EVIA European Venues & Intermediaries Association

LEBA London Energy Brokers' Association

EVIA & LEBA Compliance reference sheet

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

0830 Wednesday 10th April 2024

Progressing the regulatory agenda; *Supervisory priorities continue to evolve. This quarter, the ECB updated its 2024-2026 priorities (see more in the deep dive article below) and EIOPA published its 2024 supervisory convergence plan. At the same time, new policy initiatives are being finalised at pace ahead of the European Parliament elections in June.*

- In the banking sector, the Commission has published the agreed text for the final elements of Basel III implementation and confirmed that these rules will apply from 1 January 2025. The EBA simultaneously published an implementation roadmap, to clarify how it will develop the mandates underpinning the legislation. Some initial draft mandates have already been issued on operational risk, with consultation deadlines in April and May.
- Provisional political agreement has also been reached on the 'Daisy Chains' proposal of targeted amendments to the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR).
- The ECB has issued its revised guide (PDF 2.87) to internal models with key revisions relating to climate-related risks, detailed requirements for common definitions of default,

counterparty credit risk, default risk in the trading book and how to return to a standardised approach. The ECB has also announced that in 2024 it will conduct a cyber resilience stress test on 109 directly supervised banks. This will assess how banks respond to and recover from a cyberattack, rather than their ability to prevent one.

- And MEPs have adopted new rules within the Single Euro Payments Area (SEPA) to ensure transferred funds arrive in retail bank accounts within ten seconds.
- In insurance, EIOPA has launched a consultation on a proposed methodology for setting value-for-money benchmarks for unit-linked and hybrid insurance products. EIOPA is also consulting on the prudential treatment of sustainability risks. Meanwhile, the European Commission is requesting feedback on extending provisional equivalence on the solvency regime in force in the United States for a period of 10 years (from January 2026).
- The proposed Retail Investment Strategy that would impact firms in the wider retail investments ecosystem remains subject to ongoing debate and negotiation, with the shape of the final package still unclear.

In capital markets, regulation on the European Single Access Point (ESAP) came into force in January. *This will consolidate access to public financial and non-financial information about EU companies and EU investment products. The ESAs have begun consulting on their associated technical standards.*

- Significantly, political agreement has been reached on the European Market Infrastructure Regulation (EMIR) 3.0 package, aiming to make EU clearing safer and more attractive while mitigating risks from excessive reliance on central counterparties (CCPs) located in third countries. Although the exact detail is yet to be clarified, the threat of considerable amounts of EU clearing being forced from UK CCPs into EU CCPs has lessened. This has been welcomed by clearing members.
- The MiFIR review has been published in the Official Journal. It will help establish EU-level consolidated tapes, phase out 'payment for order flow' (PFOF) by 30 June 2026 and introduce new rules on commodity derivatives.
- For asset managers, after lengthy negotiations, the Council and Parliament approved revisions to the AIFMD and UCITS Directive under the AIFMD II package (see more detail in our deep dive this issue). ESMA also published draft technical standards under the revised European Long Term Investment Fund (ELTIF) regulation and submitted these to the Commission for approval. However, the Commission has responded to ESMA, stating it plans to adopt the RTS but with amendments to make some of the requirements more proportionate (e.g. around notice periods and liquidity management tools).
- EU fund managers will also be interested in progress made on the FCA's Overseas Funds Regime, with the UK government announcing it had deemed the EEA to be equivalent, and the FCA concluding its consultation.

The EU Corporate Sustainability Reporting Directive (CSRD) became applicable on 1 January, with the first wave of reporting against the 12 European Sustainability Reporting Standards (ESRS) due in 2025.

- Provisional agreement has been reached over a new regulatory regime for ESG rating providers. As part of the agreement, the Sustainable Finance Disclosure Regulation (SFDR) has been amended, leaving asset managers and advisers with new disclosure obligations relating to the methodology used for ESG ratings under certain circumstances. More broadly, the future direction of the SFDR is now uncertain, given that the Commission is unlikely to adopt the ESAs' proposed changes to the more detailed standards under its current mandate, and feedback is awaited on more fundamental changes proposed by the Commission to the level one text. For asset managers, ESMA also provided an update (PDF 65.7 KB) on its proposed guidelines for fund managers.

- Despite several rounds of negotiation, Member States voted against the final proposals for the EU Corporate Sustainability Due Diligence Directive, which would establish formal requirements to adopt human rights and environmental due diligence policies and implement relevant processes in risk management systems. Given the upcoming EU elections, the current stand-off may result in significant delays to implementation of the directive.

The Commission has adopted two delegated acts under the Digital Operational Resilience Act (DORA) and four delegated acts under the Regulation on Markets in Cryptoassets (MiCA). *If no objections are raised by Parliament and the Council, the acts will start applying after the review period has elapsed. Three new regulatory technical standards (RTS) have also been adopted under DORA.*

- Political agreement has been reached on the AI Act. The Act will now formally pass through each legislative body (expected imminently), after which it will become the first AI law by a major jurisdiction. Political agreement has also been reached on establishing an Anti-Money Laundering Authority (AMLA) in Frankfurt.

Looking forward; The upcoming EU elections will result in changes to the composition of the European Parliament and Commission. EU authorities are now running out of time to finalise remaining files before activity begins to slow towards the summer months.

Open Consultations; - Open Consultations & Legislative Timetables; 06 April 2024.pdf

- IOSCO consults on market outages; by 10 April 2024.
- IOSCO on Exchange Governance – by 16 July 2024
- FCA; CP24/2: Our Enforcement Guide and publicising enforcement investigations - a new approach; 27Feb2024; Closes 30 April 2024
- EBA; Amending Draft Regulatory Technical Standards on prudent valuation under Article 105(14) of Regulation (EU) No 575/2013; 16Jan2024 / Closes 16April2024
- ESMA; Consultation on reverse solicitation and classification of crypto assets as financial instruments; 30Jan2024; Closes 29April2024

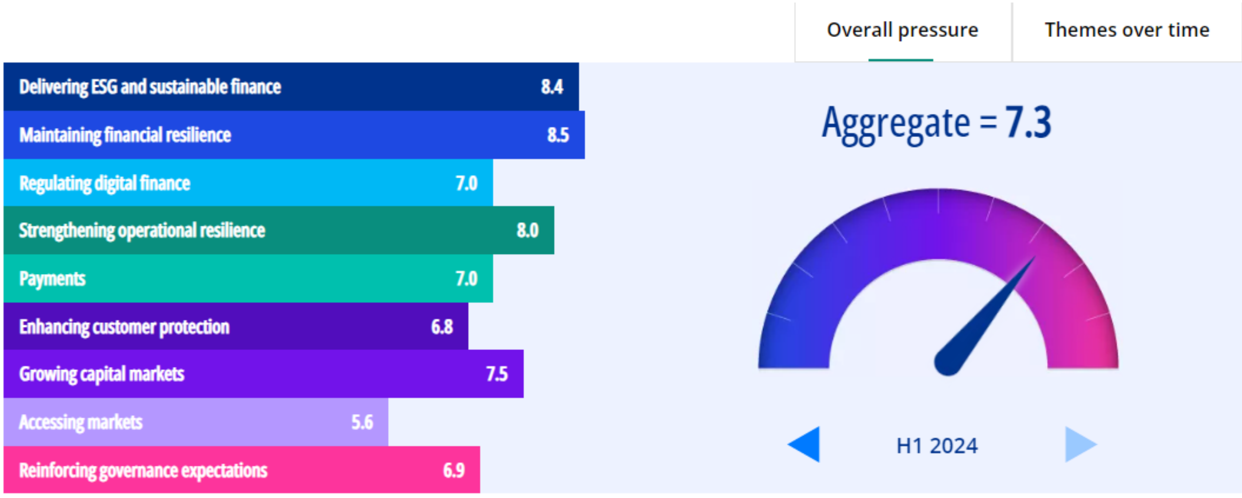
Topic	ESMA 2024 Schedule: Title of consultation paper	Planned publication of CP
MiCA	MiCA guidelines and technical standards	Q2 2024
MiFIR	MiFIR review - non-equity transparency (bonds)	Q2 2024
MiFIR	MiFIR review - RTS consolidated tape provider	Q2 2024

MiFIR	MiFIR review - RTS on cost of market data/reasonable commercial basis	Q2 2024
Supervision	Guidelines on periodic information and notification of material changes to be submitted to ESMA by supervised entities [CRAs, Trade Repositories, Data Reporting Service Providers, Securitisation Repositories and Benchmark Administrators]	Q2 2024
DORA	DORA RTS and ITS [Second batch] and Feasibility study	Q3 2024
EMIR	RTS on public data (EMIR)	Q3 2024
MiCA	MiCA guidelines and technical standards	Q3 2024
MiFIR	MiFIR review - equity transparency (RTS 1)	Q3 2024
MiFIR	MiFIR review - circuit breakers	Q3 2024
Supervision	Guidance on Governance Expectations to ESMA supervised entities	Q3 2024
Sustainable Finance	RTS on the European Single Electronic Format for reporting sustainability information under the European Sustainability Reporting Standards (ESRS)	Q3 2024
EMIR	[Placeholder for EMIR 3 consultations - EMIR 3 trialogue starts mid-December, ESMA will complete the table once the text including the mandates and deadlines are stabilised/final.]	Q4 2024
MiFIR	MiFIR review - non-equity transparency (derivatives)	Q4 2024
MiFIR/ Supervision	Revision of RTS 13 on DRSP authorisation for the purpose of CTP authorisation	Q4 2024

Join WilmerHale Partners Matthew Kulkin, Elizabeth Mitchell and Tiffany J. Smith and Special Counsels Matthew Beville and Megan O'Flynn for a webinar that will review developments at the CFTC (CFTC) during 2023 and look ahead to 2024. The panelists will review noteworthy CFTC-related events that occurred in 2023 and discuss developing issues for 2024, including:

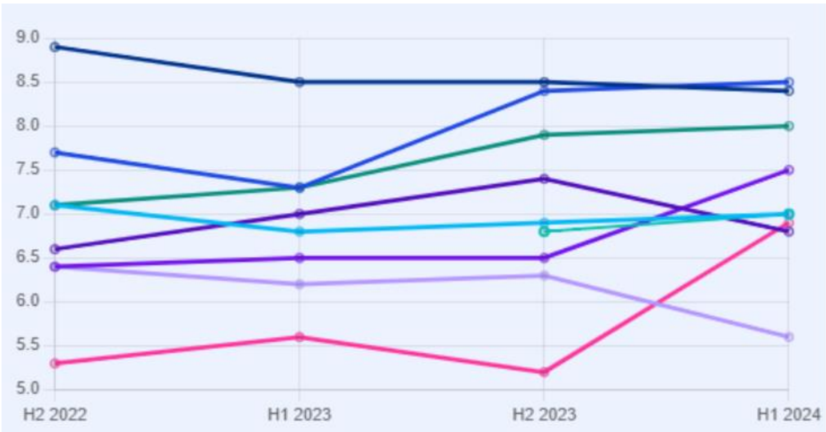
- advancements in the CFTC's rulemaking and policymaking agenda;
- a discussion of recent actions related to event contracts, voluntary carbon credit markets and conflicts of interest;
- updates on the CFTC enforcement program, including new guidance on penalties, monitors and admissions;
- developments with respect to cryptocurrency regulation; and
- a preview of what to expect in 2024, including how the presidential and congressional elections could impact the CFTC.
- This webinar will be interest to in-house legal, compliance and regulatory affairs professionals at financial institutions; market participants; and end users.
- Webinar Details: Tuesday, April 9, 2024 | 2–3 p.m. ET RSVP

KPMG Regulatory Barometer – measuring the impact of regulatory change

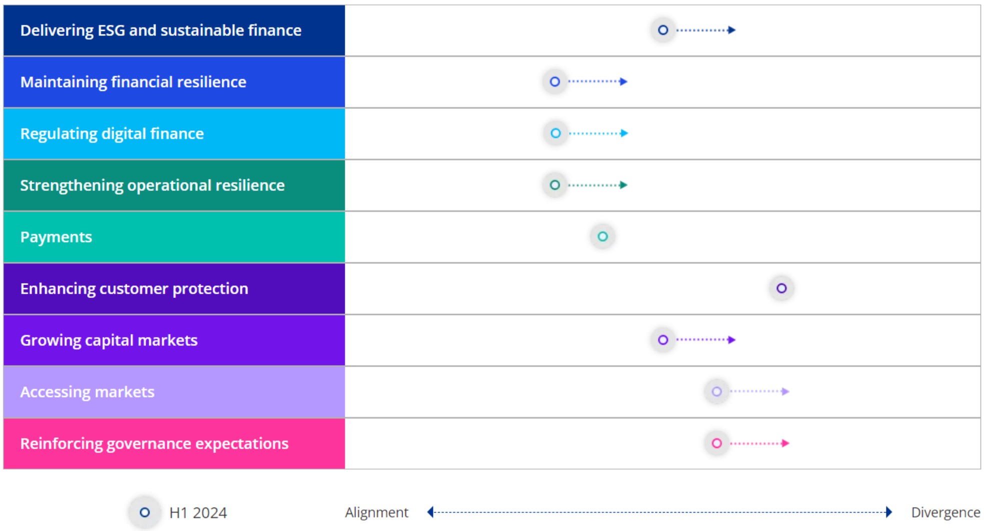


Financial Resilience has overtaken ESG and Sustainable Finance for the first time as the highest scoring area:

- The score for ESG and Sustainable Finance remains very high, reflecting the pressure on firms to implement requirements, particularly in relation to reporting, risk and anti-greenwashing.
- However, Financial Resilience has edged ahead due to the breadth and complexity of requirements to be addressed by firms in the short to medium term and heightened supervisory scrutiny.
- There has been a marked resurgence of pressure around Governance, due to an increase in expectations and expansion of remits, coupled with increasing supervisory focus.
- Scores for Operational Resilience and Capital Markets have also risen as key regulatory files are finalised and implementation deadlines approach, placing increased pressure on firms.
- Meanwhile, the score for Customer Protection has fallen slightly in response to the shift from new policy to supervisory measures.



EU and UK regulation – alignment or divergence?



Post-Brexit, the EU and UK are now following their own policymaking agendas. However, fundamental regulatory concerns continue to be shared and the first Joint EU-UK Financial Regulatory Forum has established the framework for ongoing discussion and collaboration.

Divergence of policy detail and timing increases complexity for cross-border firms. The UK has begun to tailor rules to a more UK-centric and principles-based style of rulemaking, while the EU has its own complex legislative agenda for financial services. Both jurisdictions are considering the impact of regulation on competitiveness.

As part of the Edinburgh Reforms, HMT is moving forward with the repealing and reforming of 43 'core files' of retained EU law in a way that is 'thoughtfully planned and sequenced to minimise unnecessary disruption while taking the opportunity to maximise the potential for the greatest economic impact'. The Treasury Select Committee reported that progress has been too slow, to which the government responded by asserting that the current plans allow an appropriate amount of time for consultation and implementation.

EU and UK regulatory requirements align to different extents across the nine Barometer themes – in some cases reflecting different starting points due to previous UK and EU Member State 'gold-plating' and national rules.

Regulatory Outlook and Diary

Forward Regulatory Calendar: Updated 02nd April 2024		
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 excluding Unique Product Identifier (UPI) and Delta. 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 01, 2024	US	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)) (also see 89 Fed. Reg. 14007 (Feb. 26, 2024))
April 11, 2024	US	Deadline for comments to CFTC's Proposed Amendments to Swap Data Reporting Rules (Parts 43 and 45), including updates to the Technical Specifications. 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 international harmonization and further the Commission's surveillance and analysis activities, among other things. • Link to the Proposed Technical Specifications. • Link to the draft Swap Data Rule Amendments
April 16, 2024	Europe, US, G20	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, US, G20	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 22, 2024	US	Comment Deadline: CFTC Proposed Rule for Regulations to Address Margin Adequacy and to Account for the Treatment of Separate Accounts by Futures Commission Merchants
April 22, 2024	US	Comment Deadline: CFTC Proposed Rule for Foreign Boards of Trade

April 22, 2024	US	Comment Deadline: CFTC Proposed Rule for Requirements for Designated Contract Markets and Swap Execution Facilities Regarding Governance and the Mitigation of Conflicts of Interest Impacting Market Regulation Functions
April 24, 2024	US	Comment deadline for CFTC request for information on the use of AI in CFTC-regulated markets
April 29, 2024	EU	Go-live of EMIR Refit reporting rules
April 29, 2024	UK	Deadline for notifying FCA of Designated Reporter status.
June 1, 2024	US	Three-month calculation period begins under U.S. Prudential Regulations to determine whether the daily average aggregate notional amount of derivatives for an entity and its affiliates exceeds the USD 8 billion threshold for application or revocation of initial margin requirements as of January 1, 2025.
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	With regards to the final Basel III reforms in Singapore, all standards, other than the revised market risk and credit valuation adjustment (CVA) standards, as required under the revised MAS Notice 637 on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore will come into effect from 1 July 2024. For revised market risk and CVA standards, only compliance with supervisory reporting requirements will come into effect from 1 July 2024. The output floor transitional arrangement of 50% will commence from 1 July 2024 and reach full phase-in (72.5%) on 1 Jan 2029.

July 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 30, 2024	Japan	Publication of all Euroyen TIBOR settings will cease after publication on December 30, 2024.
December 31, 2024	UK	The FCA direction under the temporary transitional powers allowing UK firms to execute certain trades with EU clients on EU venues (even though there is no UK equivalence decision in respect of those venues) expires at the end of 2024
December 31, 2024	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

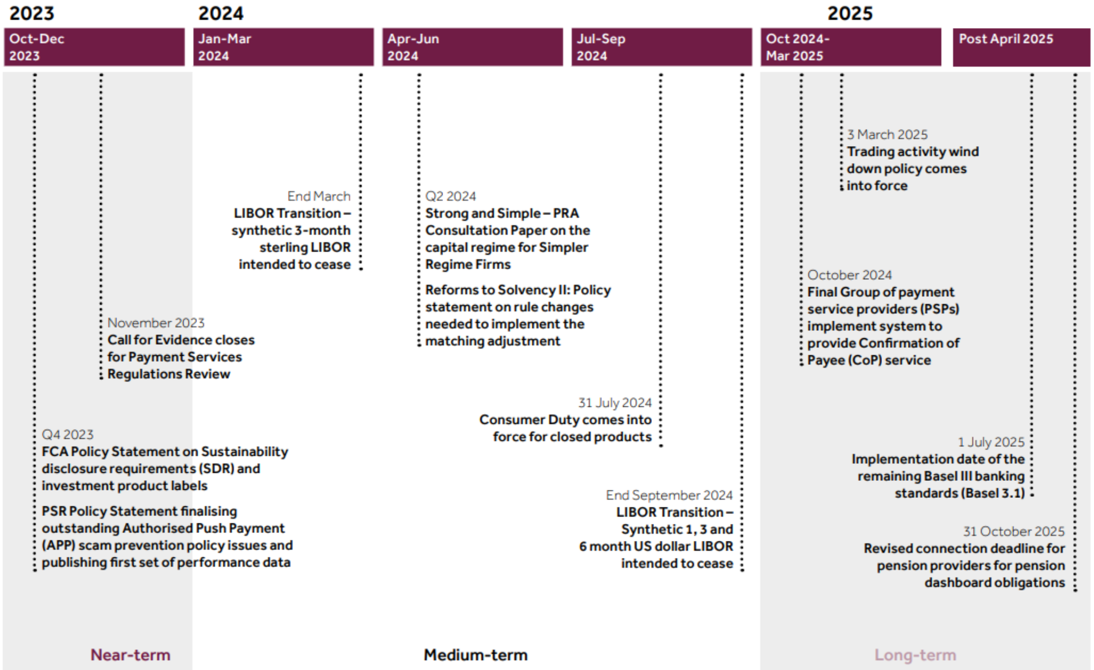
December 31, 2024	Mexico	Deadline for banks, broker dealers and investment funds with average (month-end) aggregate notional amount from March, April, and May 2022 of UDI 20 billion to comply with the margin requirements for uncleared derivatives under Banco de México's Circular 2/2023.
January 1, 2025	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 EU Switzerland UK	Under US Prudential Regulations only, initial margin requirements apply to covered swap entities with material swaps exposure (average (daily) aggregate notional amount from June, July, and August 2024 exceeding USD 8 billion). Initial margin requirements apply to counterparties with an average (month-end) aggregate notional amount from March, April, and May 2024 exceeding EUR 8 billion. Initial margin requirements apply to counterparties whose average (month-end) aggregate notional amount from March, April, and May 2024 exceeds CHF 8 billion. Initial margin requirements apply to counterparties with an average (month-end) aggregate notional amount from March, April, and May 2024 exceeding EUR 8 billion.
March 1, 2025	Australia US EU Canada Hong Kong Korea Switzerland Singapore Japan Brazil South Africa UK Mexico	Three-month calculation period begins to determine whether the average aggregate notional amount of derivatives for an entity and its affiliates exceeds the lowest threshold for application or revocation of initial margin requirements as of the next relevant compliance date of either September 1, 2025, or January 1, 2026 (EU/UK/CHF). In the US, this calculation period only applies under CFTC regulations. In Mexico, the corresponding compliance date is December 31, 2026. Brazil is daily and all others are month-end for March, April, and May average aggregate notional amount.

	Saudi Arabia	
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 01, 2025	US	Three-month calculation period begins under U.S. Prudential Regulations to determine whether the daily average aggregate notional amount of derivatives for an entity and its affiliates exceeds the USD 8 billion threshold for application or revocation of initial margin requirements as of January 1, 2026.
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 Australia Canada	Under CFTC rules only, initial margin requirements apply to covered swap entities with material swaps exposure (average (month-end) aggregate notional amount from March, April, and May 2025 exceeding USD 8 billion). Australia: Initial margin requirements apply to Phase 6 APRA covered entities with an average (month-end) aggregate notional amount from March, April, and May 2025 exceeding AUD 12 billion. Canada: Under both OSFI and AMF guidelines, initial margin requirements apply to Phase 6 covered entities with average (month-end) aggregate average notional amount from March, April, and May 2025 exceeding CAD 12 billion.

	Hong Kong Korea Singapore Japan Brazil Saudi Arabia	Hong Kong: Initial margin and risk mitigation requirements apply to HKMA AIs and SFC LCs with an average (month-end) aggregate notional amount from March, April, and May 2025 exceeding HKD 60 billion. Korea: Initial margin requirements apply to financial institutions with derivatives exceeding more than average (month-end) aggregate notional amount of KRW 10 trillion based on calculation from March, April, and May 2025. Singapore: Initial margin requirements apply to MAS covered entities with an average (month-end) aggregate notional amount from March, April, and May 2025 exceeding SGD 13 billion. Japan: Initial margin requirements apply to JFSA covered entities with an average (month-end) aggregate notional amount from March, April, and May 2025 exceeding JPY 1.1 trillion. Brazil Initial margin requirements apply to financial institutions and other entities authorized to operate by the Central Bank of Brazil which have an average (daily) aggregate notional amount from March, April, and May 2025 exceeding BRL 25 billion. Saudi Arabia: Initial margin requirements apply to covered entities belong to a group whose average (month-end) aggregate notional amount of non-centrally cleared derivatives from March, April, and May 2025 exceeds EUR 8 billion.
September 01, 2025	South Africa	Initial margin requirements apply to a provider with average (month-end) aggregate notional amount from March, April, and May 2025 exceeding ZAR 8 trillion. (per amended rule pending finalization).
September 29, 2025	EU	Deadline for Member States to transpose the MiFID amendments published on March 8, 2024, into national law.
September 29, 2025	Hong Kong	Proposed go-live of the updated HKMA and SFC OTC derivatives trade reporting regime.
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 No. 20-37 and No. 22-14.
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 01, 2026	US EU Switzerland UK	Under US Prudential Regulations only, initial margin requirements apply to covered swap entities with material swaps exposure (average (daily) aggregate notional amount from June, July, and August 2025 exceeding USD 8 billion). Initial margin requirements apply to counterparties with an average (month Initial margin requirements apply to counterparties whose average (month-end) aggregate Initial margin requirements apply to counterparties with an average (month-end) aggregate notional amount from March, April, and May 2025 exceeding GBP 8 billion.
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.

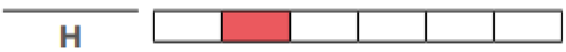
January 04, 2026	UK	Expiry of the derogation from margin rules in respect of non-centrally cleared over-the counter derivatives, which are single-stock equity options or index options
February 12, 2026	EU	CCP R&R (Article 96): The European Commission (EC) shall review the implementation of this Regulation and shall assess at least the following: • the appropriateness and sufficiency of financial resources available to the resolution authority to cover losses arising from a non-default event • the amount of own resources of the CCP to be used in recovery and in resolution and the means for its use • whether the resolution tools available to the resolution authority are adequate. Where appropriate, that report shall be accompanied by proposals for revision of this Regulation.
June 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

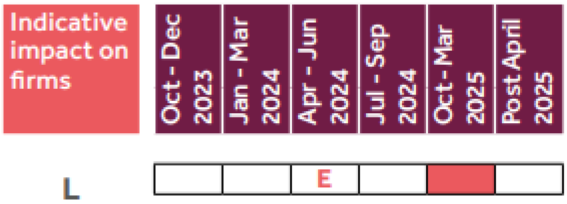
Accessing and using wholesale data



- 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 ➤

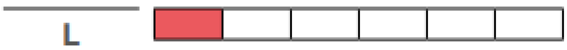
- Market study update published on 31 August 2023. Market study report will be published on, or before, 1 March 2024 at the latest.

Intermittent Trading Venue Sandbox *[New]*



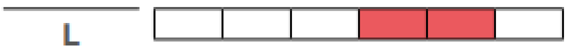
- The Intermittent Trading Venue (ITV) is being developed as a new market which will allow private companies to access global investors. The ITV will be delivered through the FMI Sandbox powers introduced in FSMA 2023. The Government has committed to have the ITV Sandbox up and running before the end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

Indicative impact on firms	Oct - Dec 2023	Jan - Mar 2024	Apr - Jun 2024	Jul - Sep 2024	Oct - Mar 2025	Post April 2025
L						

- 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
H	E			E		E

- 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
H						

- 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
L						

- 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

U	E	E				

- 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
L	E	E				

- 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.

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

L						

- 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]*

Indicative impact on firms	Oct - Dec 2023	Jan - Mar 2024	Apr - Jun 2024	Jul - Sep 2024	Oct-Mar 2025	Post April 2025
L						

- 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]*

Oct - Dec 2023	Jan - Mar 2024	Apr - Jun 2024	Jul - Sep 2024	Oct - Mar 2025	Post April 2025

- 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]*

Indicative impact on firms	Oct - Dec 2023	Jan - Mar 2024	Apr - Jun 2024	Jul - Sep 2024	Oct - Mar 2025	Post April 2025
U	E					

- 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
L						

- 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]*

H						

- 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

L		E				

- 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
L						

Benchmarks, RFRs & LiBOR Transition

28 March marked a historic moment with the final publication of the last remaining sterling LIBOR setting (3-month). *Afterwards, 32 of the 35 LIBOR settings will have ceased permanently, with the remaining 3 USD settings expected to cease at the end of September this year, concluding the transition.*

- BOE FPC published the Record of its recent meeting where they welcomed the progress made with the LIBOR transition, including the cessation of the final synthetic GBP LIBOR setting on 28th March (i.e. tomorrow!). Some of the key conclusions were:
- All remaining synthetic LIBOR settings have planned end dates in 2024. The FPC encouraged participants to maintain momentum on transition efforts to minimise remaining exposures ahead of these dates.
- The Committee welcomed the further reduction in the stock of legacy USD LIBOR exposures, & consequently judged that the financial stability risk in the UK associated with USD LIBOR had effectively been mitigated.
- It reiterated its view that SOFR-based rates provide more robust alternatives than USD credit sensitive rates (CSRs), & that CSRs have the potential to reintroduce many of the financial stability risks associated with LIBOR.
- The Committee also reiterated its caution on the use of term SOFR outside of the specific recommended use cases.

3-month synthetic sterling LIBOR – 1 month to go *(published: 29/02/2024)*

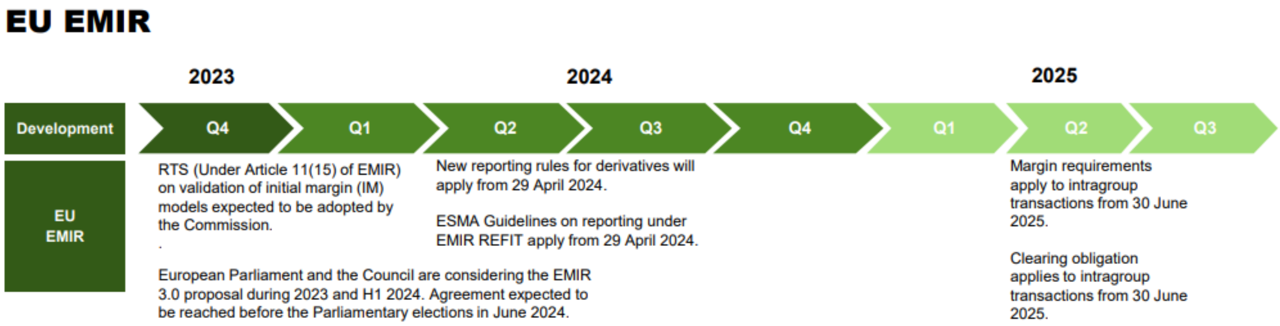
- FCA issues final message before the end-March 2024 deadline & a reminder of the expected cessation of US dollar synthetic LIBOR at end-September 2024. It is now 1 month until the 3-month synthetic sterling LIBOR setting ceases permanently on 28 March 2024.
- This is the last remaining synthetic sterling LIBOR setting, & its end marks another critical milestone in the transition away from LIBOR. In November 2022, we announced that we intend to continue to require IBA to publish the 3-month sterling LIBOR setting in synthetic form until end-March 2024, after which it will cease permanently. This was in line with the feedback received to our June 2022 consultation. Ahead of the deadline, firms with outstanding sterling LIBOR exposures must continue their active transition efforts.
- Today, we have also published a report, under Article 23E of the BMR, setting out our review of whether the use of our power under Article 23D(2) of the BMR with respect to 3-month synthetic sterling LIBOR

has advanced our consumer protection & integrity objectives. The report concludes that the way in which we have exercised our power to require IBA to publish 3-month sterling LIBOR under a changed, synthetic methodology for the period between 1 January 2022 & 1 January 2024 (review period) has advanced both our statutory objectives.

Synthetic US dollar LIBOR

- We would also like to remind market participants that US dollar synthetic LIBOR is expected to cease in 7 months' time. In November 2022, we consulted on our proposals for a synthetic US dollar LIBOR. In April 2023, we confirmed our intention to require IBA to continue to publish the 1-, 3- & 6-month US dollar LIBOR settings in synthetic form until end-September 2024.
- Market participants must ensure they are prepared for these final synthetic US dollar LIBOR settings to cease at end-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.

Capital Markets and Market Structure



- 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.

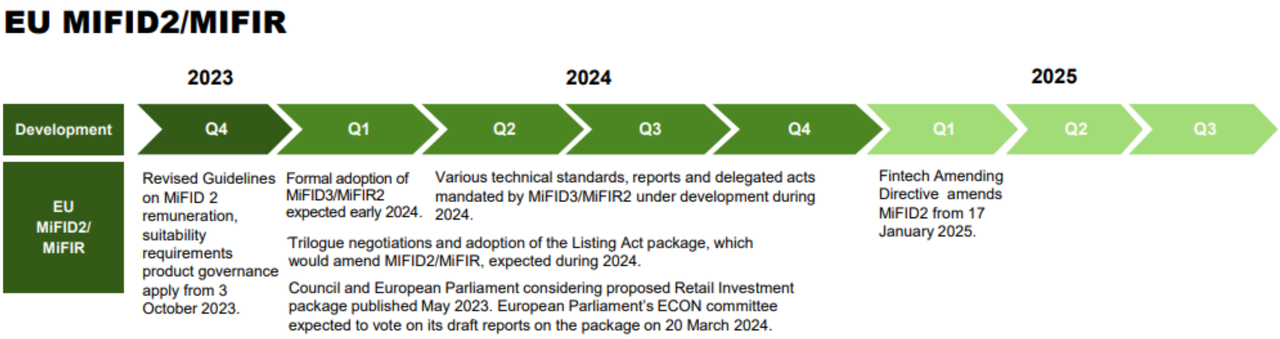
- ESMA published final Guidelines on reporting under EMIR REFIT on 20 December 2022, providing clarification on compliance with the EMIR technical standards. The Guidelines apply from 29 April 2024.
- Intragroup transactions:
    - Commission Delegated Regulation (EU) 2023/314 has extended the deferred 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

	2023	2024				2025		
Development	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
MIFID/R AND WHOLESALE MARKETS REVIEW	Draft DRSRs 2023 published 28 November 2023. FCA Policy Statement on regulatory framework for a consolidated tape published 20 December 2023.	FCA consultation on commodity derivatives regulatory framework closes 16 February. FCA consultation on closing "advice gap" closes 28 February.	FCA to introduce new Investment Research rules in H1 2024.	The government and the FCA plan to introduce a regulatory regime to support a consolidated tape for market data in 2024. The government plans to introduce an ITV Sandbox before the end of 2024.			Financial Services and Markets Act 2000 (Commodity Derivatives and Emission Allowances) Order 2023 enters into force 1 January 2025.	

- 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 2022v (supplemented by the Mansion House Reforms published in July 2023) build on the WMR by including MiFID/MiFIR in Tranches 1 and 2v 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 rained 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).

- o [An ITV sandbox will be introduced by end-2024.]
- o [Outcome of government and FCA work on the boundary between regulated financial advice and financial guidance].
- o 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 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

	2023	2024				2025		
Development	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
SHORT SELLING	Draft The Short Selling Regulations 2024 published on 22 November 2023. The Short Selling (Notification Threshold) Regulations 2023 laid on 27 November 2023.	From 5 February 2024, notification threshold for the reporting of net short positions to the FCA increases from 0.1% to 0.2% of total issued share capital.	Short Selling Regulations expected to be laid before Parliament in 2024. FCA expected to consult on proposed rule changes in 2024.					

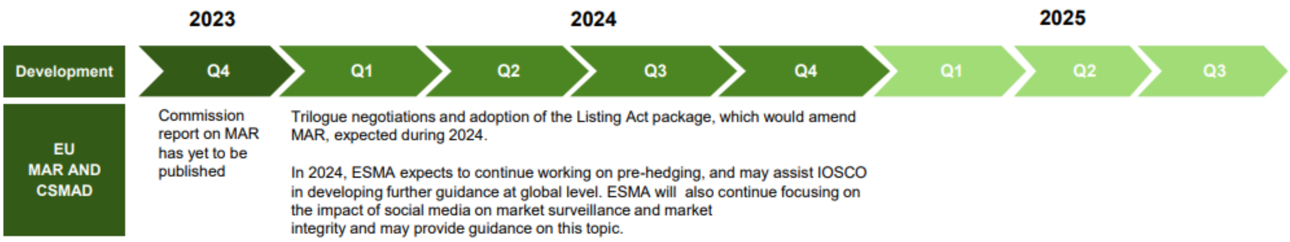
- FSMA 2023 will repeal retained EU law on financial services and will give HM Treasury powers to amend, restate and replace that law.
- HM Treasury is working on the introduction of a new replacement UK short selling regime to enter into force on repeal of the UK short Selling Regulation (UK SSR).
- 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

	2023	2024				2025		
Development	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
EU SFTR	A data quality dashboard for SFTR is under development during 2023/2024. ESMA's supervisory focus is on monitoring of data reconciliation and the accuracy and integrity of SFTR reports by trade repositories. ESMA will publish an SFTR data quality report during 2024.							

- 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.

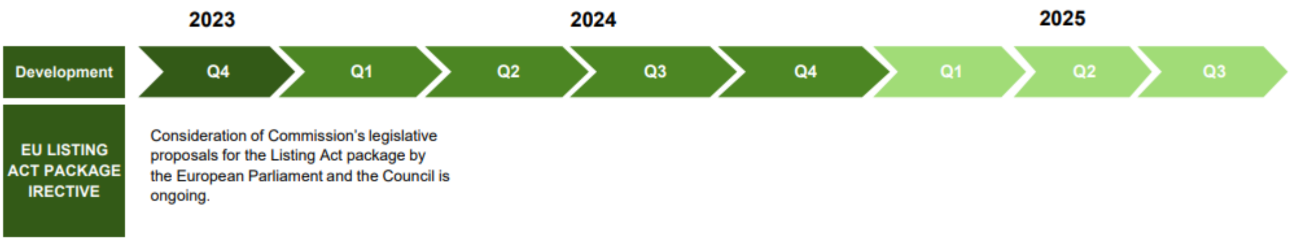
<u>EU MAR AND CSMAD</u>



- 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

Development	2023 Q4	2024 Q1	Q2	Q3	Q4	2025 Q1	Q2	Q3
Listing and Secondary Capital Raising Reforms	Draft POAT Regulations 2023 published November 2023. FCA feedback on POAT engagement papers 1-6 published 12 December 2023.	Listing reforms: FCA CP23/31 closes 16 February 2024.	FCA to formally consult on use of new regulatory powers under the POAT regime in late H1 2024.	Listing reforms: FCA aims to finalise revised UK Listing Rules at the start of H2 2024.				

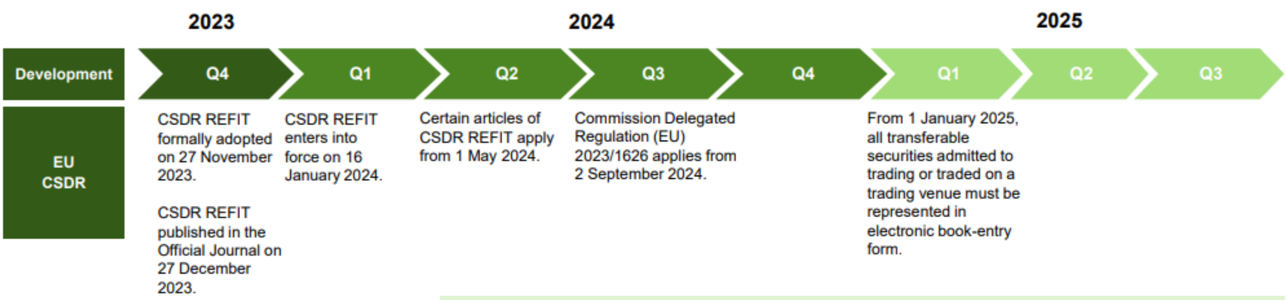
- Listing and secondary capital raising reforms; FSMA 2023 enables the government to reform the UK's prospectus regime, to implement recommendations from Lord Hill's UK Listing Review which aims to widen participation in the ownership of public companies, simplify the UK capital raising process, and 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

	2023	2024				2025		
Development	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
EU Securitisation Regulation Review	Commission Delegated Regulation 2023/2175 in force from 7 November 2023, replacing Delegated Regulation (EU) 625/2014 .	RTS on homogeneity of underlying exposures in STS and triggers for non-sequential amortisation under development in 2024.	EBA Guidelines on eligibility of on-balance sheet securitisations as STS securitisations expected to be finalised in 2024.	Work on targeted improvements to the EU securitisation framework and on potential changes to its prudential regime will progress throughout 2024. No firm timings are available for the measures				

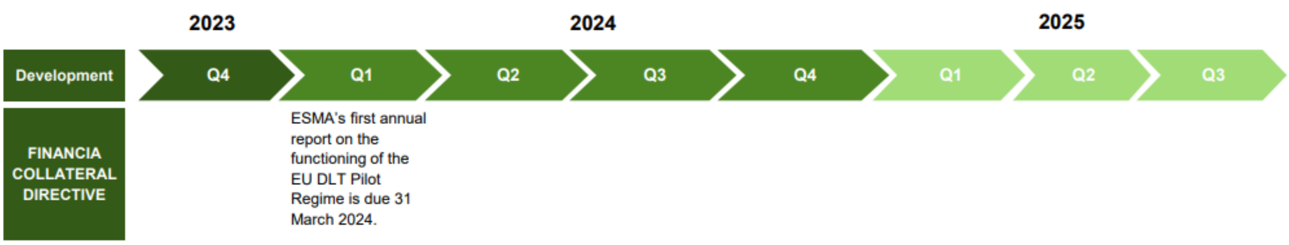
- As part of the capital markets union (CMU) action plan the Commission conducted a review of the EU securitisation framework. Fulfilling its mandate under Article 46 of the Securitisation Regulation (SR), the Commission published a report in October 2022, which set out a stocktake on the SR's functioning. 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 make 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



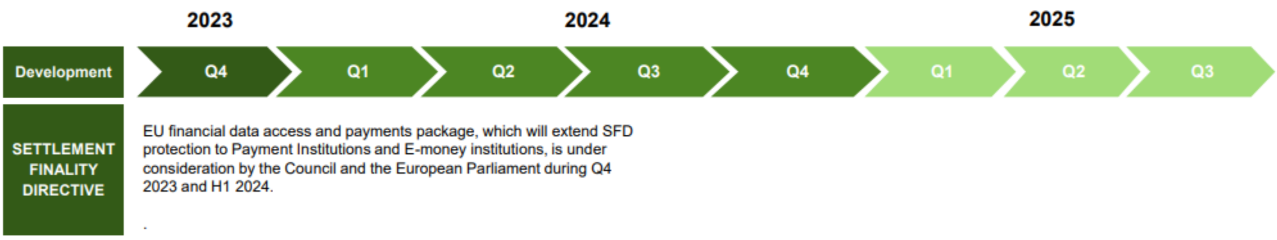
- EU CSDR aims to harmonise certain aspects of securities settlement, such as the timing of settlement and the authorisation process for EEA CSDs. The next major phase of implementation, the introduction of a mandatory buy-in regime, was intended to come into effect on 1 February 2022, but has been suspended 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 depositaries (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.

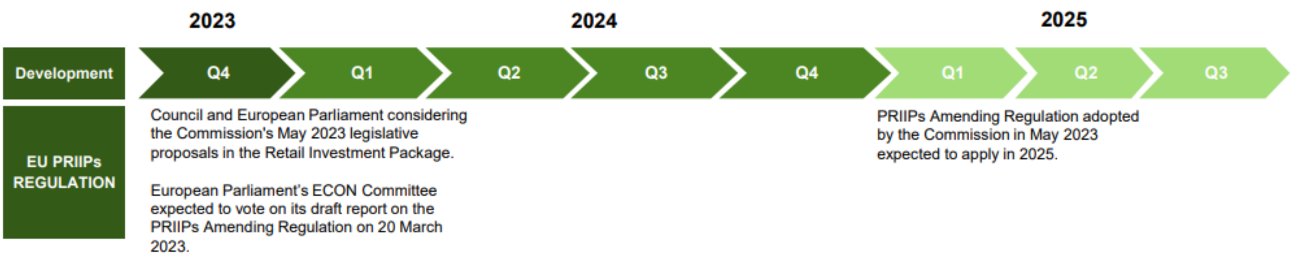
Review of EU settlement finality directive



- 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:
  - o 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.
  - o 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).
  - o Consideration of applying SFD to DLT-based systems should await insights form the EU Digital Pilot Regime on the risks and benefits of DLT in trading and settlement.

<u>EU PRIIPS REGULATION</u>

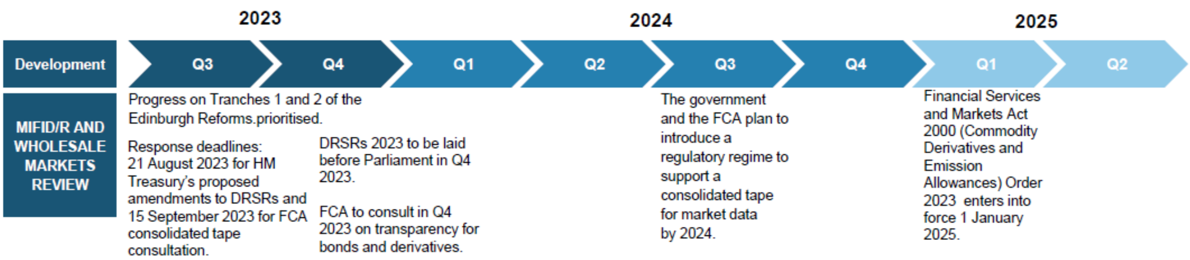


- The PRIIPs Regulation obliges manufacturers of packaged retail insurance-based and investment products (PRIIPs) to produce a concise pre-contractual disclosure document, the Key Information Document (KID), where such products are made available to retail investors. It also obliges persons who advise 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.

The capital markets in both the EU and the UK continue to undergo significant change.; *The EU is now finalising mandatory reviews of the mass of regulation that was implemented post-financial crisis, such as MiFID II/MiFIR, and the UK is amending on-shored EU regulation to adapt it to the UK market. Both jurisdictions are looking to increase their attractiveness as destinations to raise capital for new and growing companies. New fund structures have also been introduced, and existing structures adjusted, as European jurisdictions compete for share of market growth and cater for investment in long-term assets. This is aimed at aiding economic recovery and growing national capital markets, although in some cases industry uptake has been slow.*

- Work to analyse potential financial stability vulnerabilities and develop policy solutions across the non-bank sector has resulted in new international guidelines and recommendations on liquidity management in open-ended funds. Regulators' attention is now turning to potential risks associated with private assets and leverage.
- The movement to T+1 settlement is adding to the initiatives testing how wholesale market participants can use technology to bring efficiencies and resilience to post-trade market infrastructure.
- The small increase in regulatory impact score in this edition is a result of various factors. Whilst developments in listing regulation seek to streamline the existing requirements, the volume of changes relating to secondary markets, such as the move to T+1, are creating more pressure. In addition, the prospect of increased supervisory scrutiny and new requirements relating to private assets, and the finalisation of new fund liquidity risk management rules (e.g. within AIFMD II), mean that on balance the score has increased.

UK Divergences

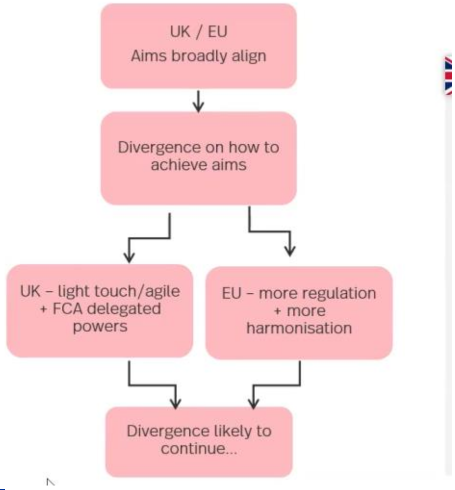


EVIA European Venues & Intermediaries Association

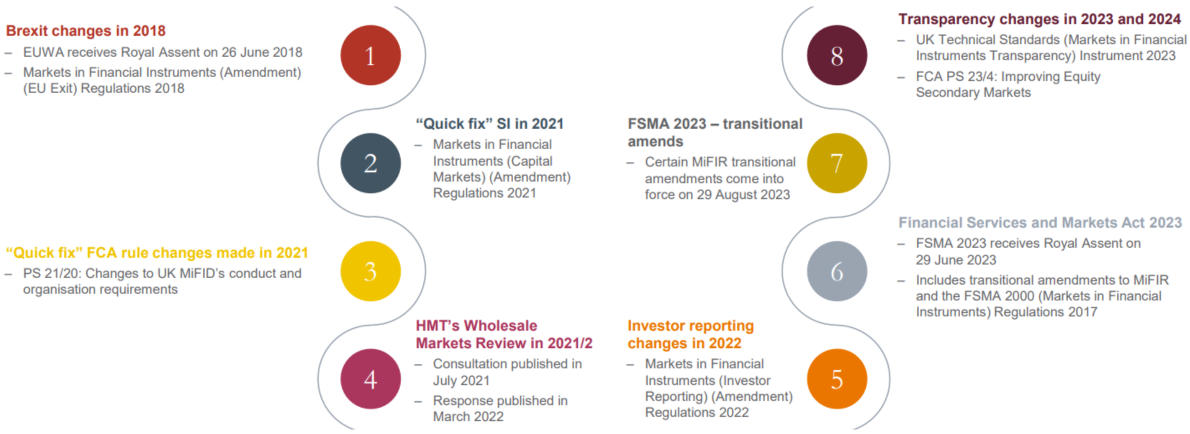
LEBA London Energy Brokers' Association

- 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

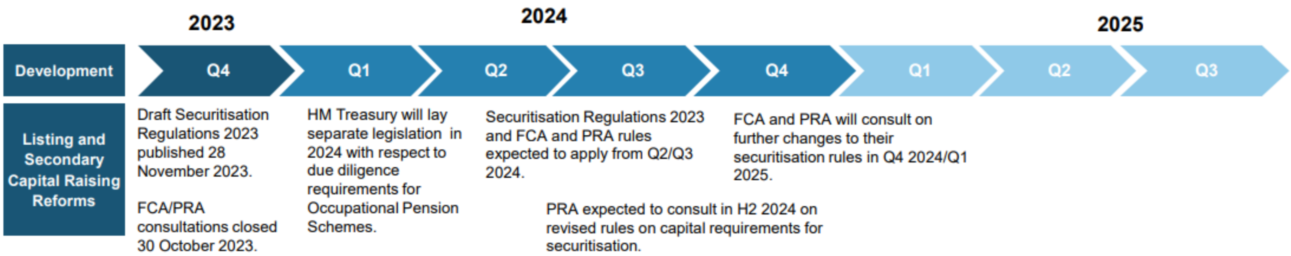
Key areas of divergence



Key UK developments timeline



[SECURITISATION REFORM]

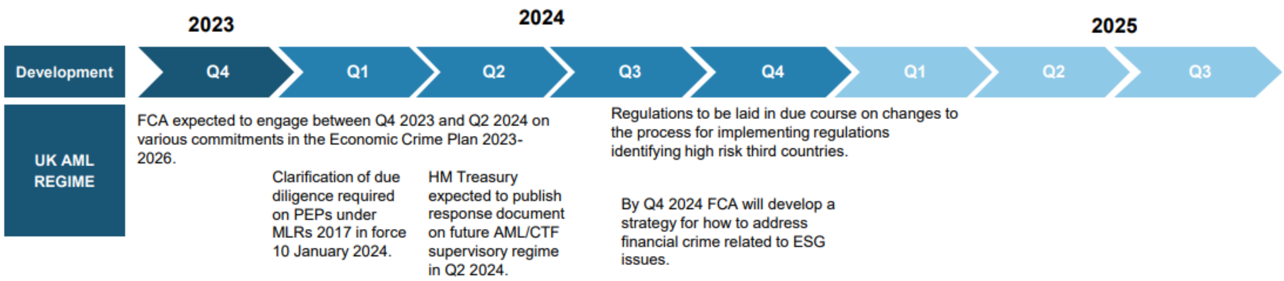


- [FSMA 2023 enables the government to reform the UK's securitisation regime and deliver the recommendations of the 2021 Securitisation Review with the aim of:]
  - (i) bolstering securitisation standards in the UK, in order to enhance investor protection and promote market transparency; and

   - (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

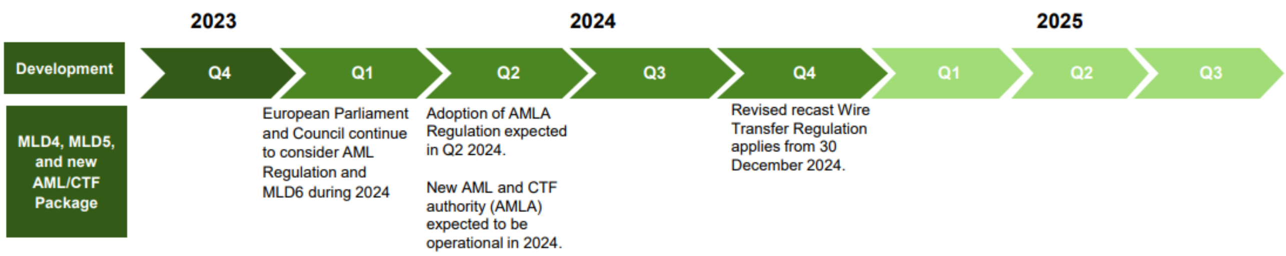
UK AML REGIME



- 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



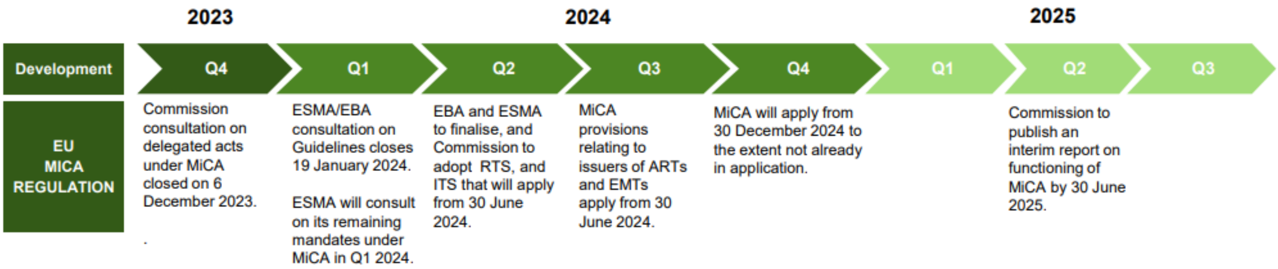
- MLD4 contains the EU's anti-money laundering framework. MLD5 made targeted amendments to MLD4 to increase transparency around owners of companies and trusts through the establishment of public beneficial ownership registers, prevent risks associated with the use of virtual currencies for terrorist 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.

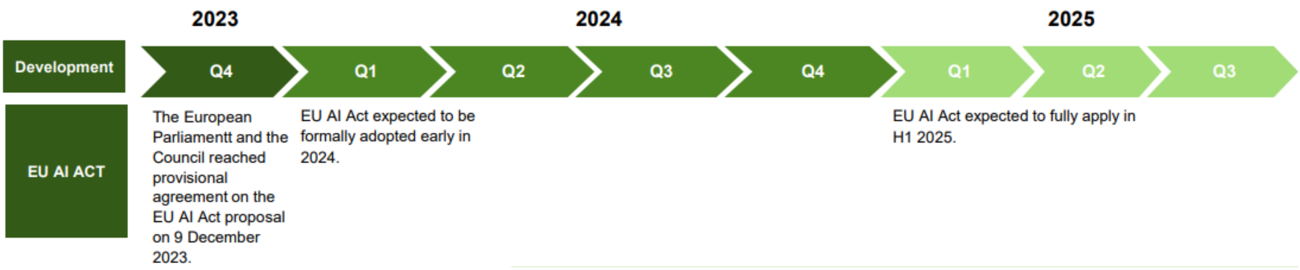
- Phase 2: (wider cryptoassets) – FSMA 2023 inserted a definition of 'cryptoasset' into s.417 of FSMA. Cryptoassets and related activities will be brought into regulation via amendments to the Regulated Activities Order and via the DAR.
  - HM Treasury consulted in February 2023 on its developing proposals 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: ▪ the exchange of cryptoassets for other cryptoassets ▪ the exchange of cryptoassets for fiat currency ▪ the exchange of cryptoassets for other assets (e.g. commodities)	Chapter 6
Investment and risk management activities	• Dealing in cryptoassets as principal or agent • Arranging (bringing about) deals in cryptoassets • Making arrangements with a view to transactions in cryptoassets • Making arrangements with a view to transactions in cryptoassets	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

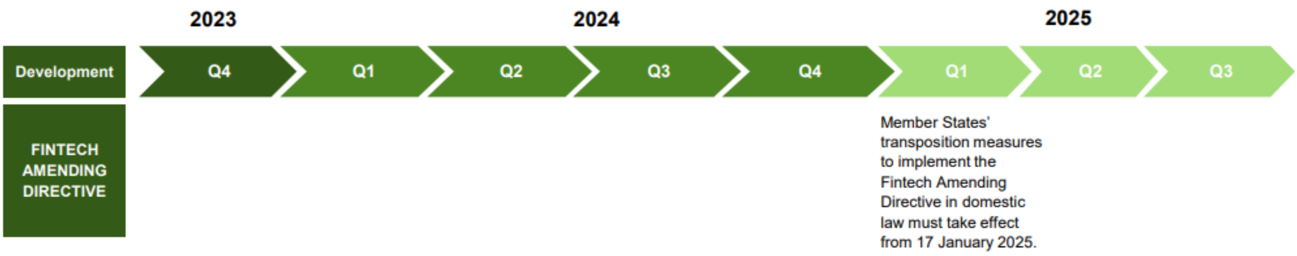
Digital finance, SupTech, RegTech & FinTech

EU AI ACT



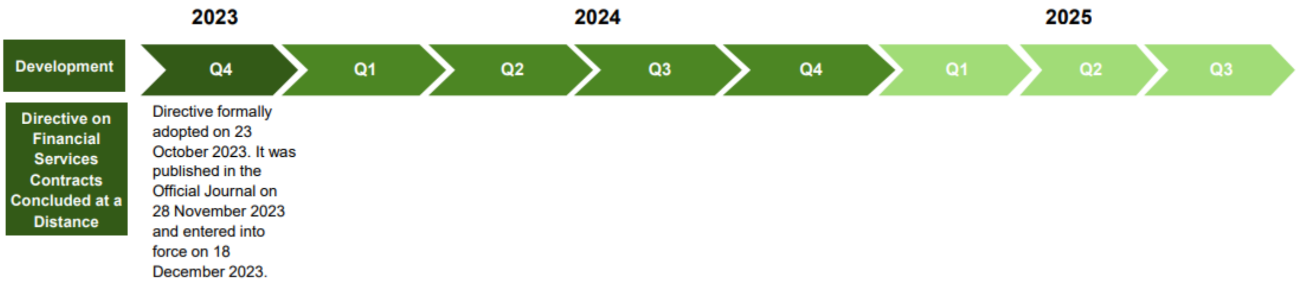
- The Commission published a proposal for a Regulation on artificial intelligence (AI) in April 2021. The proposed 'AI Act' sets out rules relating to the placing on the market, putting into service and use of AI systems in the EU, as well as transparency requirements and rules on market monitoring and 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 cross-referenced to the DORA Regulation. The objective is to ensure legal certainty and clarity for financial services entities as to the relevant requirements for the operational resilience of their digital operations against information and communication technology (ICT) risk.
- Member States must amend their national law implementing the following Directives to transpose the provisions of the 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

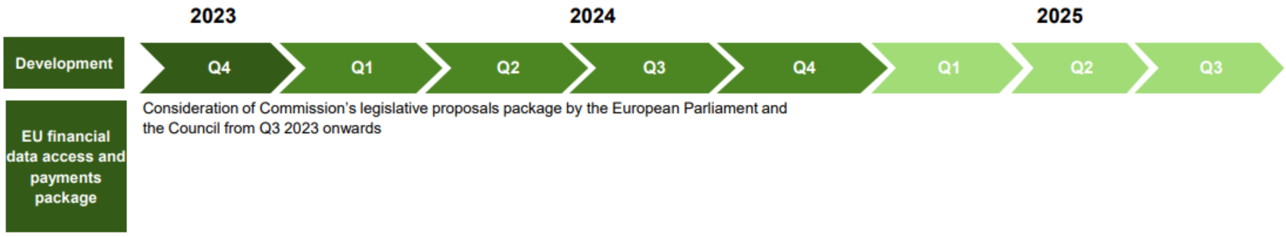


- Directive on Financial Services; Contracts Concluded at a Distance; Following a regulatory fitness (REFIT) evaluation, the Commission found that the protections of the Distance Marketing Directive (DMD) remain useful as a horizontal safety net where more recent sector-specific legislation has not been 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 & 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.

Accelerated adoption of digital innovation in financial services continues. This is providing significant benefit to customers and service providers, but also introduces novel risks to consumer protection and, on a wider scale, to financial stability. After beginning somewhat tentatively, regulators are now pushing ahead more decisively with their proposed frameworks.

- Distributed ledger technology could bring efficiency and reduce risk in trading lifecycle processes but could also potentially disintermediate incumbent players.
- The uptake of cryptoassets requires regulators to determine whether they can be accounted for within existing regulatory frameworks, or whether new approaches are necessary. Central banks are also considering minting their own CBDCs to safeguard the traditional role of currency.
- While some jurisdictions are pursuing prescriptive bespoke frameworks for AI, others are opting for more flexible principles-based approaches where they can lean heavily on existing structures.
- The digitisation of data offers opportunities to improve and personalise consumer financial services. Regulators are supporting this through the development of Open Banking and Open Finance frameworks whilst simultaneously increasing their scrutiny of Big Tech firms who hold vast amounts of consumer data and continue to expand their presence within financial services. The challenge is to support innovation whilst still protecting customer data and ensuring that holders of data do not have an unfair competitive advantage.
- And finally, on the frontier, regulators and policy makers are also beginning to consider the impact of innovations like quantum computing.
- Since the H2 2023 Barometer, regulators are continuing to push ahead with their frameworks around digital finance, with some now even finalised and ready to be implemented. This has resulted in a slight increase in pressure for firms.

Technology continues to develop at a dizzying pace, but regulation is beginning to catch up. Firms can start to consider their business models in light of the UK proposals on cryptoasset and stablecoin regulation (here and here) with EU MICA regulatory technical standards to be finalised in the year ahead.

- Finalisation of the EU AI act establishes a regulatory framework for use the technology in the EU with other jurisdictions not far behind.
- Open Finance builds upon the success of Open Banking and provides the potential for firms to offer more tailored, informed and innovative services to help consumers and businesses manage their finances.

The continuing and rapid evolution of the payments landscape and technology and its resulting impact on consumer behaviours and expectations poses benefits and challenges for providers and regulators alike.

- In stark contrast to ten years ago when cash was king, consumers and businesses now make use of a wide variety of forms of digital payments and, whilst still essential for some, cash use is in decline. This is driving regulatory change to ensure there is an agile and flexible regime that supports innovation and competition, whilst simultaneously ensuring that payment systems are efficient and do not put consumers at risk or exclude them from access to products and services.
- Regulators are considering the systems underpinning payments and looking at how to ensure markets work well. They are doing this with an eye on future market opportunities and developments such as Open Banking or the introduction of new forms of digital currency.
- Whilst offering many consumer benefits, the increasing number of digital forms of payment has opened the door to new frauds and scams. Alive to the potential impact and scale of this issue,

regulators are establishing a suite of rules to protect consumers and encouraging firms to consider making changes to reduce risk.
- In both the UK and EU, there is strong understanding of the continued need for access to cash. Activity is underway to bolster existing measures, in an attempt to stem the decline of cash which may be detrimental to some consumers. Regulators are also seeking to understand the drivers for the continued use/need for cash with a focus on future solutions.
- UK-regulated payment firms are also busy embedding the Consumer Duty and ensuring compliance now the implementation deadline has passed.
- There is a slight increase in regulatory pressure around payments as implementation deadlines for anti-fraud measures come closer in the UK and the EU has agreed to require instant payments.

Sanctions

See Weekly agenda

Conduct / Enforcement / Reporting

Supervisors continue to reinforce the need for good corporate governance in response to specific regulatory failings within firms, failures of banks in the US and Europe in 2023, and broader sectoral issues. *Governance arrangements also tend to come under heightened scrutiny during times of economic difficulty and market volatility.*

- Expectations on governance are woven throughout policy and regulatory files and are often placed at both executive and board level. A general pattern is emerging in the UK, of setting out granular, blanket expectations for boards, as seen in recent revisions to the UK Corporate Governance Code, which can start to blur the line between executive responsibility and board stewardship.
- The UK Consumer Duty is intended to create a cultural shift in how firms think about and behave towards retail customers. Regulators are calling out pay gaps and lack of diversity across firms' boards and senior management, and strengthening enforcement action for non-financial misconduct. They are also focused on helping firms recognise the interconnectedness of accountability, culture, DEI and the transformative effect that effective corporate governance can have.
- Reforms across the board, including ESG, Solvency UK, Consumer Duty and Funded Reinsurance, are requiring firms to designate clear accountability across all three lines of defence. Finally, focus on firms' implementation of AML controls continues to grow with measures taken to harmonise and strengthen regulation.
- Although most regulatory frameworks for governance are well established, the significant uptick in regulatory pressure score is due to an increase in expectations and expansion of remits in some cases coupled with increasing supervisory focus across all jurisdictions. There is also increasing potential for enforcement actions.

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

Figure 11. Actions to maintain good conduct

	Total	Total: Leading	Total: Embedding	Total: 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%

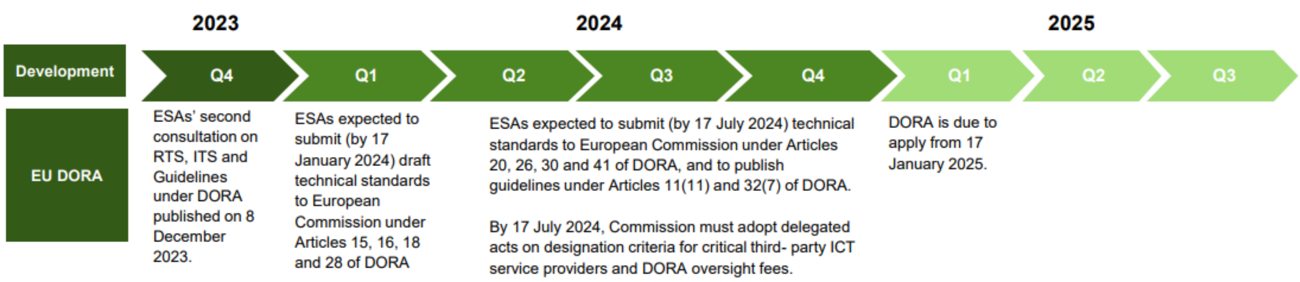
Type of question: single option per row. Scale: Rank on scale with the following options: completely uninvested; slightly uninvested; neither; slightly invested; fully invested; unable to say. Results in table show percentage of respondents who chose the two most favourable options on scale.

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 Scope SMCR Firms	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 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
Data collection & reporting on "demographic characteristics"	Large Firms only, but not Limited Scope SMCR Firms	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

and inclusion measures		responsibilities; Gender identity; Socio-economic background; Carer responsibilities 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"
Setting targets	Large Firms only, but not Limited Scope SMCR Firms	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
Data disclosures	Large Firms only, but not Limited Scope SMCR Firms	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
Risk & governance	Large Firms only, but not Limited Scope SMCR Firms	Matters relating to D&I are to be considered as a non-financial risk and treated appropriately within firms' governance structures
Individual accountability	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)).
"Large" firms are those with Part 4A permissions and 251 UK employees or more over a 3-year rolling average.		

Financial Stability, Operational Resilience

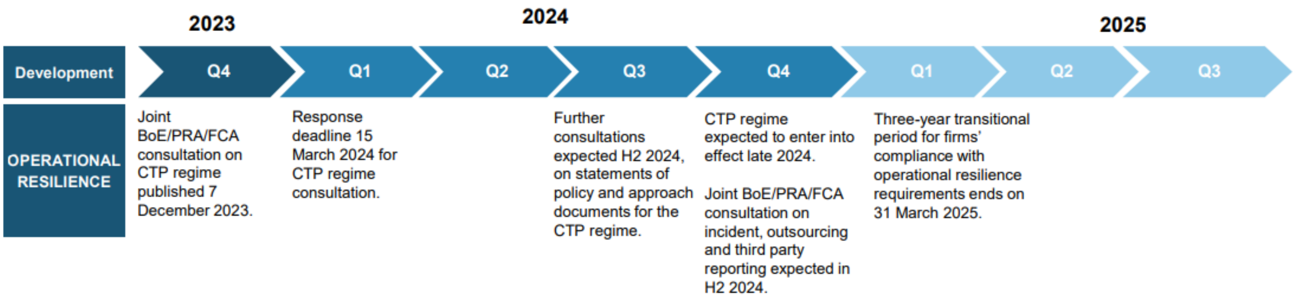
[EU Digital Operational Resilience Act (DORA)]



- 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.

Regulatory authorities in the UK, EU and globally agree that a broad approach to operational resilience — incorporating equally important components such as people, processes, technology and information — is essential. *In an increasingly digital and interconnected world, and with a proliferation of emerging vulnerabilities, operational resilience is paramount in minimising negative impacts on individual firms and their customers, as well as wider impacts on financial stability and the functioning of financial markets. Firms operating in multiple jurisdictions must ensure that they are meeting all relevant regulatory requirements.*

- UK and EU Regulators require firms to demonstrate end-to-end operational resilience in their most important business activities. Cyber and ICT resilience are fundamental and are driving new requirements, particularly in the EU. Strong governance and accountability are expected, as is robust testing of disruption scenarios, with firms encouraged to consider the possibility of multiple concurrent disruptions.
- Operational resilience remains a key priority in supervisory work programmes as deadlines approach. The ESAs are focused on the implementation of DORA, including the development of regulatory technical standards. The BoE, PRA and FCA continue to assess progress against existing operational resilience policies.
- Resilience expectations have extended to a wider range of participants operating in the financial sector. Regulators have progressed their work to develop policy and oversight approaches for critical third parties.
- The regulatory pressure score has increased slightly, reflecting the challenges of implementing DORA by January 2025, meeting UK regulatory deadlines for firms and FMIs and additional requirements for critical third parties.

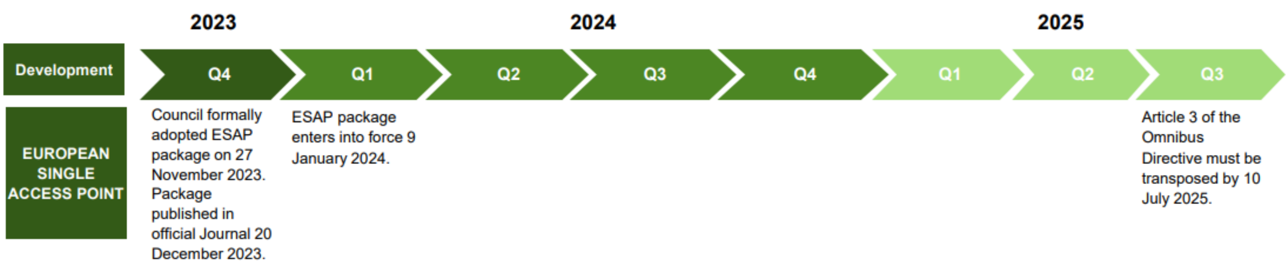
With continuing economic uncertainty and increasing geo-political fragmentation, prudential regulators and supervisors are seeking a balance between maintaining robust levels of financial resilience, addressing system-wide vulnerabilities, ensuring that firms are able to exit smoothly from the market, and promoting competitiveness in their respective jurisdictions.

- Finalisation of the Basel III reforms, an Interim Capital Regime for smaller firms, new UK requirements for solvent exit planning, updated approaches to model risk management and intensifying supervisory scrutiny of risk data aggregation, regulatory reporting and governance all contribute to the increasing regulatory pressure for banks.
- Revision of prudential regimes for insurers across the UK, Europe and globally are at different stages of progress, from implementation (SUK) to final development (EU Solvency II, ICS).
- In addition to ongoing policy changes to the prudential framework for investment firms, the FCA has completed a supervisory review of IFPR implementation and identified financial resilience as a supervisory priority for several sectors.
- Stress testing remains a key supervisory tool in monitoring vulnerabilities. Revisions are required to ensure that testing remains fit for purpose in a digital age and accurately reflects emerging risks. The Bank of England's System Wide Exploratory Scenario (SWES) is the first exercise to take a broader view of system-wide dynamics, reflecting a growing focus on NBFIs, which now account for more than 50% of global financial markets.
- The volume of initiatives and the need for firms, particularly banks and insurers, to take significant actions in the short term to deliver against multiple, complex regulatory requirements, coupled with intense supervisory scrutiny, results in an increase in regulatory pressure score. (For climate and environment-related financial risk for banks and insurers see Delivering ESG and Sustainable Finance).

The EU Digital Operational resilience Act (DORA) will be implemented from January 2025. The first batch of technical standards is expected to be finalised this month and the second is under consultation — *including identification and oversight of critical third-party providers. Work is progressing in parallel in the UK to bring critical third parties to the financial sector within the regulatory perimeter.*

- By 9 February, FMIs had to comply with the relevant BoE statements or code of practice on outsourcing and third-party risk management.
- Firms in scope of the PRA and FCA operational resilience requirements should continue to work through the requirements. The final hurdle is to demonstrate, by March 2025, that they can remain within impact tolerances when under stress.

<u>EUROPEAN SINGLE ACCESS POINT (ESAP)</u>



- 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.

Continued regulatory developments since the UK left the EU underline the need for firms working across all jurisdictions to monitor regulatory change and market access arrangements to pre-empt any potential disruption to their business and identify opportunities.

- The first meeting of the Regulatory Forum between HMT and the European Commission took place in October 2023, signalling further progress in rebuilding the UK/EU relationship. More broadly, the UK Financial Services and Markets Act allowed the establishment of mutual recognition agreements (MRAs), resulting in the signing of a unique MRA between the UK and Switzerland.
- However, cross-border access between the UK and the EU looks unlikely to improve in the short term and firms need to continue to ensure that they have sufficient substance and remain compliant with local access arrangements. To this end, the EU authorities have set out expectations regarding third country insurance branches, proposed changes to the requirements for banks and finalised new rules on delegation of portfolio management in the asset management sector.
- Although the exact detail has yet to emerge, the provisional political agreement on EMIR 3.0 seems to require a smaller proportion of EU clearing to take place in EU CCPs than was first proposed by the European Commission.
- Wider cross-border services remain under scrutiny, for example the EU's focus on reinsurance arrangements. The PRA's approach is one of 'responsible openness', and the UK review of Solvency II will benefit overseas insurers wishing to access the UK market. In the UK, the Temporary Permissions Regime for firms closed at the end of 2023. The Government and FCA have made significant progress on the Overseas Funds Regime and it should commence shortly.
- The small decrease in regulatory pressure score over the last six months can be attributed to positive developments regarding the OFR, the agreement of the UK-Switzerland MRA and less onerous revisions to the EMIR clearing regime than had been expected.

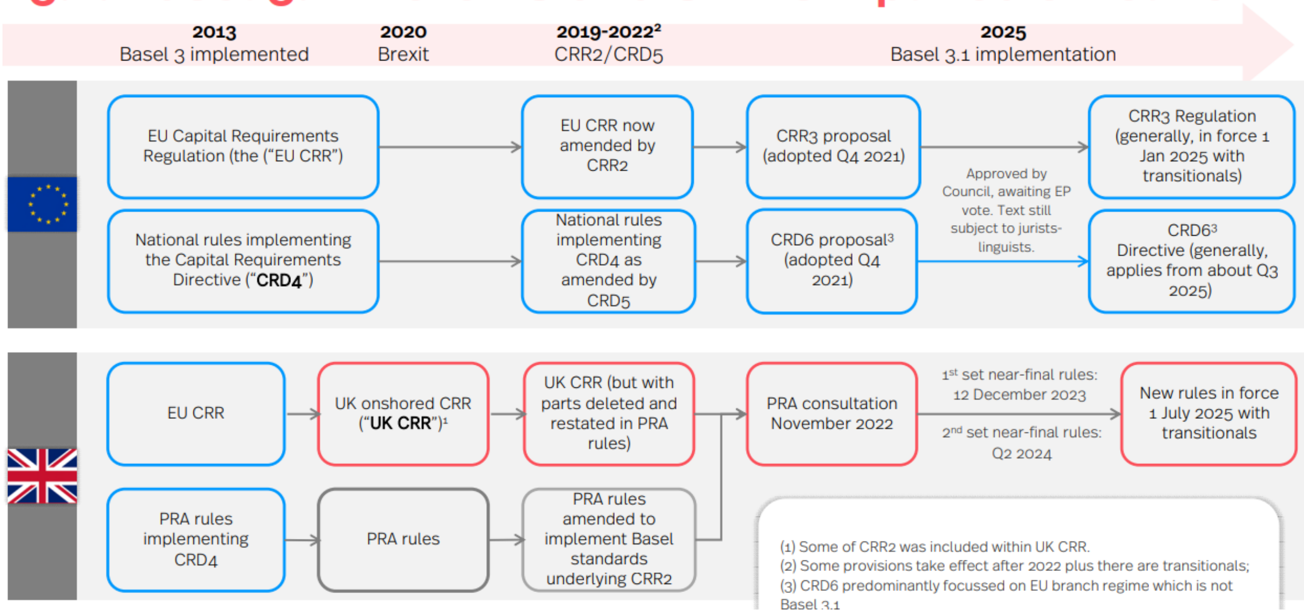
Prudential & Risk

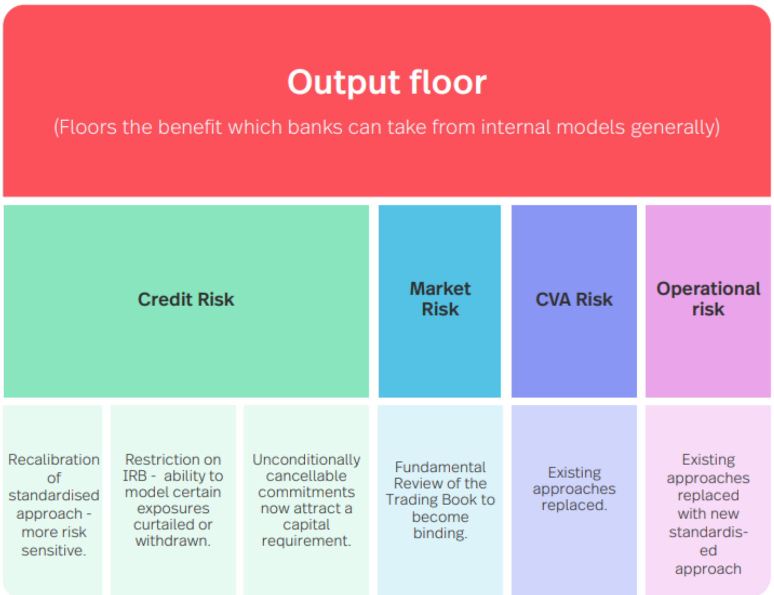
Operational resilience	
UK	**EU**
PRA/FCA Consultation Paper 26/23 'Operational Resilience: Critical Third Parties to the UK Financial Sector' published on 7 December 2023	EU Digital Operational Resilience Act (DORA) Oversight framework, second batch of RTS and ITS published 17 Jan 2024 : • ICT risk management framework • Classification of ICT-related incidents • Harmonised templates for the register of information • Policy on ICT services performed by ICT third-party providers EU Commission reviewing before adopting the technical standards
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.	

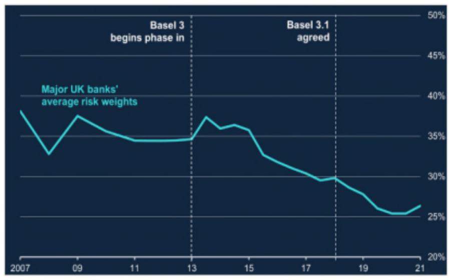
With rules nearing finalisation, in 2024 banks will need to step up their preparations for the remaining Basel reforms. Implementation will be a complex exercise affecting many areas, from regulatory interpretation and assessment of capital impacts, with significant opportunities for balance sheet optimisation, to technology, data and reporting requirements. *Variations in local approaches will add further complexity for banks operating across the UK, EU and US. Our 2023 publication sets out key considerations (PDF 2.1 MB) for firms.*

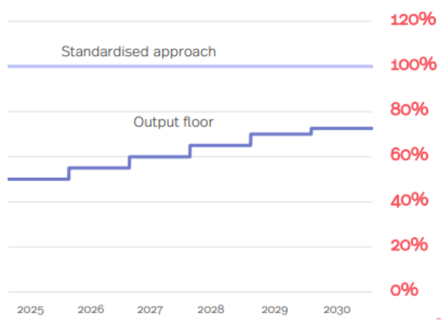
- Regulatory focus on proportionality is driving a simpler approach for smaller domestic deposit takers (SDDTs) in the UK, with final rules now published for liquidity and disclosure requirements. The PRA will consult further on simplifications to Pillar 2 and on buffer requirements for SDDTs and SDDT consolidation entities in Q2. Initial implementation of the new framework will bring its own challenges, not least the need for eligible SDDTs to decide whether to adopt Basel 3.1 or the new transitional capital regime before there is full visibility over the final simpler regime.
- In December, the Bank of England (BoE) updated the `Purple Book' on its approach to resolvability to reflect lessons learned in 2023. Solvent exit planning will be under increased supervisory scrutiny — analysis of the requirements for non-systemic banks and building societies to bring solvent exit planning into BAU by Q3 2025 can be found here. Larger banks must complete their work by March 2025.
- Alongside evolving requirements for capital, liquidity and risk management (particularly for US banks), supervisory authorities will have low tolerance for poor risk controls or governance. The ECB is stepping up the intensity of its focus on BCBS 239 Risk data aggregation and risk reporting. And UK banks have until May 2024 to implement the PRA's principles for model risk management — details can be found here and here (PDF 4.8 MB).
- Meanwhile, banks will be seeking to transition their business/revenue models to enhance profitability, while recognising the risks and opportunities arising from ESG, generative AI, and increasing digitalisation of the industry.

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

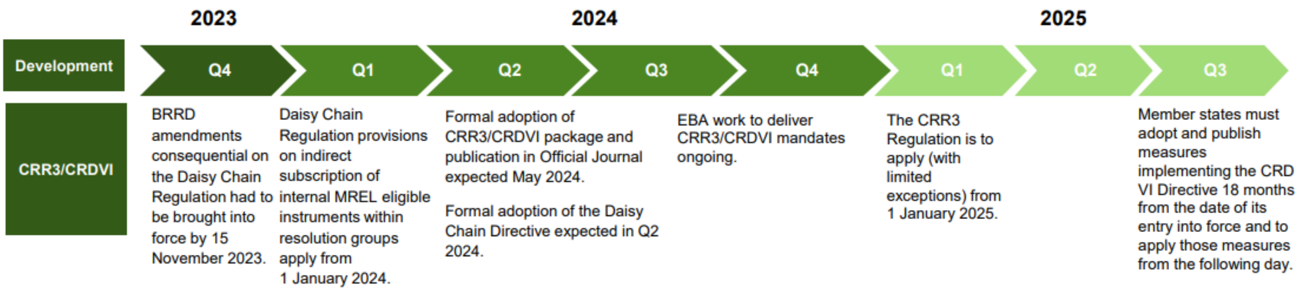






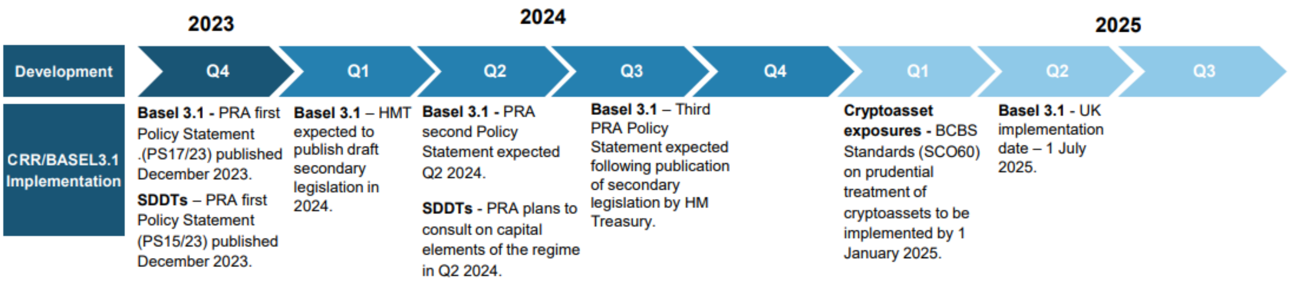


[CRR3/CRDVI]



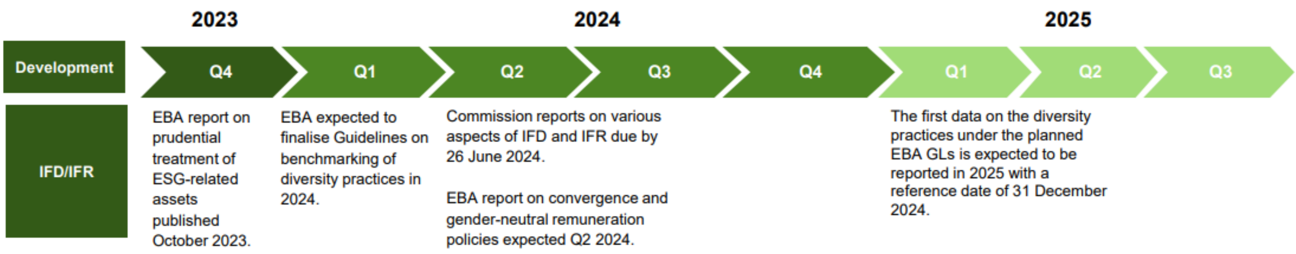
- Revisions to the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRDIV) known as the CRR3/CRDVI package are being made to implement in the EU the final reforms agreed by the Basel Committee on Banking Supervision in December 2017 (known as Basel 3.1).
- Other revisions 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.

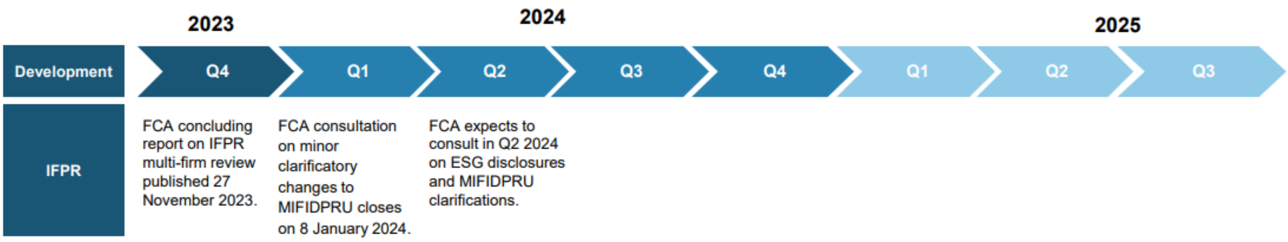
EU IFD/IFR



- 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.

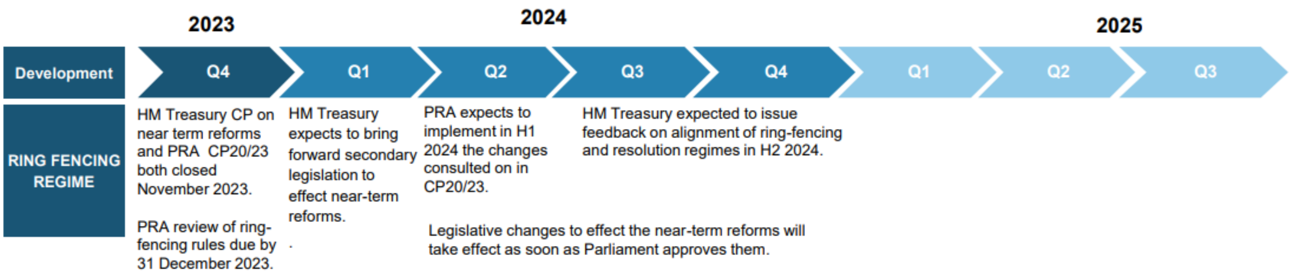
UK INVESTMENT FIRMS PRUDENTIAL REGIME (IFPR)



- The UK introduced the IFPR, a revised prudential regime for FCA-authorised 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-authorised 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.

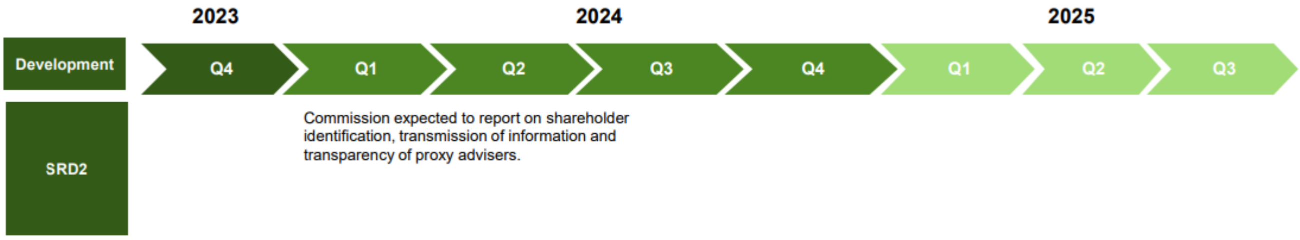
- The FCA consulted in its Quarterly Consultation in December 2023 (CP23/25) on proposed minor amendments to MIFIDPRU to clarify its requirements. That consultation closes on 8 January 2024.
- The FCA indicated in the November 2023 edition of the Regulatory Initiatives Grid that it expects to issue a 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.

3.2 CRD6: EU branches of 3rd country banks

Commission proposal

- **Current position**: each EU country has own rules on cross border market access for 3rd country banks
- **Proposal to harmonise**: 3rd country banks cannot provide any CRD services cross border but must set up a licensed branch in each EU country where it conducts banking business. Alternatively, as now, use a licensed subsidiary in EU which can passport (services or establishment) across EU
- **Trilogue negotiations** concluded in summer 2023 with a **political compromise** that is still subject to legal-linguistic revision

The Political Compromise

- Creates **new Article 21c of CRD4 Directive**
- Banks/systemic investment firms: **third country branch requirement to conduct "core banking activities" in EU** i.e., CRD Annex I activities 1, 2 and 6 (deposit taking, lending, guarantees and commitments)
- A reverse solicitation exemption which is broader than expected
- An interbank exemption covering credit institutions
- An intergroup exemption
- A **MiFID exemption** including for "any accommodating ancillary activities such as related deposit taking, granting credit or loans"
- **Delayed transposition**: 30-month transitional period for Article 21c.
- **Existing contracts**: Article 21c not apply to contracts entered into before the end of a 24-month transitional period

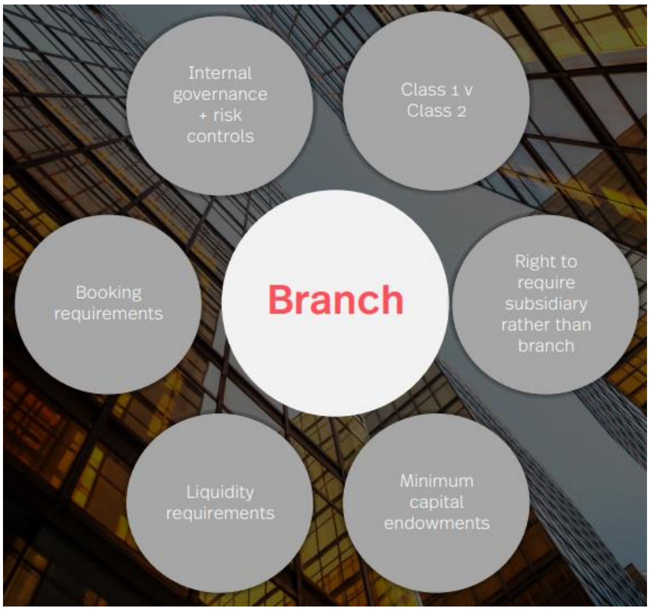
Activities

Activities potentially impacted by Article 21c	M&A / Advisory			Capital Markets						Financial Markets								Money Markets						Asset management						Payments, clearing & settlement											Lending									Deposit-taking		
Customer segments	Advice	Underwriting	Acquisitions & sell offs	Equity issuance	Bond issuance	Structured products	Acquisition finance	Syndication	Conduits & funds	FX	Equities	Fixed income / bonds	Government bonds	Commodities	Structured products	Derivatives	Repos	Swaps	Asset-backed CP	Securities lending	MMFs, CDs, CP	Inter-bank lending	Central bank funding	Trust	Custody	Equities	Fixed income	Commodities	Funds	Custody / safekeeping	Asset servicing	Lockbox	Securities clearing & settlement	Central clearing services	Third party services	Payment systems services	Card issuing / acquiring	Cash services	International payment services	National payment services	Project finance	CRE	Corporate loans	Leasing	Factoring	Trade finance	Mortgages	Consumer Loans	Cards	Time deposits	Savings accounts	Current accounts
Retail																																x							x	x				x			x	x	x	x	x	x
Wealth										x						x								x	x	x	x	x	x	x	x	x	x	x					x	x				x			x	x	x	x	x	x
SME										x						x																x					x		x	x		x	x	x	x	x			x	x	x	x
Corporates					x		x	x	x	x		x	x	x		x													x	x	x	x	x	x			x	x	x	x	x	x	x	x	x	x			x	x	x	x
Large Corporates	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x			x	x	x	x	x	x	x	x	x	x	x			x	x	x	x	x	x	x	x	x				x	x	x	x
Financial Institutions	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		x		x						x
Bank Own Book		x	x	x	x	x	x			x	x	x	x	x	x	x	x	x	x	x	x	x	x													x	x															

B_LIVE_EMEA1:100710097v1

CRDVI Article 21c compromise scoping

Awaiting clarification



How GenAI can enhance risk management; *As is the case with any new technology, generative AI (GenAI) introduces risks that your business needs to address and manage responsibly. Your stakeholders will better trust how you use AI if you're able to prove to them that your systems can repeatedly produce intended outcomes and reduce undesirable ones. This requires embedding responsible AI practices at every step – including design principles, testing, monitoring, and auditing of the solution.*

- That said, GenAI actually shows as much if not more potential as a force-multiplier in managing risks than as a source of them. Most notably, it can significantly enhance:
- The risk management process by shifting it from data gathering to information analysis.
- How risk managers do their jobs through tech-enabled productivity enhancements and consolidated knowledge management.
- Specifically, GenAI can assist you in four key risk management areas: risk identification, risk analysis, data management and application, and compliance.
- Integrated risk identification
    - With data inputs from an organization's various departments, your GenAI platform can synthesize disparate information into a single source of integrated risk identification and – unique to GenAI – provide insights and suggestions based on what it synthesizes. In turn, this thorough analysis of indicators and trends can shift the focus from data gathering to information analysis and action.
    - For instance, the platform may identify a potential supply chain disruption that could impact both operations and the finance department. With this information, risk managers can develop contingency plans, diversify suppliers, or allocate resources accordingly to reduce the impact of such risks.
    - This contrasts with a traditional siloed approach to the collation and analysis of risk-related information, where risks can go unnoticed when risk managers focus mainly or solely on information available within or related to their own departments.
- Holistic risk analysis
    - Once these interdependent risks have been identified, a risk manager can use the GenAI platform as a collaborative partner during risk analysis and evaluation.
    - By having an interactive discussion with the platform and treating it as a colleague, the risk manager can brainstorm, coalesce and refine ideas to ultimately produce risk committee charters, risk narratives and governance documents, as well as risk analysis that spans the company.
    - This could uncover more potential interdependencies, such as the impact of cybersecurity vulnerabilities on financial operations and customer trust, thereby leading to a more holistic understanding of the company's risk landscape and the development of effective risk mitigation strategies. Additionally, the platform also can be a foundational source for historical data and benchmarks that might not have resulted from a traditional analysis.
- Continuous data improvement
    - Furthermore, in the case of incident response and crisis management, a risk manager working with the platform can use the results from an incident to produce an after-action report. The risk manager then can continuously add updated learnings to the platform, enhancing the platform by training it on organizational specific data and thereby improving its performance over time (e.g., by reducing hallucinations).
    - By updating the platform with the most recent data, the platform also can help mitigate the "tribal knowledge" phenomenon, where useful information is hidden or lost (e.g., following the departure of a key employee) and significantly enhance institutional memory and data availability, thereby promoting a culture of continuous improvement.
- Enhanced compliance
    - Finally, a GenAI platform can help risk managers maintain compliance with internal or external requirements by verifying each step or requirement of a regulation or framework. In addition, the platform can potentially identify ways to reduce your company's risk – for example, through changing a law, tax structure or other requirement.
    - Of course, you should carefully consider the potential ramifications of the actions you may undertake at the platform's recommendation to confirm they're consistent, legal and in line with company policy and strategy. And keep in mind that using the platform in this manner is complementary to your own due diligence, not a replacement for it.
- Simplifying risk management: a GenAI use case

  - A company's generative AI application can be as basic as the conversational nature of publicly available chats, to something that integrates into an existing platform. For instance, PwC has developed a solution that uses GenAI to simplify for our clients the complexity inherent in regulatory data, including regulations across various agencies and updates to those regulations, transforming it into actionable insights through plain language summaries.
  - By extracting and generating critical compliance elements such as obligations, control statements and risk statements directly from complex regulatory texts, the solution maps these extracted obligations to the client's existing policy documents. It also produces a set of tasks the client's compliance officer can follow.
- What steps firms can take now
  - Establish, populate and scale your company's own, proprietary GenAI platform. You can license a publicly available or purchasable large language model (LLM) or leverage an open-source LLM. Either way, creating enterprise or domain-specific data for the model to reference in a safe, secure environment with appropriate guardrails – which is what PwC does – will be central to developing and deploying this company-specific solution.
  - GenAI will be genuinely transformational only if you and the platform evolve in tandem to enhance your symbiotic relationship. Not only should the system incorporate more and more of your company's knowledge base, but as you manage and interact with it, you should also develop your own delegation and task assignment style (e.g., through employee training and upskilling in key areas like prompt engineering). Like integrating any new member of your team, learning through experimentation is necessary to harness the potential of GenAI's capabilities.
  - Be prepared for your GenAI colleague and collaborator to make mistakes, realizing that it can still serve as a valuable member of your risk management team. You should continuously update the platform to make it relevant to your unique circumstances, with the end goal of having an automated subject matter specialist that's available 24/7, with nearly complete institutional memory.
  - Don't fall into the use case trap, where you look for nails to hit with a GenAI hammer. For example, if a use case makes a process longer and subject to more reviews, revisions and approvals than it would be without GenAI assistance, then it's not a good use case.
  - Understand and account for global requirements regarding AI regulation. In the USA, the Biden Administration recently issued an Executive Order on Artificial Intelligence in November 2023 and the European Union recently approved a comprehensive act regulating AI. To avoid taking a strictly reactive approach, anticipate how regulations might change and prepare for them accordingly.
  - Last but not least, while GenAI is currently a very hot topic, it isn't the only kind of AI. Because it's based in language, it's very accessible – but there are many other kinds of AI applications. Quantitative predictions created with machine learning are still highly relevant. Don't forget about how useful they can be or that they also continue to need thoughtful and effective governance.

UPI Plus

1. Two amendments to Existing Fields
2. Five new fields to Augment UPI

- *(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

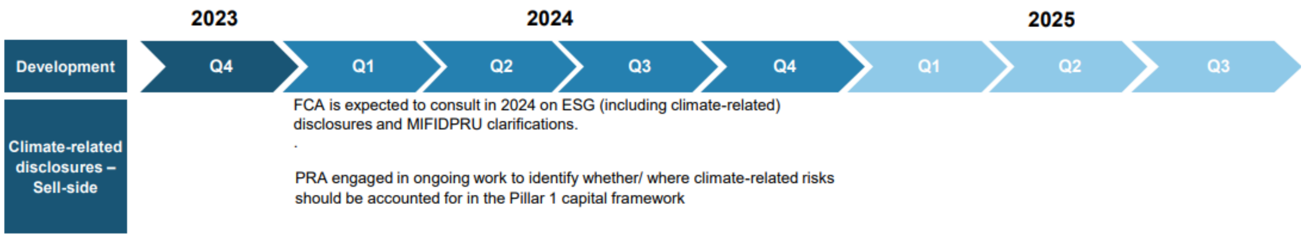
Proposed Attribute	Reason for descoping from UPI+
Term of Contract Value Term of Contract Unit Forward Starting Period Forward Starting Period Unit	The UPI+ working group agreed not to include these fields in the proposal as Effective date / termination date are preferable values for reporting due to 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)

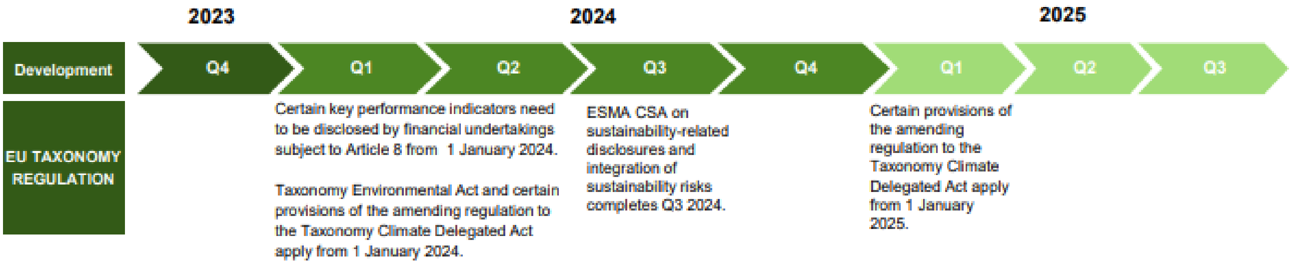
- The Sustainable Finance Disclosure Regulation (SFDR) sets out harmonised rules on disclosures to investors regarding the integration of sustainability risks and the consideration of adverse sustainability impacts in investment decision-making and investment advice.
- Whilst many of SFDR's provisions 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



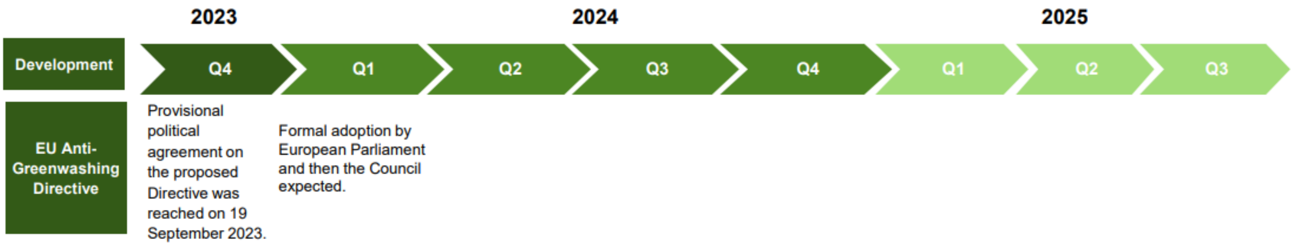
- Climate related disclosures – sell-side The UK formally committed in 2017 to using the recommended disclosures from the Task Force on Climate-related Financial Disclosures (TCFD) as a basis for mandatory climate related financial disclosures in the UK.
- Sell side firms are subject to an expanding 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



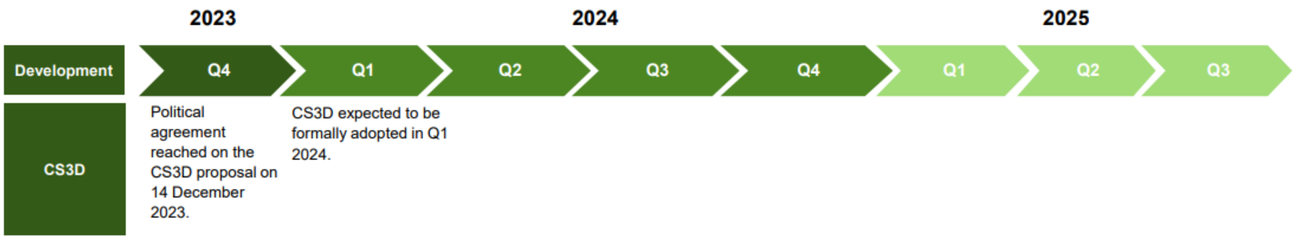
- Anti-Greenwashing Directive; A priority measure in the Commission's 2023 Work Programme, the proposed Directive on Empowering Consumers for Green Transition (referred to as the Anti-Greenwashing Directive) is proceeding through the EU legislative process. The new Directive aims to strengthen consumer 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

	2023	2024				2025		
Development	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
ESG RATINGS PROVIDERS REGULATION	European Parliament's ECON Committee adopts report on the proposed Regulation on 5 December 2023.	European Parliament and Council continuing to consider the proposed ESG Ratings regulation during 2024.				The Regulation is intended to enter into force on the 20th day following that of its publication in the Official Journal and to apply six months later.		

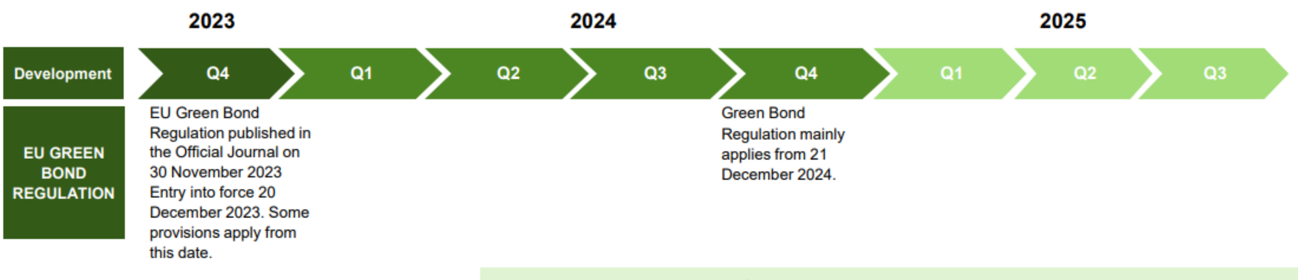
- EU regulation of ESG ratings; providers ESG ratings providers offer products that opine on the ESG characteristics or exposure of products and firms.
- Provision of ESG ratings plays an important role in the ESG ecosystem but is not currently regulated at EU level.
- Following a consultation and call 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)



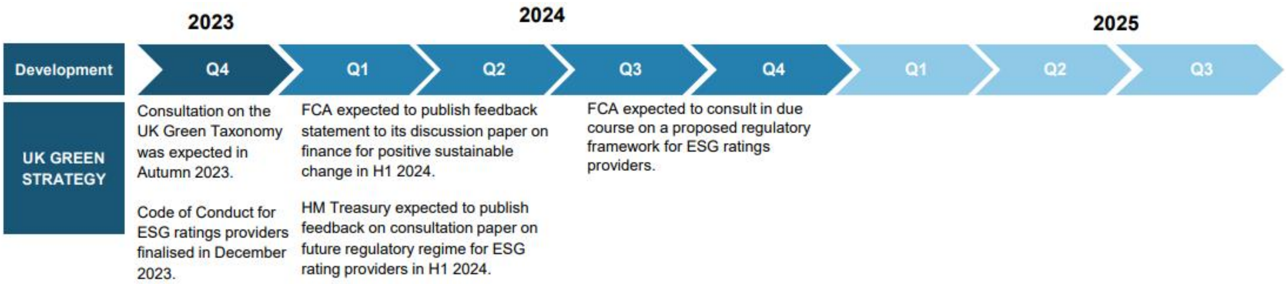
- The Corporate Sustainability Due Diligence Directive (CS3D) sets out an EU legal framework on sustainable corporate governance, including cross-sector corporate due diligence along global value chains.
- The main effect of the CS3D will be to introduce obligations on in-scope EU and non-EU companies 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 2021V 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) 2023/2631V. 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

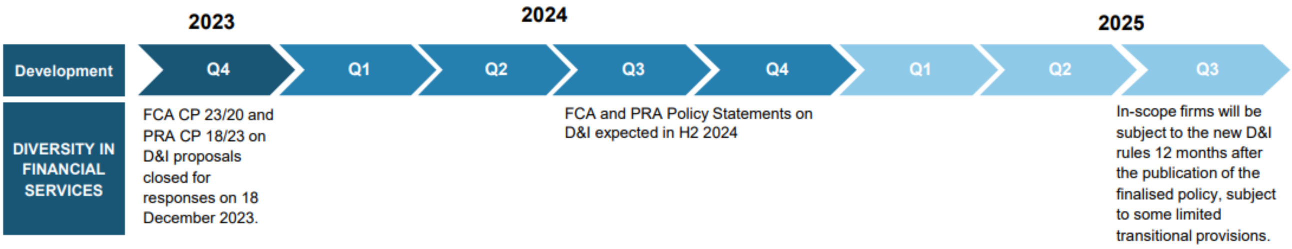
- Climate-related disclosures – listed issuers; On 17 December 2021, the FCA published its final rules on extending the application of its climaterelated disclosure requirements from equity issuers with a premium listing to issuers of standard listed shares and standard listed issuers of (GDRs), in each 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

	2023	2024				2025		
Development	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sustainability Disclosure Requirements and Investment Labels	Policy statement (PS23/16) on sustainability disclosure requirements and investment labels published 28 November 2023.	FCA consultation on guidance on the anti-greenwashing rule closes 26 January 2024.	Anti-greenwashing rules and guidance apply from 31 May 2024.	Firms can begin to use product labels with accompanying disclosures from 31 July 2024.	Naming and marketing rules come into force with accompanying disclosures from 2 December 2024.	FCA consultation on expanding scope of sustainability disclosure requirements and investment labels expected in due course		Ongoing product and entity-level disclosures for firms with assets under management (AUM) of over £50 billion apply from 2 December 2025, and from 2 December 2026, Entity-level disclosure rules will be extended to firms with AUM of over £5 billion.

- 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-authorised 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 expend 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



2024 marks a significant shift from rule-writing to rule implementation, particularly for the firms that will be impacted by CSRD. Regulatory and supervisory initiatives linked to ESG and sustainable finance continue to have significant impacts for firms across financial services. Although political delays are resulting in loss of momentum on certain initiatives, and this is likely to be compounded by upcoming elections, firms are pressing ahead with the areas of work that have already been set out by regulators and are focused on potential business opportunities.

The volume and complexity of potential reporting and disclosure requirements present significant challenges. With the first wave of key standards now finalised, focus is shifting to implementation and developing the assurance landscape.

Regulatory approaches to the management of climate and environment-related risk, including potential capital treatments, are also still evolving, and supervisory expectations are rising to reflect anticipated increases in the maturity of risk management and governance practices.

ESG and Sustainable Finance therefore continues to have a very high regulatory impact score. The pressure on FS firms remains intense, due to expanding reporting and disclosure requirements, lower tolerance from supervisors where firms fail to meet expectations, and growing momentum around nature and social impacts. More than ever, firms will be expected to demonstrate and evidence their sustainability credentials and take concrete actions to prevent greenwashing, whether through detailed transition plans, disclosures or the adoption of product labels.

See Reinforcing Governance Expectations for more on the EU Corporate Sustainability Due Diligence Directive (CSDDD) and UK Corporate Governance Code.

Ends. 02 April 2024