code (multi-sector)

- **What:** On 22 January, the Financial Reporting Council (FRC) published the revised [UK Corporate Governance Code](#) (the Code). As expected, the main change relates to internal controls. This is in line with the policy update published by the FRC on 7 November confirming that it would not proceed with the majority of the changes proposed as part of the consultation process (see more detail [here](#)). From 1 January 2026, boards will be required to provide in the annual report an explanation of how they have monitored and reviewed the effectiveness of internal controls, alongside a declaration on the effectiveness of material controls at the balance sheet date. Other more minor changes will come into effect on 1 January 2025.
- You can read further detail on the revised Code in our Corporate Governance update (due to be published at the end of the month). If you'd like to receive a copy of this update once published, please do reach out to our [ESG Team](#).

## 2. UK to introduce a carbon border adjustment mechanism "by 2027" (multi-sector)

- **What:** On 18 December, the Treasury [announced](#) that the UK will introduce a Carbon Border Adjustment Mechanism (CBAM) "by 2027". A [consultation response document](#) has been published alongside the announcement that provides a summary of responses to a consultation conducted in March 2023.
- **Details:** The CBAM will apply a carbon price to imported goods from the following sectors: aluminium, cement, ceramics, fertiliser, glass, hydrogen, iron, and steel. The CBAM will be applied to both Scope 1 and Scope 2 emissions. It will also be applied to "*select precursor production emissions embodied in products*", such as emissions in the production of precursor goods by another manufacturer in the supply chain or emissions in transportation by air of finished products by subsequent entities. Full details of the announcement are in our [client note](#).
- **Our view:** The operationalising of CBAM in the UK is likely to be challenging. It is to be hoped that the UK government will adopt a process that is compatible with that of the EU, such that it will not be necessary for multinational enterprises to use different measures for imports of affected products. It will be important for affected businesses to be fully involved in the consultation that is expected to be launched later this year.

## MENA DEVELOPMENTS

### 1. Oman publishes its Sustainable Finance Framework (financial sector)

- **What:** On 10 January, Oman released their [Sustainable Finance Framework](#) (the Framework) with the aim of reducing the country's reliance on fossil fuels and attracting ESG investors.
- The Framework aligns with Oman's national strategy, *Oman Vision 2024*, which highlights the protection of the environment and the sustainable consumption of natural resources as a national priority. Oman now joins the likes of other Gulf Cooperation Council nations such as the United Arab Emirates, Saudi Arabia and Kuwait in introducing a sustainable finance framework.
- Under the Framework, the Ministry of Finance of Oman (MOF) will issue Social and Sustainability bonds, loans or sukuks whose proceeds will be re-invested into 14 eligible 'use-of-proceeds' categories of green and social projects (outlined in the Framework).
- **Next steps:** A Sustainable Finance Working Group composed of representatives across 13 Omani government bodies will be established by the MOF to support in the process of vetting and distributing proceeds to green and social projects. At the end of each year, so long as there is an outstanding sustainable finance instrument under the framework, the MOF intends to

publish a Sustainable Finance Annual Report which will detail the allocation of proceeds and the impact of expenditure.

## 2. First Abu Dhabi Bank commits AED500 billion in Green Finance by 2030 (multi-sector)

- **What:** On 5 December, the UAE's largest bank, First Abu Dhabi Bank (FAB), [announced](#) that it will lend, invest and facilitate over AED500 billion / USD135 billion in sustainable and transition financing by 2030. FAB's commitment is representative of over half of the combined pledge of AED1 trillion/USD270 billion made by banks in the UAE towards sustainable finance announced by the UAE Banks Federation at COP28. As part of its expanded portfolio, FAB will include transition financing projects and early-stage innovative climate solutions. This new target is an 80% increase over FAB's commitment in 2021 and represents the largest sustainable finance commitment made by any MENA bank to date.

## APAC DEVELOPMENTS

### 1. Dubai Financial Services Authority and the Hong Kong Monetary Authority sustainable finance partnership (financial sector)

- **What:** On 19 December, the Dubai Financial Services Authority (DFSA) and the Hong Kong Monetary Authority (HKMA) [announced](#) a partnership to accelerate sustainable finance across the Middle East and Asia.
- **Details:** The partnership builds on past collaborations between the two regulators and will work towards a flagship initiative, the Joint Climate Finance Conference, set to take place in Hong Kong in autumn 2024. This event will explore common opportunities and challenges in accelerating the flow of transition financing in the two regions. The agenda is expected to focus on the role of supervisors and central banks in facilitating sustainable capital flows, how best to leverage frameworks and existing innovative green financing solutions (ranging from debt to carbon markets), and the importance of robust international co-operation to effect climate action globally.

### 2. Hong Kong's Cross-Agency Steering Group announces workplan for green finance (financial sector)

- **What:** Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group (Steering Group) was initiated by the Hong Kong Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) in 2020. On 8 January, the Steering Group [announced](#) its work plan for 2024 and agreed on three key initiatives to capture financing and investment opportunities from the Asia-Pacific Region's low carbon transition.
- **Details:** The three initiatives outlined by the Steering Group are:
  - [Adopting International Financial Reporting Standards \(IFRS\) Sustainability Disclosure Standards locally as appropriate.](#) This will include a roadmap comprising four key areas- (i) sustainability standards and regulations taking into account Hong Kong's capital markets, (ii) establish sustainability assurance, (iii) expand data and technology capabilities, and (iv) enhance skills and competencies.
  - [Leveraging technology to support sustainability reporting and data analysis.](#) The Steering Group acknowledged the data challenges that persist as hurdles to sustainable

investment and announced new tools that will be launched to support sustainable data needs.

- Supporting the development of transition finance. The Steering Group will broaden the development of its local taxonomy to cover transition activities, work with regional and international partners on capacity building and elevate Hong Kong's thought leadership in the net-zero transition.

## U.S. DEVELOPMENTS

### 1. Legislators in the U.S. State of New Hampshire introduce anti-ESG bill with criminal sanctions (asset management)

- **What:** On 3 January, state legislators in New Hampshire introduced [Bill 1267- FN](#) into the State House of Representatives, prohibiting the investment of state funds using ESG criteria.
- **Details:** The Bill covers the investments of the state treasury, executive branch agencies, and the state retirement system. The Bill emphasises that investments decisions must be based on fiduciary duty to maximise financial returns and minimise risk and positions ESG criteria as falling outside of this duty. It requires that all investments be reviewed to ensure no funds are invested using ESG criteria. In addition to this prohibition, the state treasurer and the New Hampshire retirement system would also be required to report annually on compliance with this duty. Notably, the Bill introduces criminal sanctions, stating *"it shall be a felony punishable by not less than one year, and not more than 20 years imprisonment to violate the provisions of this section"*.
- **Our view:** With U.S. presidential primary elections underway and the continued politicisation of "ESG", we expect a continued ramping up of the debate both in the public arena and within the legislative and judicial space. The public hearings for Bill 1267-FN will take place on 1 February so it remains to be seen whether this Bill will hold weight and impact ESG investing in the State of New Hampshire.

## ESG DISPUTES ROUND-UP

- This month Dutch NGO Milieudefensie announced they would be launching a climate lawsuit against ING for its *"inadequate climate policy"*. To read more, check out our ESG Disputes Radar [here](#).
- This month we also saw, a [Norwegian court](#) find in favour of Greenpeace, blocking the development of three North Sea oil and gas fields because the state did not properly assess the impact of future fossil fuel use on climate change.
- In December, BlackRock was sued by the [Tennessee Attorney General](#) claiming BlackRock made false or misleading representations to current and potential Tennessee consumers about the extent to which ESG considerations affect BlackRock's investment strategies.

### 1. NGOs launch legal challenge against EU's bid to label fossil fuel planes and ships as 'green'

**What:** Opportunity Green, an environmental NGO, and other NGOs have [announced legal action](#) in response to the EU's decision to categorise fossil fuel-powered planes and ships as green investments

(namely 'transition activities') under the Taxonomy rules. The NGOs claim that the criteria for this classification are weak and not based on robust scientific evidence, which could lead to more pollution and contradict the EU's climate targets. The NGOs state that, given the expected lifespans of planes and ships range from 20-50 years, the Taxonomy could drive investment to fossil fuel based planes and ships for years to come. The EU Commission's response to this complaint is expected in May-June 2024.

**Our view:** This isn't the first complaint which has been made against the EU Commission's classification of investments under the Taxonomy Regulation. In September 2022, it received 2 separate complaints from NGOs seeking to prevent the Commission from including gas and nuclear energy in the Taxonomy (see our article [here](#)). The Commission refused those complaints, and the NGOs are now taking the Commission to Court.

If these legal actions are refused, this could have long-term implications for the credibility of sustainable finance, as it may direct investments toward activities that are seemingly detrimental to climate goals. The trend of legal challenges also indicates a growing scrutiny of environmental legislation and a push for more stringent standards aligned with the Paris Agreement.

## 2. Hops or Hypocrisy? ASA challenges Brewdog's carbon-negative claim

- **What:** On 20 December, the UK's Advertising Standards Authority (ASA) censured beer producer Brewdog over an Instagram post which depicted a childlike drawing of a burning Earth with slogans promoting Brewdog's claim of being a carbon-negative company. The ASA criticised the advert for not providing enough context for its environmental claim, which it decided could potentially mislead consumers about the extent of Brewdog's sustainability efforts.
- Brewdog defended its approach, citing that the Instagram post included a link that directed consumers to a more detailed explanation of their carbon-negative status, supported by their Positive Planet certification. However, the ASA found this to be insufficient, as the advert itself lacked the necessary qualifying information to prevent consumers misunderstanding the claims.
- **Our view:** The ASA's ruling is in line with its previous decisions on greenwashing in consumer advertising. For example, in its decisions against Shell, Repsol, and Petronas, it censured adverts highlighting the companies' green initiatives without mentioning the companies' larger polluting operations. The ASA emphasised that environmental claims in advertisements must be transparent and clearly communicated to avoid misleading consumers.
- This decision reflects the ASA's broader challenge to companies making environmental claims to ensure that they are not only accurate, but also not misleading, a principle that is echoed in the recent [OECD complaints](#) filed by climate charity Possible against British Airways and Virgin Atlantic (reported in our [December 2023 ESG View](#)).

## 3. Global regulators step up efforts to combat greenwashing in consumer advertising

- **What:** In December, the Advertising Standards Authority of Singapore banned an advertisement from a Singapore consumer electronics company, Prism+, for greenwashing. The ad claimed that purchasing its energy-efficient air conditioners could "save Earth" by using its air conditioner set at 23°C, a statement deemed misleading by the watchdog. Prism+ was instructed to remove the advertisement.

- Elsewhere, the Advertising Standards Authority of Ireland (ASAI) has directed Budweiser to cease its ads that claim its beers are brewed with 100% renewable electricity, as the claims are exaggerated, unsubstantiated and misleading. Despite Budweiser's use of renewable energy sources and purchase of Guarantees of Origin certificates to cover additional energy needs, the ASAI ruled this does not justify the 100% renewable electricity claim, as it is not currently feasible to use 100% renewable electricity in Europe.
- **Our view:** The Prism+ ban marks a first in Asia for an ad campaign being prohibited due to greenwashing. As for Budweiser, the ASAI's decision marks a growing trend to combat greenwashing in Ireland, aligning with a previous ASAI decision regarding the electricity firm Energia on similar grounds. Overall, both decisions highlight increasing regulatory scrutiny regarding environmental claims in advertising outside of the UK. These regulators are now waking up to the potential detriment to consumers of being misled by unsubstantiated environmental claims.

## ESG CONSULTATION ROUND-UP

- Some notable ESG policy consultations in flight across the globe that are currently open for comment. Engagement is a great opportunity to influence the direction of travel for ESG matters.
  - **IOSCO consultation report published on voluntary carbon markets (carbon markets)**
- **What:** On 3 December, the International Organization of Securities Commissions (IOSCO) published a [Consultation Report](#) on the integrity and orderly functioning of the Voluntary Carbon Markets (VCMs). Included in the report are 21 good practices (Good Practices) put forward by the IOSCO.
- **Details:** The Consultation Report examines VCM vulnerabilities through three lenses: the project level, the trading environment, and overall communication on the use of carbon credits.
- If adopted, IOSCO's VCM Good Practices would be hugely significant as globally, securities regulators typically seek to align with IOSCO guidance and principles.
- **Next steps:** The consultation report seeks further feedback on the proposed set of Good Practices and is open for feedback until 3 March 2024.

### 2. Joint consultation on UK Emissions Trading Scheme: Future Markets Policy (carbon markets)

- **What:** On 18 December, the UK Emissions Trading Scheme (UK ETS) Authority (the Authority), comprised of the UK Government, Scottish Government, Welsh Government and the Department of Agriculture, and Environment and Rural Affairs for Northern Ireland, published a [Joint Consultation](#) on the UK ETS future markets policy.
- **Details:** The Authority is reviewing the ETS markets policy to ensure its continued effectiveness in managing risks the UK ETS faces. The joint consultation forms the second part of the two-stage approach that considers changes to the markets policy with the aim to uphold stable and effective market conditions.
- **Next steps:** The consultation report seeks feedback on the policy design proposals and is open for feedback until 11 March 2024.

### 3. EFRAG Draft ESRS Implementation Guidance documents and Exposure Draft ESRS for SMEs published for public feedback (multi-sector)

- **What:** On 22 December, the European Financial Reporting Advisory Group (EFRAG) published for consultation, three implementation guidance drafts for the European Sustainability Reporting Standards (ESRS), which in-scope companies will use to comply with reporting obligations under the [Corporate Sustainability Reporting Directive](#) (CSRD). On 22 January, EFRAG published two Exposure Draft ESRS for listed SMEs (ESRS LSME ED) and the Exposure Draft for the voluntary reporting standard for non-listed SMEs (VSME ED)
- **Key details:** [Draft EFRAG IG 1](#) deals with the requirements on the materiality assessment in ESRS and [Draft EFRAG IG 2](#) with the value chain aspects in ESRS. [Draft EFRAG IG 3](#) contains the detailed ESRS datapoints as a Microsoft Excel workbook with an accompanying explanatory note.
- [ESRS LSME ED](#) sets reporting requirements that are proportionate and relevant to the scale and complexity of the activities and to the capacities and characteristics of listed SMEs. The [VSME ED](#) proposes a simple reporting tool to assist non-listed micro-, small- and medium-sized enterprises in responding to requests for sustainability information in an efficient and proportionate manner as well as to facilitate their participation in the transition to a sustainable economy.
- **Timing:** The implementation guidance drafts are open for public consultation until 2 February 2024 and the Exposure Drafts consultation is open until 21 May 2024.

#### 4. New proposals for EU Taxonomy aligned benchmarks (financial institutions)

- **What:** The EU Platform on Sustainable Finance published a [draft report](#) and call for feedback on proposals to introduce two EU taxonomy-aligning benchmarks (TABs) with and without exclusions (EU TAB and EU TABex).
- **Key details:** The Platform explains that the proposed TABs are inspired by the success of the EU Paris-aligned benchmarks, which grew to EUR116 billion in assets under management in under three years. The TABs' main objectives are to:
  - Show how a significant level of comparability of TABs methodologies could be achieved while leaving benchmark administrators with an important level of flexibility in designing their methodology.
  - Provide investors with an appropriate tool to align the taxonomy with their investment strategy.
  - Increase transparency on investors' impact, specifically as regards climate change and the environmentally sustainable capital expenditure (CapEx) required for the energy transition.
  - Disincentivise greenwashing.
- **Timing:** Firms using benchmarks are encouraged to consider the proposals draft and respond to the call for feedback, which is open until 13 March 2024.

#### 5. The EIOPA call for feedback on approach to tackle greenwashing (insurance and pension sector)

- **What:** On 12 December, the European Insurance and Occupational Pensions Authority (EIOPA) launched a [consultation](#) on its draft opinion setting out four principles that should be observed when providers make sustainability claims. Sustainability claims should be:
  - accurate, precise, and consistent;
  - kept up to date;
  - substantiated with clear reasoning and facts; and
  - their substantiation should be accessible by the targeted stakeholders.



- **Timing:** The consultation closes on 12 March 2024.

#### 6. Dutch Ministry of Finance launches consultation on climate measures (financial sector)

- **What:** On 21 December the Dutch Ministry of Finance published a [consultation](#) on measures that could be adopted to strengthen the financial sector's contribution to the climate transition and whether further legislation is needed considering the EU regulatory landscape. Specifically the consultation considers:
  - the inclusion of a duty to align balance sheets with the 1.5°C target under the Paris Agreement;
  - an obligation to prepare and implement a specific climate plan; and
  - legal obligations requiring engagement
- **Timing:** The consultation closes on the 15 February.

#### 7. Australian Treasury publishes draft legislation on climate related disclosures (multi-sector)

- **What:** On 12 January, the Australian Treasury published its exposure draft legislation [Climate-related financial disclosure: Exposure draft legislation](#) (Exposure Draft) for mandatory climate reporting (and assurance requirements) that would require specified large businesses and financial institutions to make climate-related disclosures.
- **Key details:** As part of the requirements, a sustainability report is required to be lodged in the annual report of firms in scope, which complies with Australian Sustainability Reporting Standards ([ASRS](#)).
- **Next steps:** The Treasury is seeking views on the Exposure Draft legislation and accompanying explanatory materials by 9 February 2024. The Exposure Draft is still subject to the final legislative processes through Parliament, which will need to occur before the first commencement date of reporting being 1 July 2024.

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## Energy & Commodities

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Ends. 05 February 2024