
EVIA & LEBA Compliance reference sheet

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

0830 Wednesday 05th June 2024

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With the deadline looming for compliance with the FCA's Consumer Duty as regards closed products and services, the FCA has written to firms highlighting priority issues for firm's board members to consider. Writing to non-systemic firms, the PRA has flagged areas for improvement in their resolution planning. As indicated in its latest Smarter Regulatory Framework update, HMT has begun replacing onshored EU equivalence decisions, one for EEA-authorized UCITS and the other for CFTC-supervised CCPs. Both the EU and the UK have progressed their sustainability frameworks and the BCBS has formally announced the deferral of the bank prudential standard for cryptoasset exposures.

Conduct Update

1. [FCA speech – Aiming for calm seas in our market reforms](#)

On 20 May 2024, the FCA published a speech by Sarah Pritchard (Executive Director, Markets and Executive Director, International, FCA) entitled [Aiming for calm seas in our market reforms](#).

In her speech Sarah Pritchard reminds her audience that the FCA is committed to making sure that regulation supports the UK's position in global wholesale markets as well as facilitating the UK's economic growth and international competitiveness. London is second only to New York in the latest Z/Yen rankings of global financial centres. But this does not mean that there is no scope for further efficiency or reform, and reform which involves a different balance of risk. Across the UK's capital markets agenda, a package of reform which has been well signalled since various government led reviews examining the strength of the UK's wholesale markets in 2021 is now at the implementation phase.

Sarah Pritchard also touches on AI, noting that the FCA will not be regulating for regulation's sake and will be guided by an outcomes-driven approach. But the FCA must provide certainty and encourage the safe adoption of AI in UK finance markets, so it must also look at digital infrastructure, resilience, consumer safety and data.

2. Sexism in the City Report: responses of HM Treasury, PRA and FCA

HM Treasury, the PRA and the FCA have [formally responded](#) to the Treasury Select Committee's (TSC) *Sexism in the City* report and the FCA has been in the hot seat again this month, giving [evidence](#) to the Treasury Committee as part of Parliament's ongoing scrutiny of the regulator.

The TSC's recommendations were very direct with their concerns over some of the FCA and PRA's D&I proposals. In the responses to the Sexism in the City report and the FCA's oral evidence, (and in response to the messaging from the TSC), the FCA is now clear that it will prioritise work on non-financial misconduct (NFM), including sexual harassment and bullying, and the guidance around it. In [oral evidence here](#) the FCA indicated that it is not "prioritising" moving forwards with the D&I proposals at this stage because it needs time to understand the extensive responses received and the recommendations from the TSC. It is therefore likely that the NFM guidance and D&I proposals will be separated, with the D&I proposals to follow (or indeed be watered down significantly in light of the concerns raised or dropped altogether!). The PRA and the FCA both in their responses and oral evidence appear somewhat defensive in their response to the TSC's recommendations and spend a significant number of times reiterating the rationale and legal basis for the D&I [consultation paper](#) and you definitely get the sense when it was in front of the TSC that they feel they are getting slightly mixed messages!

In a recent speech for brokers, Emily Shepperd, FCA COO, talked about the industry policing NFM and promoting healthy work cultures and emphasised the role of senior management setting examples and informing culture from the top down. The FCA have also said that they may decide to issue a similar NFM survey to the ones wholesale banks, insurers and brokers received earlier this year to other sectors in the industry.

In its response, the government makes limited commitments towards taking action in relation to the TSC's recommendations. It expressly states that it does not support expanding the scope of the Women in Finance Charter which would require signatories to submit additional data, increasing the burden on firms and potentially making the Charter less attractive to new signatories. It also believes it is too soon to make changes to the pay gap reporting regulations and does not believe that mandatory action plans for specific subsets of employers would be fair or effective.

However, the government response does note that it is currently reviewing the existing whistleblowing framework and legislation in relation to the abusive use of non-disclosure agreements (NDAs) given concerns that (despite efforts to improve clarity and make carve outs clear) they are being used to intimidate victims of discrimination and harassment into silence. This is not the first time that the use of NDAs has been reviewed – the last time we saw representatives of employees and employers both commenting on the value and importance of suitable (and voluntary) confidentiality agreements.

3. FCA - Further pushback on FCA's proposals for enforcement transparency

In addition to the above, when giving [evidence](#) to the Treasury Committee as part of Parliament's ongoing scrutiny of the regulator, the FCA stated that it is currently going through the feedback on its enforcement consultation ([CP24/2](#)), which has received backlash from the industry, ministry and the House of Lords. This follows the Treasury Committee's [letter](#), sent to the FCA, and the FCA's [response](#), as well as a [letter from Nikhil Rathi](#) himself.

The FCA says they were "not expecting such a stern reaction" from the industry, but they maintain that some degree of increased transparency is necessary. They plan to spend several months considering the feedback received and further engaging with stakeholders to build a broad consensus on its approach to enforcement. Nikhil Rathi states that they "remain open minded" as to how to address the issues the FCA has identified, which arguably is him setting some of the foundations to give them wiggle room to adjust their stance.

Further, this month the Financial Services Regulation Committee has [launched an inquiry](#) into the consultation's proposals and is seeking views in a related [call for evidence](#). The deadline for written submissions is **4 June 2024**. It's hard to see how the FCA won't make quite substantive changes to the proposals.

Other areas covered in this session include **debanking** (and Nikhil Rathi stated that it is a matter for government and Parliament to decide whether banking should be considered a fundamental service and a right). **Access to cash** was another area where Nikhil Rathi acknowledged the Committee's frustration with the slow rollout of banking hubs, but he emphasised that the **Consumer Duty** cannot, in the FCA's view, be used to step in and stop commercial decisions. There was a wave of other topics covered from unbundling of research, the cost disclosure regime for investment trust sector, motor finance, mortgages, and more – it's an interesting read, we promise!

Both of these developments, and the D&I and NFM developments, are interesting to consider in the broader context of the pressure the FCA and PRA are getting to promote the competitiveness of the UK. There is yet another [inquiry](#) into how well the FCA and PRA are boosting the UK's economic growth and competitiveness and whether things (like their objectives) are holding them back ([written evidence](#) submissions are due by **11 July 2024**). The Committee is also interested in how effectively the regulators are working with the industry and if they have the capability and capacity to support innovation and businesses of all sizes. This comes at the same time as Labour's shadow City minister, Tulip Siddiq, announced the party's plans to push the FCA to "tear down the barriers to competitiveness and growth" and the expected telling off the FCA is set to receive from Chancellor Jeremy Hunt for falling short of meeting its secondary objective on growth and competitiveness.

4. FCA – Key Final Notices and Decision Notices

- Following two separate instances of providing incorrect information, which was required for finalising accounts, [Mr. James William Edward Lewis](#), former CEO of Shard Capital Partners, was found to have breached Principle 2 (due skill, care and diligence) under the Approved Persons Regime and later to have breached Conduct Rule 1 (acting with integrity). Mr. Lewis was later also found to lack fitness and propriety, was fined £120,300 and has been banned from performing a SMF role in the future. Interestingly there were WhatsApp messages disclosed to the regulator where it was evident that Mr. Lewis acknowledged the seriousness of his misconduct and said that he expected to face serious consequences, including a significant penalty and prohibition.
- [Mr. Stuart Bayes](#) was sentenced to 18 months' imprisonment, suspended for two years, after being found guilty of insider dealing.

5. PRA – Dear CEO Letter – recovery planning for non-systemic firms

The [PRA's Dear CEO Letter](#) this month underscored the importance of robust recovery planning for non-systemic firms. The Letter is addressed to the CEO but specifically states that it is also for the attention of the Board.

It highlights that many firms need to improve their use of severe scenarios and their calculation of recovery capacity. Firms are recommended to follow the guidelines in supervisory statement [SS9/17](#) to enhance their recovery planning. Recovery planning aids executives in understanding the firm's vulnerabilities and potential actions under stress, while enabling the board to oversee management actions, effectively challenge, and understand the firm's ability to detect stress and evaluate its recovery options under different scenarios. The PRA plans to discuss these findings with firms and trade associations in H2 2024 (so pretty soon...). Looking ahead, firms should prepare to meet new rules and expectations set out in policy statement [PS5/24](#) (solvent exit planning for non-systemic banks and building societies) and the related expectations in supervisory statement [SS2/24](#), effective from October 2025. The PRA suggests that firms could leverage their recovery planning work when implementing their solvent exit approach.

6. PRA - PE risk management

One for Chief Risk Officers (SMF 4s) - in a [letter](#) to CROs, the PRA's thematic review of private equity (PE) related financing activities highlights the continuing growth of the PE industry, PE linked bank exposures, and private credit markets; increased bank exposures to 'non-traditional' PE finance e.g. NAV-financing and subscription financing; a degree of consolidation in banks that provide subscription financing credit facilities to PE funds globally; and the illiquid nature of collateral underpinning many lending structures.

The PRA's review identified a number of thematic gaps in banks' overarching risk management frameworks that control their aggregate PE sector related exposures. Key take-aways for bank CROs are:

- to improve tracking of PE-related exposures
- to improve stress testing analysis

- to improve MI to the Boards

Boards should satisfy themselves that the scale and composition of risk exposures linked to material financial sponsor clients, and the PE sector in general, is appropriate in the context of the overall risk profile of the bank.

Banks have until **30 August 2024** to provide detailed plans for addressing any gaps in their processes to the PRA.

The financial press covered Nikhil Rathi declaration that he is “not yet convinced” that PE poses a systemic risk, despite warnings from the Bank of England. He emphasised the need for the PE sector to provide data for understanding the evidence and taking a view on what is happening, rather than rushing into over-regulation without sufficient evidence.

7. FCA – Market Watch 79

[Market Watch 79](#) considered market abuse surveillance failures and sets out examples of malfunctions the regulator has observed. From a governance perspective, there are some interesting points made including that (1) some firms have complex governance arrangements where approvals and validations go through multiple steps, taking significant time. Therefore, firms should consider whether intricacy and volume in governance necessarily delivers timely, efficient and effective outcomes, and (2) there’s mention of artificial intelligence and specifically that developments in relation to surveillance, such as the use of artificial intelligence, will need to be accompanied by governance that keeps pace and remains effective.

8. FCA metrics on authorisations

The FCA has published an operating metrics [update](#) that shows an almost perfect rate for the past two quarters for the time taken to process Approved Person applications. For January to March 2024, the FCA determined 98.7% of applications within the statutory time period (3 months), with the median determination time being 41 days. The updates includes other helpful stats, including on change in control and variation in permissions.

9. [FCA Handbook Notice No 117](#)

On 2 April 2024, the FCA published Handbook Notice No 117, which describes the changes made to the FCA Handbook by the Executive Regulation and Policy Committee and the FCA Board under their legislative and other statutory powers. The changes to the Handbook are covered in the instruments in the list below:

- Handbook Administration (Supervision Manual) Instrument 2024
- Data Reporting Services Forms (Amendment) Instrument 2024
- Periodic Fees (2024/2025) and Other Fees Instrument 2024
- Fees (Special Project Fee for Restructuring) (Amendment) Instrument 2024
- Collective Investment Schemes Sourcebook (Miscellaneous Amendments) Instrument 2024
- Credit Unions Sourcebook Instrument 2024
- Conduct of Business Sourcebook (Amendment) Instrument 2024

- Financial Services Compensation Scheme (Management Expenses Levy Limit 2024/2025) Instrument 2024
- Financial Promotions and High-Risk Investments (Incentives) Instrument 2024
- Investment Firms Prudential Regime (Amendment) Instrument 2024
- Handbook Administration (No 69) Instrument 2023

10. [Bank of England and FCA consult on proposed approach to operating the Digital Securities Sandbox](#)

On 3 April 2024, the Bank of England and the FCA published their joint proposals to implement and operate the Digital Securities Sandbox (DSS). The DSS is a regime that will allow firms to use developing technology, such as distributed ledger technology (DLT), in the issuance, trading and settlement of securities such as shares and bonds. Firms that successfully apply for the DSS will be able to operate under a set of rules and regulations that has been modified to facilitate this. The DSS lasts for five years and will help regulators design a permanent technology friendly regime for the securities market.

It will be possible for firms that successfully apply to the DSS to undertake the activities traditionally associated with central securities depositories, namely the issuance, maintenance and settlement of financial securities. It will also be possible to combine these activities with that of a trading venue, creating new business models. The closing date for responses is 29 May 2024. After a review period, the Bank and FCA will issue a formal response to the views submitted as part of the consultation process. Following this, the final guidance and rules will be published and the DSS will open for applications over the summer of 2024.

11. FCA published Policy Statement PS24/4 setting out final rules relating to securitisation

On 30 April 2024, the FCA published Policy Statement PS24/4, which sets out the final rules relating to securitisation. Following the feedback to CP23/17, the FCA considered it appropriate to make some amendments to the policy proposals. Below is a summary of the changes that are most material. The FCA:

- allowed for a 6-month period between publication of this policy statement and the implementation date for the new rules
- added transitional provisions for pre-implementation securitisations which broadly preserve their treatment under the pre-Smarter Regulatory Framework (SRF) framework
- broadly aligned FCA and PRA rule drafting
- clarified the meaning of "before pricing" in the due diligence, transparency, and Simple, Transparent and Standardised (STS) requirements – adjusted the due diligence requirements for secondary market investors in relation to disclosures made by manufacturers
- clarified that it is possible for a UK institutional investor to delegate its due diligence to another investor, which is not a "managing party" as defined for purposes of Securitisation Sourcebook (SECN) so long as the institutional investor retains the responsibility for compliance with the due diligence requirements as specified in the FCA's rules

- clarified the prohibition on hedging of the material net interest required to be retained under the risk retention requirement
- clarified that there is no need for risk retention in relation to securitisations of own liabilities (e.g., own issued covered bonds)
- incorporated a new rule which is similar to the cooperation requirement outlined in PRIN 11 (Relations with regulators)
- From 1 November 2024 onwards, firms will need to ensure that they comply with the new requirements and that they have updated their internal procedures

12. [Treasury Committee Report: Edinburgh Reforms One Year On](#)

On 26 April 2024, the government published a further response to the House of Commons' Treasury Committee Second Report on the Edinburgh Reforms. The Treasury Committee published its Second Report of Session 2023–24, Edinburgh Reforms One Year On: Has Anything Changed? (HC 221), on 8 December 2023. On 28 February the Economic Secretary to the Treasury committed to provide the Treasury with a more detailed response to the Report's recommendations. The supplementary response is appended to the report.

13. [UK-Switzerland Agreement on the Mutual Recognition of Financial Services](#)

On 29 April 2024, the House of Lords' International Agreements Committee issued its 9th Report, which considers the UK-Switzerland Agreement on the Mutual Recognition of Financial Services (Agreement).

The Agreement aims to facilitate cross-border trade in wholesale financial services. This is achieved by each country recognising the regulatory and supervisory regimes of the other as achieving equivalent outcomes to their own. The Agreement establishes structures for regulatory cooperation, consolidates existing access allowed under current domestic legislation, and in some sectors creates additional market access by 'deferring' to the rules of the other country, thus easing cross-border trade. It creates particular benefits for the UK insurance sector.

The Agreement contains novel and ambitious commitments, representing a new approach to trade in wholesale financial services. The negotiation was clearly informed by serious and engaged two-way consultation with industry. The Committee encourages scoping exercises to contribute to the consideration of the expansion of its scope, as provided for in the Agreement, for example in the realm of sustainable finance and new financial market infrastructures, and calls on the Government to continue to engage with industry on appropriate expansions.

14. [Serious Fraud Office sets out its 5-year strategy](#)

The Serious Fraud Office has published its 5 year strategy, in which it states it will:

- build the resilience of its operating model and set expectations for core and specialist skills by developing a five-year strategic workforce plan

- provide additional support to staff by designing a new Employee Value Proposition and developing its overall benefits package
- strengthen learning and development by launching an ambitious strategy and establishing an in-house academy
- build on its commitment to equity, diversity and inclusion by setting out a long-term plan of action underpinned by workforce data
- upgrade its HR support by rolling out a new enterprise resource planning application.

15. FCA – Dear CEO Letters – Consumer Duty

In a flurry of Dear CEO letters, the FCA has sent out not one, not two, but six Dear CEO letters regarding the implementation the Consumer Duty for closed products to: [asset managers](#), [retail banks](#), [life insurers](#), [consumer finance firms](#), [consumer investment firms](#) and [everyone else](#) subject to the Consumer Duty. Like with everything Consumer Duty related they're quite long – but the main point for this email is the FCA has said that they expect firms' senior management to carefully consider the contents of this letter and take steps to ensure their firm is compliant with the Duty by the deadline (**31 July 2024**).

[Financial sanctions targets: list of all asset freeze targets; Who is subject to financial sanctions in the UK?](#) - A guide to the current consolidated list of asset freeze targets, and a list of persons named in relation to financial and investment restrictions under the Russia regulations.

- [Financial sanctions guidance](#)
- [OFSI General Licences](#)
- [Financial sanctions targets by regime](#)
- [Money Laundering Advisory Notice: High Risk Third Countries](#)
- [Licences that allow activity prohibited by financial sanctions](#)

Open Consultations; -

- [IOSCO consults on market outages](#); by mid-April 2024.
- [IOSCO Examines Evolution of Exchanges; Proposes Additional "Good Practices"](#); 04 April 2024 // 03 July 2024
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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

Expected key dates for H1 and H2 2024

H1 2024	Policy paper and proposals for further reform on aligning ringfencing and resolution regimes are expected – see our blog
	FCA aiming to make draft rules following recommendations of the Investment Research Review (it previously noted that it was targeting consultation for Q1 2024).
	Consultation responses and policy statements due from PRA and FCA on respective securitisation rules (by Q2 2024).
	New FCA rules to incorporate aspects of the Tailored Support Guidance (TSG) expected to come into force, and TSG expected to be withdrawn.
	PRA expected (in Q2) to publish near-final policies on remaining elements from CP16/22: credit risk, the output floor, and reporting and disclosure requirements.
	FCA and PRA consultation on SM&CR expected (April – June 2024) – as confirmed in the latest Regulatory Initiatives Grid
	FCA expected to publish a consultation paper on UK PRIIPs Regulation and UCITS disclosure requirements – as confirmed in the latest Regulatory Initiatives Grid.

H2 2024	FCA aiming to consult on rules to implement reformed prospectus regime (in summer 2024) – as confirmed in the latest Regulatory Initiatives Grid.
	FCA and PRA policy statements expected to follow up on consultation papers on diversity and inclusion in financial services.
	Policy statement expected following CP23/24 on personal investment firms.
	More detailed proposals expected to be published by HM Treasury (for consultation) on the reform of the Consumer Credit Act 1974 – as confirmed in the latest Regulatory Initiatives Grid.
	Policy statement expected on the alignment between ring-fencing and resolution – as confirmed in the latest Regulatory Initiatives Grid
	FCA and PRA expected to consult on further changes to securitisation rules (Q4 2024/Q1 2025) – as confirmed in the latest Regulatory Initiatives Grid

Expected and known key dates for the coming months

April	Deadline for responses to:
	Quarterly UK financial services horizon scanner; Horizon scanning: Ten regulatory topics to look out for in 2024.
May	
31-May-24	Anti-greenwashing rule and related guidance comes into force for all FCA regulated firms. See our blog and briefing.
June	
During June 2024	PRA expected to publish final statement of policy on its proposed approach to rule permissions and waivers, following CP3/24
09-Jun-24	Deadline for responses to HMT consultation on improving the effectiveness of the Money Laundering Regulations.
By end June 2024	FCA expected to report on its review of the treatment of domestic politically exposed persons by financial services firms – see our blog.
Summer 2024	Expected implementation date for PRA supervisory statement and FCA guidance on prudential assessment of acquisition and increases in control, following PRA CP25/23 and CP23/23.
July	
1 July 2024	Remaining rules under PRA’s Strong and Simple Framework take effect.
31-Jul-24	Firms can begin to use investment labels with accompanying disclosures under the FCA’s sustainability disclosure requirements – see our blog and briefing
31-Jul-24	Deadline for application of Consumer Duty to closed products and services – see our recent blogs here and here .
August	
No key dates to highlight for this month so far.	

September	
30 September 2024	New FCA and BoE rules on reporting requirements under UK EMIR come into force.
End September 2024	LIBOR transition – the synthetic 1, 3 and 6 month US dollar LIBOR are intended to cease – as confirmed in the latest Regulatory Initiatives Grid and see also our blog.
October	
October 2024	The final group of payment services providers will need to implement a system to provide the Confirmation of Payee service – as confirmed in the latest Regulatory Initiatives Grid.
01-Oct-24	The PRA’s new Recovery Plans Chapter 7 comes into force. Firms are also expected to meet the expectations in SS2/24 by the same date. For more information, see our blog.
07-Oct-24	The PSR’s rules on mandatory reimbursement for APP fraud takes effect and the Payment Services (Amendment) Regulations 2024 come into force.
November	
25 November 2024	Changes to the UK SFTR Validation Rules and XML schemas start to apply.
December	
2 December 2024	Naming and marketing rules under the FCA’s SDRs start to apply – see our blog and briefing.

Regulatory Outlook and Diary

Forward Regulatory Calendar: Updated 04th June 2024

Q2 2024	EU	<p>The European Commission (EC) has published the 3rd Capital Requirements Regulation (CRR III) proposal on October 27, 2021, which will implement the Basel 3 framework in Europe. The CRR III will transpose the market risk standards (FRTB) as a binding capital constraint, the output floor, the revised credit valuation adjustment framework, alongside operational and credit risk framework, amongst others.</p> <p>EU policymakers have agreed on a final trilogue deal on 27 June 2023. 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</p>
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 24, 2024	US	Effective: CFTC capital and financial reporting requirements for swap dealers and major swap participants (See 89 Fed. Reg. 45569-45594 (May 23, 2024)).
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	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	Singapore	<p>With regards to the final Basel III reforms in Singapore, all standards, other than the revised market risk and credit valuation adjustment (CVA) standards, as required under the revised MAS Notice 637 on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore will come into effect from 1 July 2024.</p> <p>For revised market risk and CVA standards, only compliance with supervisory reporting requirements will come into effect from 1 July 2024.</p> <p>The output floor transitional arrangement of 50% will commence from 1 July 2024 and reach full phase-in (72.5%) on 1 Jan 2029.</p>
July 1, 2024	Hong Kong	Implementation date for reporting-only requirement for market risk and CVA-risk
July 12, 2024	US	Compliance date: CFTC Governance Requirements for Derivatives Clearing Organizations (See 88 FR 44675- 44694 (July 13, 2023)).
August 31, 2024	South Korea	Expiry of the FSS exemption from margin requirements for non-centrally cleared equity options.
September 1, 2024	US Australia	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).

	Canada	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.
	Hong Kong	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.
	Korea	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.
	Singapore	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.
	Japan	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.
	Brazil	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.
	Saudi Arabia	Brazil: Initial margin requirements apply to financial institutions and other entities authorized to operate by the Central Bank of Brazil which have an average (daily) aggregate notional amount from March, April, and May 2024 exceeding BRL 25 billion.
		SA: Initial margin requirements apply to covered entities belong to a group whose average (month-end) aggregate notional amount of non-centrally cleared derivatives from March, April, and May 2024 exceeds EUR 8 billion.
September 1, 2024	South Africa	Initial margin requirements apply to a provider with average (month-end) aggregate notional amount from March, April, and May 2024 exceeding ZAR 8 trillion. (per amended rule pending finalization).
September 28, 2024	Canada	Multilateral Instrument 93-101, Business Conduct Rules become effective.
September 29, 2024	EU	ESMA shall establish the register for the Designated Publishing Entities (DPE) under MIFIR
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.
Q4 2024	EU	<p>EMIR 3 is expected to enter into force in Q4.</p> <p>ESAs are mandated to submit draft RTS to the EC on:</p> <ul style="list-style-type: none"> • The Active Account Requirement (6 months after entry into force of EMIR 3) • Clearing threshold methodology (12 months after entry into force of EMIR 3) • Bilateral initial margin model validation (12 months after entry into force of EMIR 3) • Margin Transparency (12 months after entry into force of EMIR 3) • Post Trade Risk Reduction clearing exemption (12 months after entry into force of EMIR3)
October 01, 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 07, 2024	US	Compliance date for CFTC block and cap amendments (See CFTC Staff Letter 24-06 (May 23, 2024)).
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.
November 08, 2024	India	Go-live of India's Initial Margin requirements.
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. This is due to be replaced by a more permanent piece of legislation.
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	Deadline for banks, broker dealers and investment funds with average (month-end) aggregate notional amount from March, April, and May 2022 of UDI 20 billion to comply with the margin requirements for uncleared derivatives under Banco de México's Circular 2/2023.
January 1, 2025	EU	Expected implementation of FRTB and CVA risk under the CRR III proposal.
January 1, 2025	Australia	Basel III: Expected implementation of APRA FRTB and CVA risk (APS 116 and APS 180) frameworks.
January 1, 2025	Singapore	With regards to the final Basel III reforms in Singapore, compliance with capital adequacy and disclosure requirements for revised market risk and CVA standards will come into effect from 1 January 2025. The output floor transitional arrangement of 55% will commence from 1 January 2025.
January 1, 2025	Hong Kong	Expected implementation date for the minimum regulatory requirement for Basel III revised market risk and CVA risk.
January 1, 2025	Taiwan	Implementation date for all Basel III standards
January 1, 2025	US	Under US Prudential Regulations only, initial margin requirements apply to covered swap entities with material swaps exposure (average (daily) aggregate notional amount from June, July, and August 2024 exceeding USD 8 billion).
	EU	Initial margin requirements apply to counterparties with an average (month-end) aggregate notional amount from March, April, and May 2024 exceeding EUR 8 billion.
	Switzerland	Initial margin requirements apply to counterparties whose average (month-end) aggregate notional amount from March, April, and May 2024 exceeds CHF 8 billion.
	UK	Initial margin requirements apply to counterparties with an average (month-end) aggregate notional amount from March, April, and May 2024 exceeding EUR 8 billion.
March 1, 2025	Australia US EU Canada Hong Kong Korea Switzerland Singapore	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).

	Japan Brazil South Africa UK Mexico Saudi Arabia	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.
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	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

	Canada	average notional amount from March, April, and May 2025 exceeding CAD 12 billion.
	Hong Kong	Hong Kong: Initial margin and risk mitigation requirements apply to HKMA AIs and SFC LCs with an average (month-end) aggregate notional amount from March, April, and May 2025 exceeding HKD 60 billion.
	Korea	Korea: Initial margin requirements apply to financial institutions with derivatives exceeding more than average (month-end) aggregate notional amount of KRW 10 trillion based on calculation from March, April, and May 2025.
	Singapore	Singapore: Initial margin requirements apply to MAS covered entities with an average (month-end) aggregate notional amount from March, April, and May 2025 exceeding SGD 13 billion.
	Japan	Japan: Initial margin requirements apply to JFSA covered entities with an average (month-end) aggregate notional amount from March, April, and May 2025 exceeding JPY 1.1 trillion.
	Brazil	Brazil Initial margin requirements apply to financial institutions and other entities authorized to operate by the Central Bank of Brazil which have an average (daily) aggregate notional amount from March, April, and May 2025 exceeding BRL 25 billion.
	Saudi Arabia	Saudi Arabia: Initial margin requirements apply to covered entities belong to a group whose average (month-end) aggregate notional amount of non-centrally cleared derivatives from March, April, and May 2025 exceeds EUR 8 billion.
September 01, 2025	South Africa	Initial margin requirements apply to a provider with average (month-end) aggregate notional amount from March, April, and May 2025 exceeding ZAR 8 trillion. (per amended rule pending finalization).
September 29, 2025	EU	Deadline for Member States to transpose the MiFID amendments published on March 8, 2024, into national law.
September 29, 2025	EU	ESMA shall submit draft regulatory technical standards to the European Commission with respect to the revised transaction reporting requirements under MiFIR.
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	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).
	EU	Initial margin requirements apply to counterparties with an average (month
	Switzerland	Initial margin requirements apply to counterparties whose average (month-end) aggregate
	UK	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	<p>CCP R&R (Article 96): The European Commission (EC) shall review the implementation of this Regulation and shall assess at least the following:</p> <ul style="list-style-type: none"> • 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. <p>Where appropriate, that report shall be accompanied by proposals for revision of this Regulation.</p>
June 01, 2026	EU	Commodity dealers as defined under CCR, and which have been licensed as investment firms under MiFID 2/ MIFIR have to comply with real capital/large exposures/liquidity regime under Investment Firms Regulation (IFR) provisions on liquidity and IFR disclosure provisions.
December 31, 2026	UK	Expiry of the temporary Intragroup Exemption Regime (TIGER) from clearing and margin requirements
January 1, 2027	Singapore	With regards to the final Basel III reforms in Singapore, the output floor transitional arrangement of 65% will commence from 1 January 2027.
August 12, 2027	EU	CCP R&R (Article 96): The Commission shall review this Regulation and its implementation and shall assess the effectiveness of the governance arrangements for the recovery and resolution of CCPs in the Union and submit a report thereon to the European Parliament and to the Council, accompanied where appropriate by proposals for revision of this Regulation.
January 1, 2028	Singapore	With regards to the final Basel III reforms in Singapore, the output floor transitional arrangement of 70% will commence from 1 January 2028.
January 1, 2029	Singapore	With regards to the final Basel III reforms in Singapore, the output floor transitional arrangement of 72.5% will commence from 1 January 2029.

28 March marked a historic moment with the final publication of the last remaining sterling LIBOR setting

Capital Markets and Market Structure

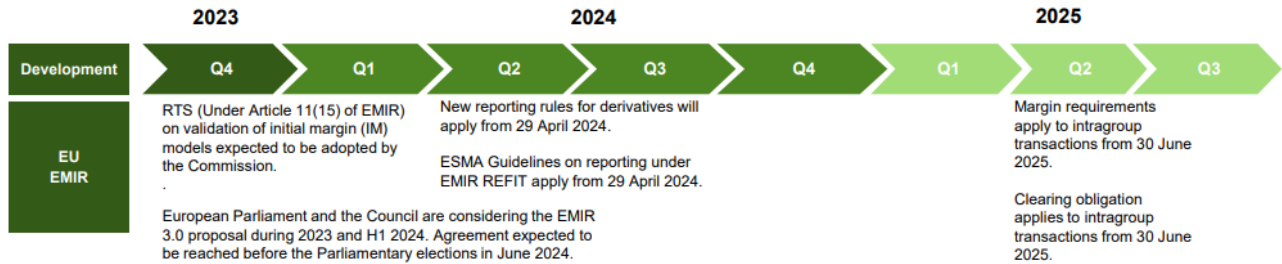
Markets in Financial Instruments (Equivalence) (US) (CFTC) Regulations 2024; *On 14 May, the Markets in Financial Instruments (Equivalence) (US) (Commodity Futures Trading Commission (CFTC)) Regulations 2024 were published, together with an explanatory memorandum.*

- The Regulations: (i) revoke an existing EU equivalence decision under Article 28(4) of MiFIR for US trading venues authorised by the CFTC, which was automatically on-shored by the UK; (ii) re-enacts the EU decision with an updated annex to reflect changes to the list of recognised trading venues. The MiFID II derivatives trading obligation (DTO) requires financial counterparties and non-financial counterparties above the clearing threshold (set out in UK EMIR) to trade derivatives that are subject to the clearing obligation on a UK regulated market, multilateral trading facility or organised trading facility or on an equivalent non-UK trading venue. Several non-UK trading venues have obtained authorisation since the original decision or have amended their names, meaning that the EU decision needed to be updated. The Regulations allow UK counterparties to comply with the DTO when trading derivatives on the listed derivative contract markets and swap execution facilities that are authorised by the CFTC. The Regulations will come into force on 4 June.
- [Regulations](#) → & [Explanatory memorandum](#) →

FCA response to FS Regulation Committee on listed investment companies cost disclosure requirements; *On 14 May, the HoL FS Regulation Committee published a response received from the FCA in relation to its letter on cost disclosure requirements for listed investment companies.*

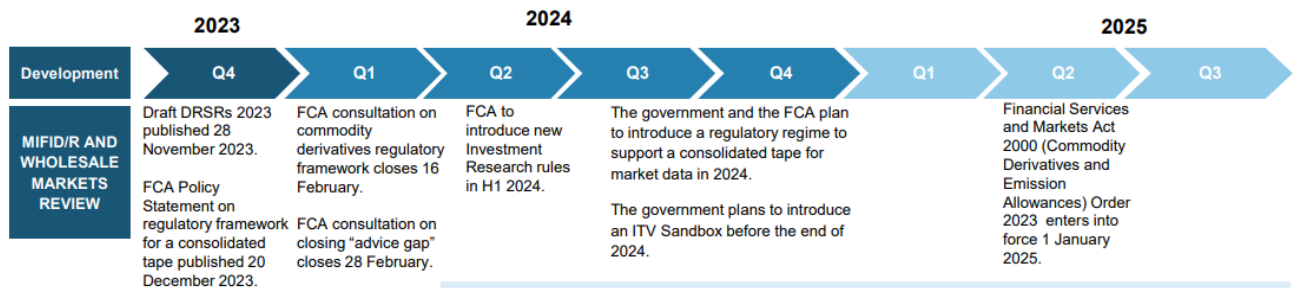
- Points of interest include: (i) the FCA disagrees that the UK is alone in its approach to applying PRIIPs and MIFID to investment trusts. Analysis undertaken by the FCA indicates that the rules have been applied in the same manner in some EU member states. The FCA also considers its interpretation of how MIFID required distributors to aggregate costs and charges in the context of investments by other funds into investment trusts is consistent with ESMA's guidance; (ii) the FCA options for remedial action are limited as the PRIIPs requirements sit in legislation, not the FCA's Handbook.
- The FCA considers that its November 2023 forbearance statement is the most that it can reasonably do until legislative changes are made by the government. The FCA notes that it intends to reform costs and charges disclosure requirements as part of HMT's Smarter Regulatory Framework; and (iii) the FCA will consult on its proposed rules for the replacement Composite Consumer Investments regime by the autumn. In particular, the consultation will set out its intention to move away from the EU-inherited requirement to aggregate charges into a single figure.
- [Response](#) →

EU EMIR



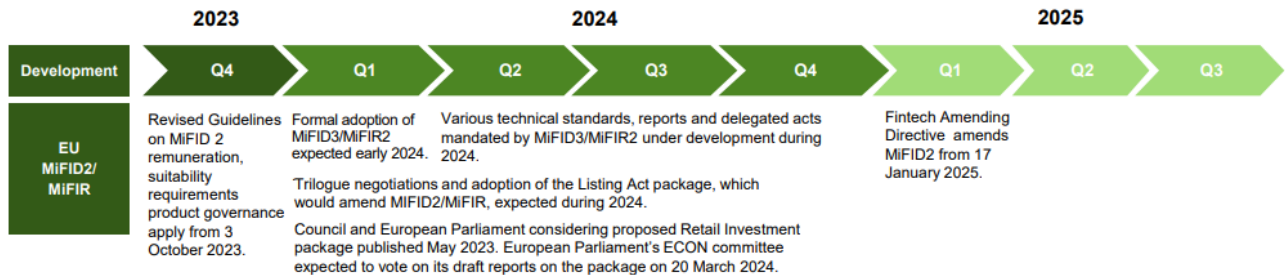
- [EU EMIR](#)
- The European Market Infrastructure Regulation (EU EMIR) places clearing, risk mitigation and reporting requirements on counterparties to derivatives contracts, central counterparties ((CCPs) and trade repositories. EU EMIR also sets out registration and supervision requirements applicable to CCPs and trade repositories.
- [Since its application, EMIR has been amended by EMIR REFIT and EMIR 2.2.](#)
- Adopted in December 2022, proposals for the EMIR 3.0 package, comprising a proposed Regulation and Directive are passing through the legislative process. EMIR 3.0 will amend EU EMIR and other sectoral legislation to mitigate excessive exposures to third country CCPs and improve the efficiency of EU clearing markets, as well as to enhance the monitoring and treatment of concentration risk towards CCPs and the counterparty risk on centrally cleared derivatives transactions.
- [Recently adopted Level 2 measures have deferred the application of some of EMIR's requirements to intragroup transactions](#)
- On 1 February 2023, in view of IBOR transition ESMA published a Final Report submitting to the European Commission draft RTSs: (i) under Article 5(2) of EMIR on the CO; and (ii) under Article 32 of MiFIR on the Derivatives Trading Obligation (DTO). Subject to endorsement by the Commission the RTS on the CO will enter into force on publication, and the RTS on the DTO will enter into force on application of the MiFID3/MiFIR2 package. Final draft RTS under Art 11(15) EMIR were published in July 2023 by the EBA, setting out supervisory procedures for initial and ongoing validation of initial margin (IM) models used to determine the level of margin requirements for uncleared over the counter (OTC) derivatives.
- ESMA published final Guidelines on reporting under EMIR REFIT on 20 December 2022, providing clarification on compliance with the EMIR technical standards. The Guidelines apply from 29 April 2024.
- Intragroup transactions:
 - Commission Delegated Regulation (EU) 2023/314 has extended the deferred date of the application of margin requirements for intragroup transactions to 30 June 2025.
 - Delegated Regulation (EU) 2023/315 has extended the deferred date of application of the CO for intragroup transactions set in the three Commission Delegated Regulations to 30 June 2025.
- The European Parliament and the Council of the European Union are considering the EMIR 3.0 package during 2023 and H1 2024. EU Member States are expected to implement the amendments set out in the proposed Directive 12 months after the date of the entry into force of the proposed Regulation.

[UK MIFID/R AND WHOLESALE MARKETS REVIEW](#)



- [The Wholesale Markets Review \(WMR\) identified areas of reform to better calibrate the post-Brexit regulatory framework to the UK's secondary markets.](#)
- [FSMA 2023 plays a key role in delivering the outcomes of the WMR by:](#)
 - (i) making immediate changes to retained EU law (including UK MiFIR) to deliver the WMR proposals considered highest priority; and
 - (ii) delivering other proposals through the planned repeal and revocation framework for retained EU law which is set out in the Act.
- [The package of Edinburgh Reforms published in December 2022^v](#) (supplemented by the Mansion House Reforms published in July 2023) build on the WMR by including [MiFID/MiFIR in Tranches 1 and 2^v](#) of the government's repeal and reform programme, as well as [including other measures to reform the UK wholesale market](#).
- Delivering on a WMR recommendation, the government and the FCA plan to introduce a regulatory regime to support a consolidated tape for market data by 2024. FCA's Policy Statement on the framework was published on 20 December 2023. HM Treasury has published near final draft regulations (DRSRs 2023) to replace the Data Reporting Services Regulations 2017 and relevant retained EU law. The draft regulations require approval by both houses of Parliament before they can be made.
- As envisaged by the WMR, the Financial Services and Markets Act 2000 (Commodity Derivatives and Emission Allowances) Order 2023 adopted in May 2023 will come into force on 1 January 2025, removing burdens from firms trading commodities derivatives as an ancillary activity. The FCA is also consulting until 16 February 2024 on reforms to the commodity derivatives regulatory framework.
- The FCA plans to introduce rule changes in H1 2024 implementing the July 2023 recommendations of the Investment Research Review to improve levels of investment research on UK companies.
- Specific timing not yet announced
 - [Outcome of joint work by government, the regulators and market participants to trial a new wholesale intermittent trading venue \(ITV\).](#)
 - [An ITV sandbox will be introduced by end-2024.](#)
 - [Outcome of government and FCA work on the boundary between regulated financial advice and financial guidance.](#)
 - The outcomes of the Overseas Framework Review launched by HM Treasury in December 2020 which may include proposals on potential changes to the UK's regime for overseas firms and activities, with impact on wholesale market regulation.

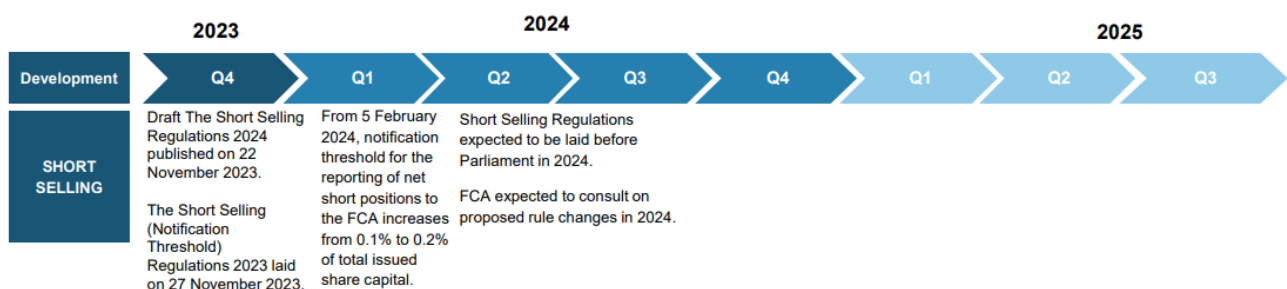
EU MIFID2/MIFIR



EU MiFID2/MiFIR package

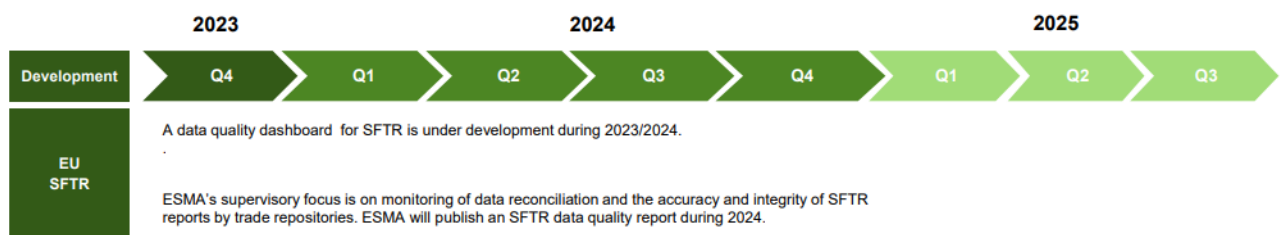
- The extensive legislative package known as MiFID 2 (comprising the MiFID 2 Directive and the MiFIR Regulation) has since 2018 been the cornerstone of EU legislation governing the authorisation and operation of investment firms and the buying, selling and organised trading of financial instruments.
- The MiFID 2 'Quick Fix' measures in response to Covid-19 have applied since February 2022 and measures to integrate sustainability into the package were introduced in August and November 2022.
- In addition, new legislative measures following a review of the framework (sometimes referred to as 'MiFID3/MiFIR2') are expected to be adopted in early 2024. MiFID2 will also see further changes due to initiatives being introduced under the Capital Markets Union (CMU) Action Plan
- The Council and the European Parliament reached provisional political agreement on the MiFID3/MiFIR2 package on 29 June 2023. Final compromise texts on the package were published on 18 October 2023. The package will make changes to MiFID2 and MiFIR to improve market data access and transparency, including measures to facilitate the introduction of an EU consolidated tape. The package is expected to be formally adopted early in 2024 and to apply 20 days after publication in the Official Journal of the European Union.
- An incoming CMU initiative to support access to public markets (known as the Listing Act package) (see Slide 19), will among other things amend MiFID 2's provisions on research unbundling and SME growth markets, to stimulate investment in SMEs.
- The incoming Fintech Amending Directive (see Slide 18) will strengthen operational resilience of MiFID firms by amending the MiFID2 Directive to apply the provisions of the DORA Regulation (see Slide 35).
- The Commission's proposal for a Retail Investment package published on 23 May 2023 sets out measures to increase consumer participation in capital markets (see Slide 22). The package includes proposed amendments to MiFID2 (and other sectoral legislation) to introduce simplified/improved disclosures on products, new provisions relating to sophisticated retail investors and harmonisation of professional standards for advisers. The European co-legislators will continue to consider the package during 2024.

UK SHORT SELLING



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

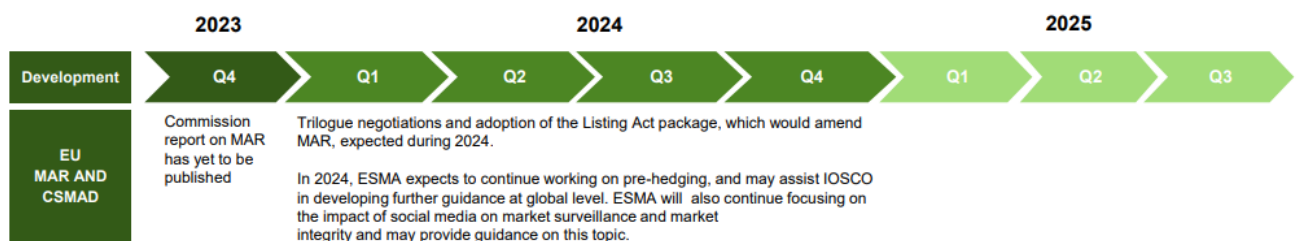
[EU SFTR](#)



- SFTR aims to increase transparency and reduce perceived “shadow banking” risks by requiring counterparties to report securities financing transactions (SFTs) to a trade repository, requiring UCITS managers and AIFMs to make pre-contractual and periodical disclosures to investors about their use of SFTs and total return swaps and imposing conditions on the ‘reuse’ of financial instruments that have been provided as collateral.
- ESMA Guidelines for the transfer of data between trade repositories under EMIR and the SFTR were published in March 2022 and have applied since October 2022.
- The key challenge with securities financing transactions (SFTs) is that, while many core regulatory and supervisory activities of the authorities rely on the data reported and disclosed by market participants, lack of reliable data can present difficulties in identifying property rights and counterparties and monitoring risk concentration.

- In April 2023, ESMA published its third SFTR data quality report. As regards EMIR and SFTR data quality, ESMA has been transitioning to a new approach to monitoring and engaging on data quality issues with member states' national competent authorities (NCAs), which involves:
 - a data quality dashboard with indicators covering the most fundamental data quality aspects; and
 - a data sharing framework which engages relevant authorities to follow up with counterparties in their jurisdiction upon a detection of a significant data quality issue, such as a breach of predefined levels in the agreed set of indicators
- ESMA has already worked with NCAs on implementation of a data quality dashboard for EMIR, which has undergone gradual implementation since May 2022. ESMA is continuing in 2024 with work on an implementation of the data quality dashboard for SFTR.
- Similar to previous years, ESMA will publish an SFTR data quality report to show the effectiveness of the collective supervisory efforts of ESMA and the NCAs supervising reporting entities.
- During 2024, ESMA's supervisory focus is on monitoring the correct reconciliation of data and the adequate verification of accuracy and integrity of SFTR reports by trade repositories.

EU MAR AND CSMAD

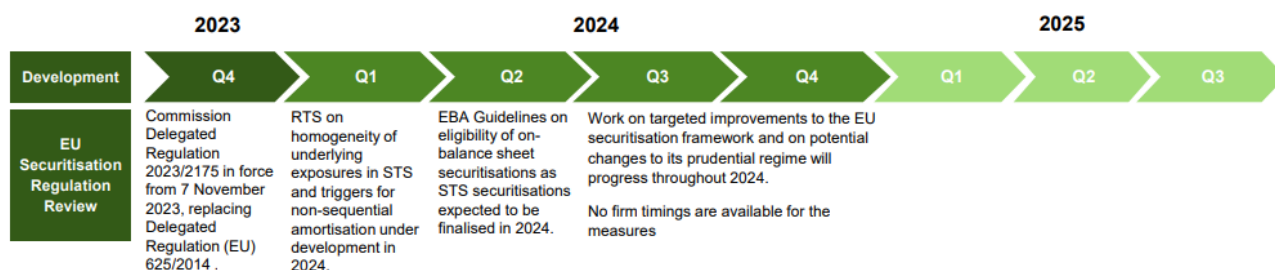


- An EU-wide framework for tackling market abuse and market manipulation was first introduced in 2005. MAR and CSMAD aimed to update and strengthen this framework. From 2016, MAR extended the scope of the market abuse regime and introduced new requirements including in relation to insider lists, disclosure of inside information and reporting of suspicious orders and transactions. CSMAD sets minimum requirements for EU member states' criminal sanctions regimes for market abuse. The first in-depth review of MAR since its implementation was carried out by ESMA, with the outcomes published in September 2020. ESMA's recommendations will feed into the European Commission's review of MAR.
- MAR required the Commission to submit a report on MAR and, if the Commission considered this to be appropriate, a proposal for amendments to MAR, by 3 July 2019. In September 2020, ESMA published a report on MAR. The Commission's report has yet to be published.
- In December 2022, the Commission published a package of proposals to simplify EU listing rules, referred to as the Listing Act package (see Slide 19). A measure supporting the EU's Capital Markets Union agenda, this will, among other things, amend MAR to:
 - narrow the scope of the obligation to disclose inside information and enhance legal clarity as to what information needs to be disclosed and when;
 - clarify the conditions under which issuers may delay disclosure of inside information; clarify the market sounding procedure; simplify the insider lists regime; and
 - simplify the reporting mechanism for buy-back and stabilisation programmes. The proposals are continuing through the EU legislative process.
- The European Parliament's ECON committee is expected to vote on its draft reports on the Listing Act package on 24 October 2023. Third drafts of the reports were published in June 2023.

aims to widen participation in the ownership of public companies, simplify the UK capital raising process, and make the UK a more attractive destination for initial public offerings.

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

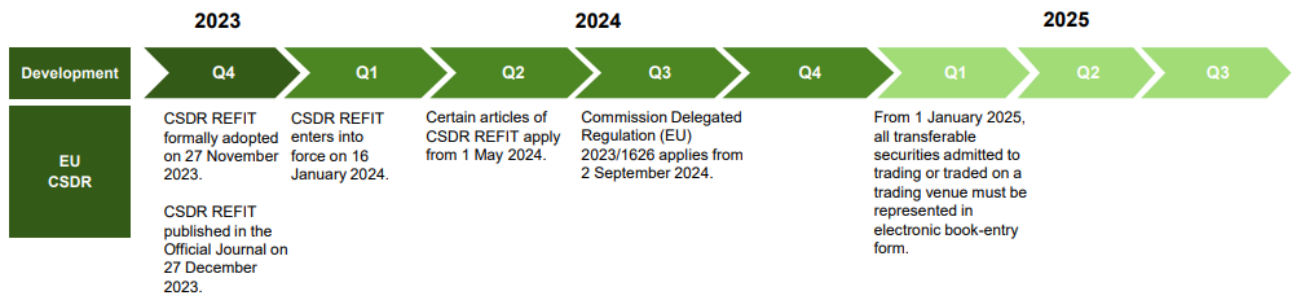
EU SECURITISATION REGULATION REVIEW



- As part of the capital markets union (CMU) action plan the Commission conducted a review of the EU securitisation framework. Fulfilling its mandate under Article 46 of the Securitisation Regulation (SR), the Commission published a report in October 2022, which set out a stocktake on the SR's functioning. The Commission highlighted some targeted improvements to the framework, which will be made without legislative revisions.
- Separately, the Commission is mandated under Article 519a of the Capital Requirements Regulation (CRR) to review the securitisation capital and liquidity frameworks. The Commission is currently considering the advice of the European Supervisory Authorities' Joint Committee, which was published in a report in December 2022.

- The Commission does not propose amending the Securitisation Regulation at this stage, but it has committed to non-legislative improvements including:
 - ESMA should revisit the disclosure templates for the information to be made available under Article 7 of the SR, to reduce prescription and to simplify them where appropriate, and should develop a dedicated template for private securitisations.
 - The Commission will clarify in a future revision of the SR the provisions of Article 2(12) of the SR, which have caused problems for AIFMs.
 - The Commission decided against establishing a dedicated framework for green securitisation, and instead contributed to work on specifying the details of securitisation within the incoming EU Green Bond Standard framework (see Slide 29). Green Bonds will include those issued by a special purpose vehicle in the context of a securitisation transaction.
 - A common EU guide should be developed on best practices for national supervisors.
 - The Commission is considering recommendations from the Joint Committee on the prudential treatment of securitisation, which may result in a relaxation of capital requirements in the significant risk transfer market and improve risk sensitivity in the framework.
 - Commission Delegated Regulation (EU) 2023/2175 entered into force on 7 November 2023, setting out technical standards on the SR's risk retention requirements for originators, sponsors, original lenders and servicers. This delegated regulation has replaced Commission Delegated Regulation (EU) 625/2014.
- The EBA consulted between April and July 2023 on proposed guidelines on the criteria for on-balance-sheet securitisations to be eligible as STS securitisations. The guidelines are expected to be finalised in H1 2024.
- The Joint Committee is expected to report to the Commission in 2024 on the implementation and functioning of the SR under Article 44 of the SR, which among other things will advise on possible areas of future revision of the SR.

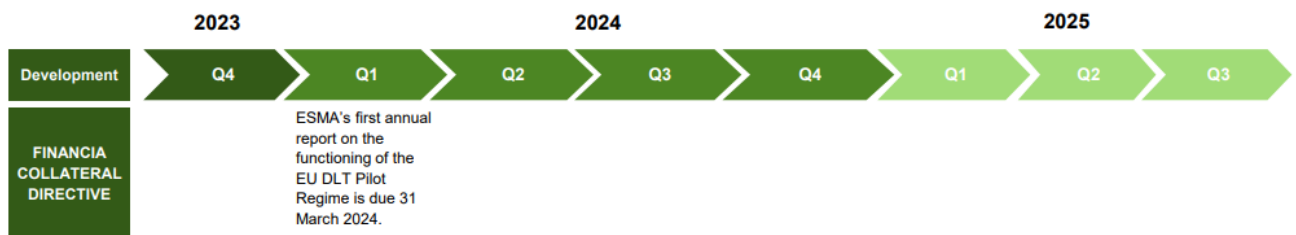
EU CSDR



- EU CSDR aims to harmonise certain aspects of securities settlement, such as the timing of settlement and the authorisation process for EEA CSDs. The next major phase of implementation, the introduction of a mandatory buy-in regime, was intended to come into effect on 1 February 2022, but has been suspended and will now take effect from 2 November 2025. In the meantime, the legislative REFIT proposal starts to apply from 1 May 2024, amending the CSDR to:
 - Enhance supervisory co-operation;
 - Simplify the CSDR passporting process;
 - Facilitate CSDs' access to banking-type ancillary services;
 - Clarify elements of the settlement discipline regime;
 - Introduce an end-date for the grandfathering clause for EU and third-country CSDs and a notification requirement for third-country CSDs.
- From 1 January 2023, any EU issuer that issues transferable securities that are admitted to trading or traded on trading venues has been required to arrange for the securities to be represented in electronic book-entry form. From 1 January 2025, this requirement will apply to all remaining transferable securities that are admitted to trading or traded on trading venues.

- In November 2022, ESMA published a final report and draft RTS amending Article 19 of Commission Delegated Regulation (EU) 2018/1229. The RTS were adopted by the Commission as Commission Delegated Regulation (EU) 2023/1626 which entered into force on 31 August 2023.
 - The amendments introduced by the Delegated Regulation apply from 2 September 2024 to remove the special distribution and collection process for cash penalties that applies to central counterparties (CCPs) and instead allocate responsibility for the collection and distribution of all cash penalties to central securities depositories (CSDs).
- On 27 November 2023, the Council formally adopted the CSDR REFIT regulation amending the CSDR, following adoption by the European Parliament on 10 November 2023. CSDR REFIT was published in the Official Journal of the European Union on 27 December 2023 and enters into force on 16 January 2024. Certain of its articles apply from 1 May 2024 and the remainder two years after entry into force.
- In 2024, ESMA intends to deliver a CSDR report on CSD settlement efficiency and internalised settlement, and to work on mandates under the CSDR REFIT.
- The CSDR's mandatory buy-in regime was intended to apply from 1 February 2022. The application of the relevant rules has been delayed until 2 November 2025.

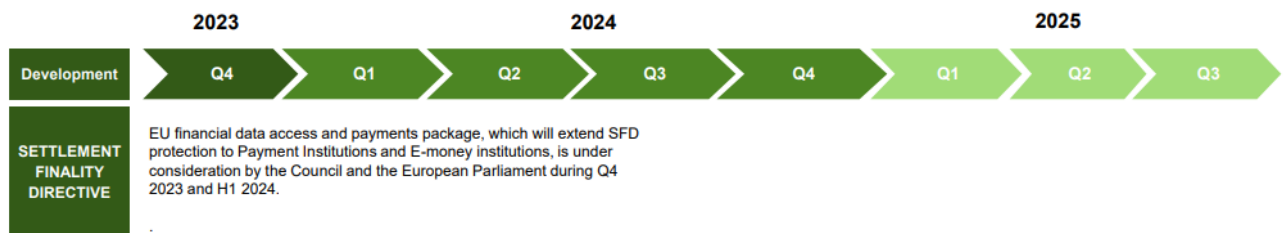
[Review of EU financial collateral directive](#)



- [The Financial Collateral Directive \(FCD\) facilitates the cross-border use of financial collateral primarily](#) by removing national law formalities and offering harmonised protections against insolvency challenges in certain cases. It also ensures that certain close out netting provisions are enforceable in accordance with their terms.
- The Commission launched a consultation on the functioning of the FCD in February 2021, in parallel with a consultation on the functioning of the Settlement Finality Directive given that the two Directives are closely connected in the posttrade context.
- The Commission consultation closed on 7 May 2021 and the Commission published a report on its review on 28 June 2023. The Commission concluded that the FCD has worked well and needs no major revisions. However, the Commission highlighted that :
 - Extending the scope of the FCD to additional market participants such as Payment Institutions and Electronic Money Institutions warrants further consideration and monitoring;
 - To keep up with market and regulatory developments, the current list of eligible financial collateral under the FCD (i.e., cash, financial instruments and credit claims) could be reviewed to consider whether its scope should be extended, but noting that and such extension would have to meet the requirements under FCD, including key concepts such as 'possession' and 'control' of the financial collateral to ensure, for example, that the collateral provider is prevented from disposing of the collateral; and
 - The FCD can apply to DLT based collateral provided that the collateral complies with the conditions set out in the FCD. However, for cryptoassets to qualify as financial instruments, the ownership provision, possession and control requirements of the FCD, might potentially raise issues and the results of the EU DLT Pilot Regime (a related provision under the EU's Digital Finance Strategy) might provide further insights on how

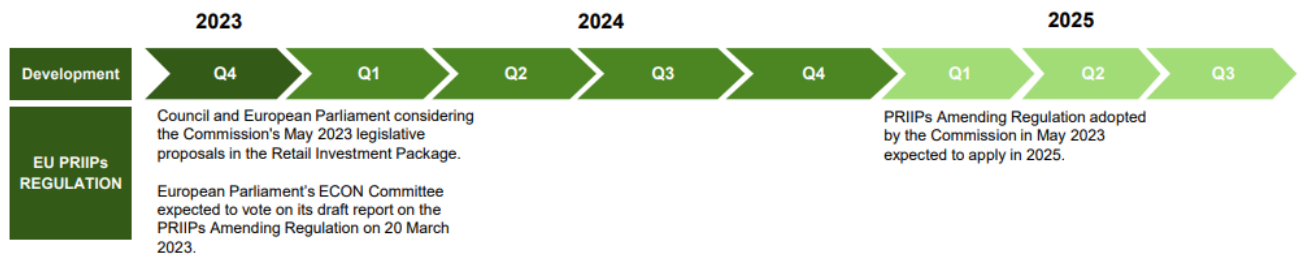
these issues might be addressed. ESMA is required to publish annual reports on the functioning of the EU DLT Pilot Regime, the first of which is due 31 March 2024.

Review of EU settlement finality directive



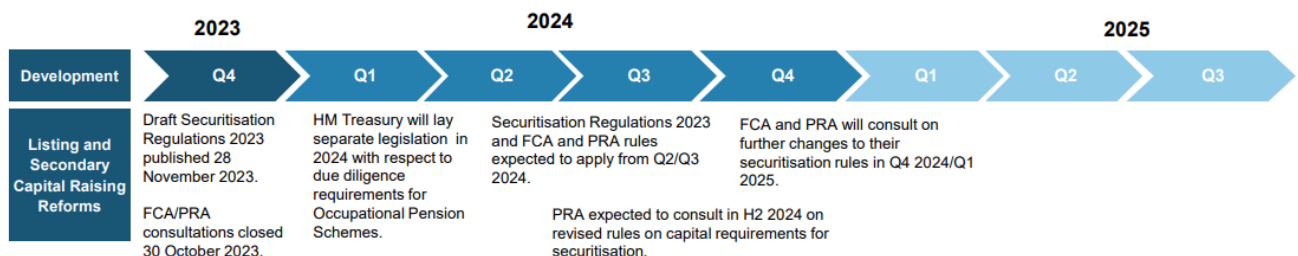
- [The Settlement Finality Directive \(SFD\) regulates designated systems used by participants to transfer](#) financial instruments and payments. The SFD seeks to reduce the systemic risk associated with participation in payment and securities settlement systems, particularly the risk linked to the insolvency of a participant in such a system. It guarantees that transfer orders which enter into such systems are also finally settled, regardless of insolvency or revocation of transfer orders in the meantime.
 - The Commission was mandated under Article 12a of the SFD to conduct a review of its functioning and was due to have produced a report by 28 June 2021, including proposing legislative amendments where appropriate.
 - Due to the close post-trade interconnection of the SFD with the Financial Collateral Directive (FCD), the Commission launched parallel consultations on the two Directives in February 2021
- The Commission consultation closed on 7 May 2021 and the Commission published a report on its review on 28 June 2023.
- The Commission concluded that, as with the related Financial Collateral Directive (FCD), no major overhaul of the SFD is required. However, the Commission highlighted that:
 - The SFD does not apply to third country settlement systems, but national authorities can exercise discretion to extend SFD protections to domestic institutions' participation in third country settlement systems. While the review found a lack of harmonisation in member states' exercise of the discretion, any future proposals to change the SFD to require further harmonisation need to be carefully weighed in terms of costs and benefits.
 - There was support for Payment Institutions (PIs) and Electronic Money institutions (EMIs) to be added to the list of eligible direct participants in settlement systems. The EU financial data access and payments package adopted in June 2023 (see Slide 42) will make a targeted amendment to the SFD to add PIs to the list of institutions which have the possibility to participate directly in payment systems designated by a Member State pursuant to the SFD (but not to designated securities settlement systems).
 - Consideration of applying SFD to DLT-based systems should await insights from the EU Digital Pilot Regime on the risks and benefits of DLT in trading and settlement.

EU PRIIPS REGULATION



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

SECURITISATION REFORM

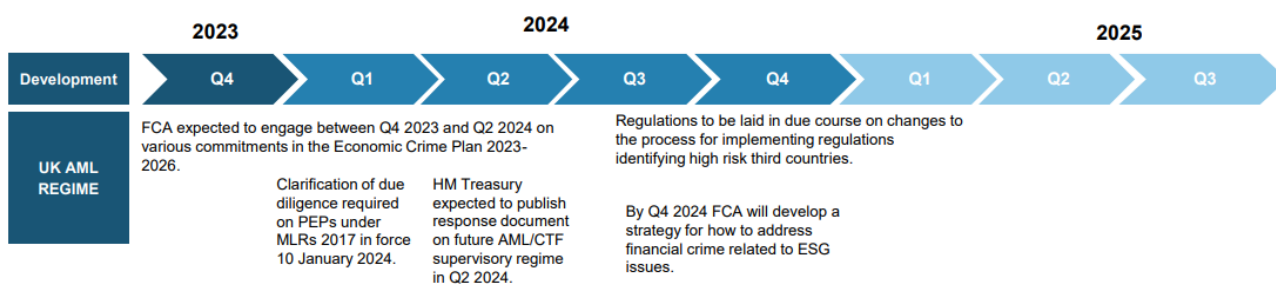


- [FSMA 2023 enables the government to reform the UK's securitisation regime and deliver the recommendations of the 2021 Securitisation Review with the aim of:](#)
 - (i) bolstering securitisation standards in the UK, in order to enhance investor protection and promote market transparency; and
 - (ii)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

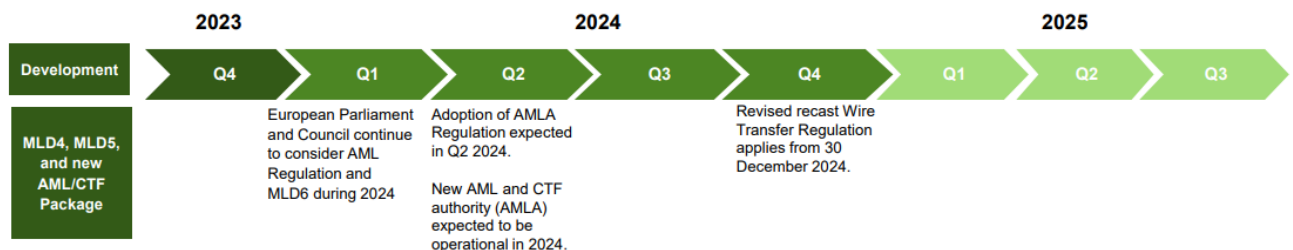
UK AML REGIME



- 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

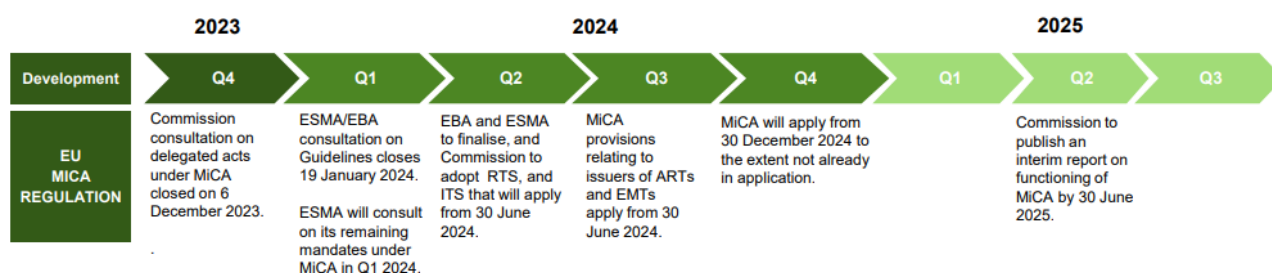


- MLD4 contains the EU’s anti-money laundering framework. MLD5 made targeted amendments to MLD4 to increase transparency around owners of companies and trusts through the establishment of public beneficial ownership registers, prevent risks associated with the use of virtual currencies for terrorist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

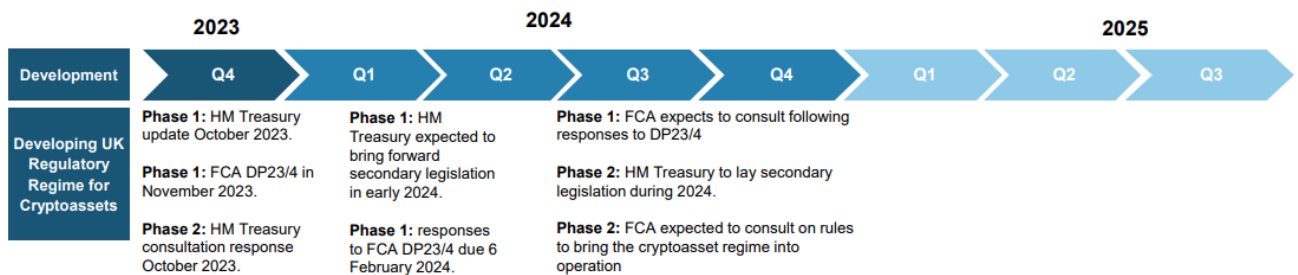
EU MiCA REGULATION



- [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



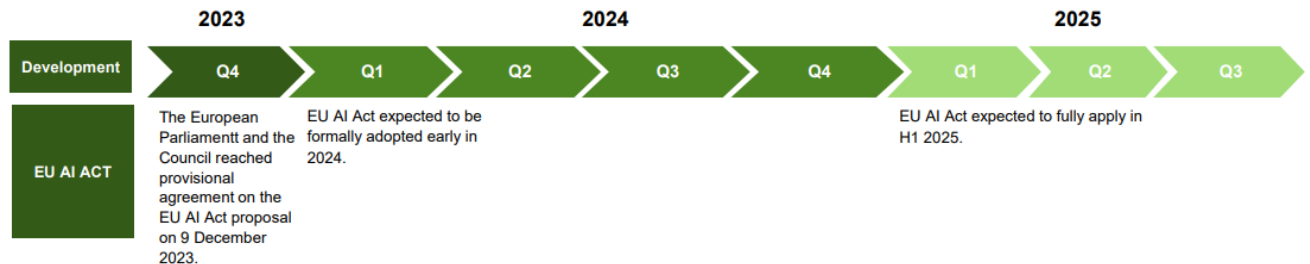
- Proposals for a UK regulatory regime for cryptoassets have been under consideration for several years and substantial progress is expected to be made in 2024. FSMA 2023 enables HM Treasury to expand the UK's regulated activities framework and (if necessary) make use of the new designated activities 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: <ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> • 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

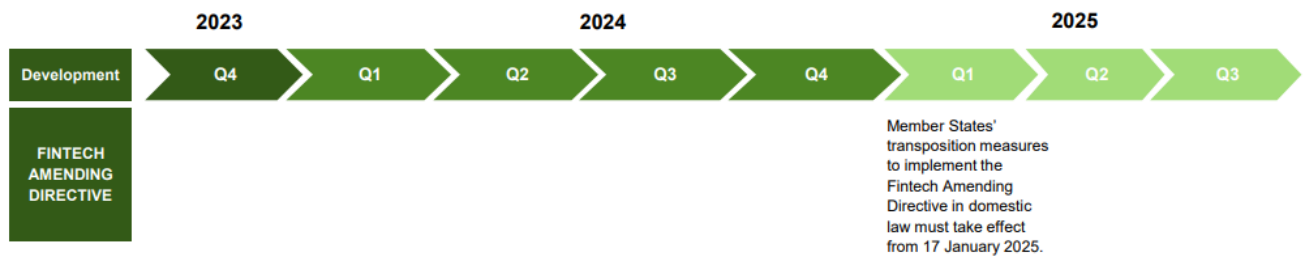
AI, Digital finance, SupTech, RegTech & FinTech

[EU AI ACT](#)



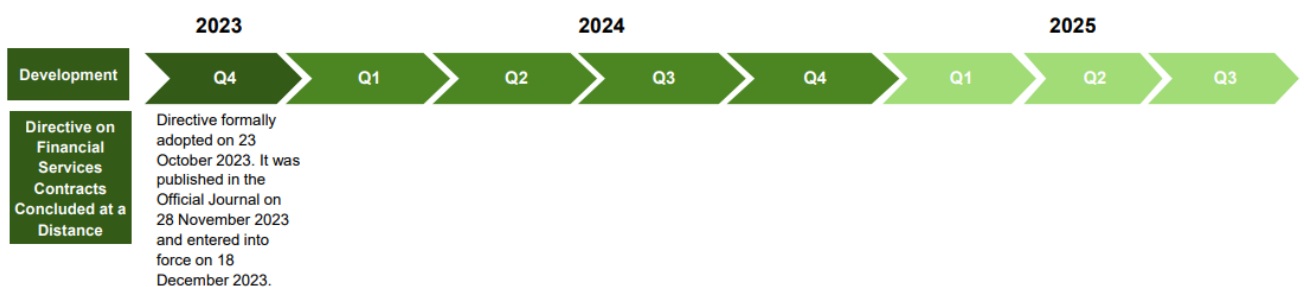
- [The Commission published a proposal for a Regulation on artificial intelligence \(AI\) in April 2021.](#) The proposed 'AI Act' sets out rules relating to the placing on the market, putting into service and use of AI systems in the EU, as well as transparency requirements and rules on market monitoring 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

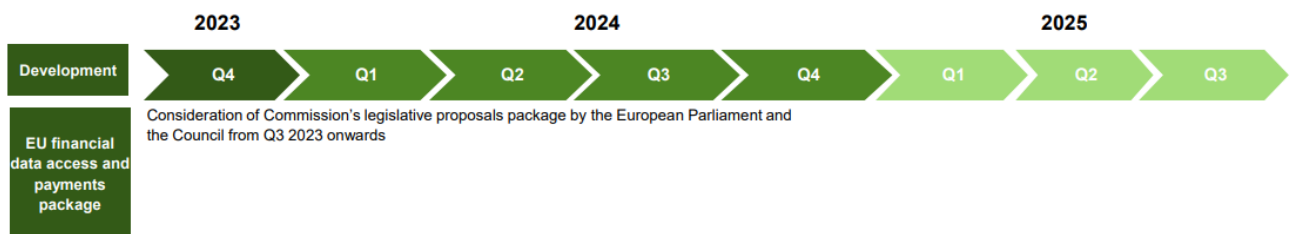


- Directive on Financial Services; Contracts Concluded at a Distance; Following a regulatory fitness (REFIT) evaluation, the Commission found that the protections of the Distance Marketing Directive (DMD) remain useful as a horizontal safety net where more recent sector-specific legislation has not been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

[EU AI Act approved by Council of the EU](#); On 21 May, the Council of the EU approved the flagship EU AI Act.

- Once signed by the presidents of the European Parliament and the Council, the EU AI Act will be published in the EU's Official Journal in the coming days and enter into force twenty days after its publication.
- As a reminder, some of the provisions of the EU AI Act will apply six months after publication. In particular, providers and deployers of AI systems will have to ensure a sufficient level of AI literacy among their staff and other persons involved in the operation and use of AI systems. The prohibited AI provisions also come into force after six months

[Outcomes of the AI Seoul Summit, 21-22 May 2024](#); South Korea and the UK co-hosted the AI Seoul Summit on 21-22 May, serving as a follow-up to the inaugural AI Safety Summit held at Bletchley Park in late 2023. At the Summit, the leading nations on AI discussed a number of topics, including the regulation and innovation of 'frontier' AI. 'Frontier' AI, defined as highly capable general-purpose AI models or systems that can perform a wide variety of tasks and match or exceed the capabilities present in the most advanced models, were identified as both offering vast opportunities and posing systemic risks.

- The Summit resulted in:
- **Seoul Declaration for AI:** Promotes safe, secure AI development, addressing global challenges and human rights protection, with nations committed to sharing AI safety information.
- **Seoul Statement of Intent:** World leaders' commitment to advance AI safety science through international collaboration.
- **Seoul Ministerial Statement:** Participating countries' pledge to advance AI safety, innovation, and inclusivity, agreeing on shared risk thresholds and international cooperation on AI safety science.
- **Frontier AI Safety Commitments:** Signed by 16 AI tech companies, pledging responsible AI development, including safety frameworks, threat red-teaming, cybersecurity investment, and public reporting of model capabilities. Signatories will refrain from deploying models if risks cannot be sufficiently mitigated.
- Read the declarations [here](#) and commitments [here](#).

[Automated Vehicles Act becomes law in the UK](#); On 20 May, the Automated Vehicles (AV) Act became law in the UK, setting the stage for self-driving vehicles on British roads by 2026. The Act removes one of the key roadblocks to the adoption of AVs in the UK by providing a clear legal framework for drivers and developers. It is hoped that the Act will encourage further investment in an industry forecast to be worth £42 billion and to create 38,000 jobs in the UK by 2035.

- Of note, the Act sets out a new authorisation and licensing regime for self-driving vehicles. An AV will only be authorised if it passes a 'self-driving test'. For example, an AV which provides 'hands off, eyes on' driving assistance will not be authorised. Manufacturers who are authorised must ensure ongoing compliance and report significant updates or modifications to the relevant authority.
- Liability for accidents caused by an AV is a topic that often captures the public's attention. The Act clarifies that whilst an AV is in self-driving mode, drivers will not be held responsible for how the AV drives. This liability will be assumed by insurance providers, software developers and automotive manufacturers as first outlined in the Automated and Electric Vehicles Act 2018.

[Council of Europe adopts first international treaty on AI](#); On 17 May, the Council of Europe adopted the first ever international treaty on artificial intelligence (the Convention). The Convention sets out a legal framework that covers activities within the entire lifecycle of AI systems and is aimed at ensuring the respect of human rights, the rule of law and democracy in the use of AI systems.

- The Convention:
- adopts a risk-based approach for the lifecycle of AI systems and applies to both the public and private sectors, focusing on responsible innovation and addressing potential negative impacts;
- establishes transparency and oversight requirements tailored to specific contexts, including measures to identify AI-generated content and ensure accountability for adverse impacts; and
- requires parties to adopt measures to ensure that democratic institutions and processes are not undermined by the use of AI systems, including the principle of separation of powers, respect for judicial independence and access to justice.
- The Convention covers the use of AI systems in the public and private sectors. Parties to the Convention may opt to be directly obliged by the relevant convention provisions, or take other measures to comply with the treaty's provisions while fully respecting their international obligations regarding human rights, democracy and the rule of law.
- The Convention will be open for signature in Vilnius, Lithuania, on 5 September 2024.

[California Senate passed California AI Transparency Act and Safe and Secure Innovation for Frontier Artificial Intelligence Models Act](#); On 21 May, the California Senate passed two key pieces of AI-related legislation:

1. The **California AI Transparency Act**, which aims to protect consumers by giving them the ability to determine if certain materials have been generated by AI. The Act requires large generative AI system providers to label AI-generated content with imperceptible (yet machine detectable) embedded disclosures, and to provide an AI detection tool to enable users to query whether content was created by a generative AI system.
 2. The **Safe and Secure Innovation for Frontier Artificial Intelligence Models Act**, which aims to regulate the development and use of advanced AI models. The Act mandates developers to make certain safety determinations before training AI models, comply with various safety requirements and report AI safety incidents. It also establishes the Frontier Model Division within the Department of Technology for oversight of these AI models.
- Both Acts are now being considered by the Assembly. If approved, they will be sent to the Governor for signature.
 - Read the full text of the Acts [here](#) and [here](#)

[Japan's ruling party publishes AI White Paper on "becoming the world's most AI-friendly country"](#); On 21 May, the Liberal Democratic Party (**LDP**) of Japan published its second AI White Paper, outlining Japan's strategy to "become the world's most AI-friendly country".

- The paper was produced by the AI project team of the LDP, which was established in January 2023 to consider Japan's AI strategy and provide policy recommendations.
- The recommendations proposed in the paper aim to enhance Japan's competitiveness through the use of AI, while ensuring the safe application of these technologies.
- Key recommendations outlined in the paper include:
 - **Public-private collaboration:** Encourage cooperation to collect, maintain and update data, and to develop and utilise AI in sectors where Japan excels, such as automobiles, robotics, and materials development. This should also apply to crucial areas like medicine, finance and agriculture.

- **Infrastructure development:** The government should offer financial and policy support to ensure the construction of data centres and other infrastructure necessary to support AI technologies. The report emphasises that computing infrastructure for processing and storing data needs to be developed domestically to ensure the safe management of critical data and improve processing times. The government should also prioritise energy-efficient infrastructure and consider future energy needs.
- **International coordination on AI safety:** Establish a high-level network of AI Safety Institutes (AISIs) in Japan, backed by the government. AISIs should consider safety assessments and standards, and produce educational materials on appropriate AI use. There should also be international coordination with other countries to ensure AI safety, with due attention given to harmonising international standards around audits and third-party certification of AI technologies.
- Read the full paper [here](#) and an outline of the key recommendations [here](#).

BCBS report on impact of digitalisation of finance on banks and supervision; *On 16 May, the BCBS published a report on the implications of the digitalisation of finance for banks and their supervisors.*

- The report builds on the BCBS' 2018 report "Sound Practices: implications of fintech developments for banks and bank supervisors" and takes stock of recent developments in the digitalisation of finance. The report reviews the use of key innovative technologies across various aspects of the banking value chain, including application programming interfaces, artificial intelligence and machine learning, distributed ledger technology and cloud computing. It also considers the role of new technologically enabled suppliers (e.g. big techs, fintechs and third-party service providers) and business models.
- Implications for banks and supervisors identified in the report include: (i) banks should mitigate risks relating to the evolving nature and scope of digitalisation of finance, and their implications for traditional financial risks, as well as the interactions between the two; (ii) the principle of responsible innovation is key for the safe adoption of innovative technologies and business models; (iii) bank supervisors should consider if aspects of their current supervisory frameworks might be adapted for digitalisation-related risks, to ensure appropriate oversight of banking activities; (iv) data has become a critical resource and banks should ensure that they have robust governance systems for securing and sharing data; (v) banks should apply strong risk management procedures to operations involving services providers; (vi) human oversight of technologies is critical, and remains the responsibility of senior managers; and (vii) it is important for both banks and supervisors to secure the necessary resources, staff and capabilities to assess and mitigate risks from new technologies and business models.
- The BCBS will continue to monitor developments related to the digitalisation of finance. Where necessary, it will consider whether additional standards or guidance are needed to mitigate risks and vulnerabilities.
- [Press release](#) → & [Report](#) →

Sanctions

[Financial sanctions targets: list of all asset freeze targets; Who is subject to financial sanctions in the UK?](#) - A guide to the current consolidated list of asset freeze targets, and a list of persons named in relation to financial and investment restrictions under the Russia regulations.

- [Financial sanctions guidance](#)
- [OFSI General Licences](#)

- [Financial sanctions targets by regime](#)
- [Money Laundering Advisory Notice: High Risk Third Countries](#)
- [Licences that allow activity prohibited by financial sanctions](#)

Conduct / Enforcement / Reporting

HMT, PRA and FCA responses to Treasury Committee report on sexism in the City; On 14 May, the HoC Treasury Committee published the responses it received from HMT, the PRA and the FCA to its report on sexual harassment and bullying in the financial services sector.

- Points of interest include:
- (i) non-disclosure agreements (NDAs) – HMT does not commit to introduce legislation to ban the use of NDAs in harassment cases. HMT highlights that it has committed to bringing forward legislation to clarify that NDAs cannot be legally enforced if they prevent victims from reporting a crime and to ensure information related to criminal conduct can be discussed with groups including the police and support services. It states that there is a legitimate place however for clauses that protect commercially sensitive information, ideas or intellectual property in business transactions and disputes involving negligence claims. It notes that there are already legal limits to how NDAs can be used in an employment context in relation to preventing whistleblowing or reporting a crime;
- (ii) Women in Finance Charter – HMT does not agree with the recommendation to expand the Charter to cover female representation at different levels of seniority. It considers that there are benefits in retaining a focus at the senior management level, which will be pivotal to wider change;
- (iii) pay gap regulations – in line with the post-implementation review of the pay gap reporting regulations, HMT considers it too early to make changes to strengthen the requirements; (iv) bonus cap removal – the PRA and FCA expect firms to take care to avoid adverse impacts on pay gaps following the removal of the bonus cap on remuneration structures.
- The regulators will review the policy as soon as sufficient data is available; and (v) non-financial misconduct (NFM) – taking into account the Committee’s recommendations, the FCA is now prioritising its work on NFM, including sexual harassment and bullying. The FCA is assessing the responses received to its NFM survey, which covered the use of confidentiality agreements when settling complaints and requested a breakdown of data about what types of NFM they have been used in relation to.
- [Press release](#) → & [Response](#) →

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" and inclusion measures	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 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)).
<i>"Large" firms are those with Part 4A permissions and 251 UK employees or more over a 3-year rolling average.</i>		

1. FCA/PRA - SMCR Consultation Paper incoming June 2024

- We knew the FCA's consultation paper on the SMCR was coming in Q2 2024, but buried in their [recent](#) Artificial Intelligence ("AI") strategy update, is confirmation of their plan to publish it in **June 2024**, giving firms additional clarity. The [PRA's Business Plan for 2024/25](#) only reconfirms the PRA's plan to consult in H1 2024, but given it is working closely with the FCA and HMT on this topic, we expect June 2024 is what the PRA are aiming for also. In relation to overseas bank branches the PRA specifically states that it "*intends to consult on clarifying expectations for group entity senior manager functions [(SMF 7s)]...*", which gives a sneak peek as to what might be in any consultation paper. The PRA outline

in their business plan that over 90 responses were received relevant to its work *"reflecting the significant level of stakeholder interest in the regime"*.

- The [PRA's Business Plan for 2024/25](#) covers a number of other topics from remuneration (where it states it is planning to consult on potential changes in 2024 H2) to diversity & inclusion ("D&I") (where it just says in 2024 it will continue industry engagement and assess responses to the [PRA's D&I consultation paper](#)), to AI, model risk management, private asset financing, and more.
- On extending the SMCR to other portfolios - the [FCA's Perimeter Report](#) was updated this month and the FCA reiterated their position that they are keen to apply the SMCR to credit rating agencies and continue to work with Treasury on this. There is a similar sentiment for payments and e-money firms. Cryptoasset businesses are also specifically referenced as not being within scope of the SMCR, meaning the FCA isn't able to apply the same level of scrutiny to senior managers in these businesses.
- [This update](#) on the Bank of England's ("the Bank") approach to enforcement following the Financial Services and Markets Act 2023 reiterates that FSMA 2023 includes new powers for the Bank to create a SMCR in respect of individuals working at Financial Market Infrastructures (FMIs), and that those new powers include certain enforcement powers. The Bank says it will consult on those new powers at a "later date".

2. FCA - Form A updates

- Earlier this month the FCA finally rolled out their [new Form A](#) (SMF application form). Firms now need to include 10 years of job history, rather than uploading a CV. There are also new questions about a candidate's right to work in the UK, previous names to be displayed on the FCA Register, and how candidates will split time between activities and directorships (note this latter question is similar to and borrows from one asked in the MiFID Article 4 form required of management body members only). The Form A has scrapped the "Send later" function and has merged the Statement of Responsibilities with the Form A, which means no need for a second, separate submission. These changes currently apply to standalone applications and from **24 May 2024** will also apply to new related applications (e.g. first time authorisation applications). [This webpage](#) answers a number of FAQs.
- The FCA's [latest operating metrics](#) are also here and they finally show the FCA being in the 'green' with approving SMCR applications within 3 months – only 19 were not processed within that window for Q3 2023/2024.

3. FCA – Non-financial misconduct

- You may have seen in the financial press following a recent freedom of information request that of the 1000 wholesale banks, brokers and insurers sent the FCA's non-financial misconduct ("NFM"), 237 firms missed their deadline and 40 firms requested and were granted extensions.

4. FCA – Financial Crime Guide Updates – CP 24/9

- The FCA is [consulting on changes to its Financial Crime Guide](#) to enhance relevant firms' understanding of the FCA's expectations and help firms assess the adequacy of financial crime systems and controls. The guide applies to all FCA Financial Crime Supervised Firms and firms supervised by the FCA under The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs), including cryptoasset businesses.
- The proposals include self-evaluation questions and examples of good and bad practices. The guide doesn't impose new requirements or rules on firms. There are various bits of new guidance that refer to senior management and governance – e.g. self-assessment questions such as *"how are senior management kept up to date with sanctions compliance issues?"* and *"Does regular and ad hoc MI provide senior management with a clear understanding of the firm's sanctions compliance risk?"*

5. FCA – Approach to International Firms

- The FCA [published](#) its approach to international firms providing or seeking to provide financial services that require authorisation in the UK.
- There is a section on personnel and decision making where the FCA have stated that they would typically expect senior managers who are directly involved in the firm's UK activities to spend an adequate and proportionate amount of time in the UK to make sure those activities are suitably controlled. This said, the FCA acknowledges that individuals with purely strategic responsibilities for a UK branch may not be based in the UK. They have said that they expect individuals responsible for the day-to-day management of the UK branch activities to have sufficiently independent decision-making powers and to exercise independent challenge over strategic decisions that affect the wider firm. The FCA's focus on senior managers spending time in the UK was reiterated in this recent [speech](#) by Sarah Pritchard.
- We have increasingly seen the FCA become more robust in terms of assessing the location of Senior Managers and their level of seniority within the context of third-country branches - this seems to accord with that trend.

6. FCA - Enforcement Guide Consultation Paper – CP 24/2

- We've responded [EVI](#) [Response to FCA Consultation Paper CP 24.2: Proposals for Enforcement Disclosures; 30April2024.pdf](#) to the FCA's [CP24/2: Our Enforcement Guide and publicising enforcement investigations - a new approach](#). An S&S webinar with Therese Chambers, the FCA's Joint Executive Director and Market Oversight, on the proposals and how the FCA anticipates these would operate in practice, can [watch on demand here](#).
- As everyone will be aware, the FCA have had significant pushback on their proposals, including from the [House of Lords Financial Services Regulation Committee](#) and you can read the FCA's response to the letter [here](#). Financial services industry leaders have expressed their concerns in an [open letter](#) to the Chancellor, arguing that the proposals could negatively impact firms' reputations, destabilise financial markets, and harm the competitiveness of the UK's financial services sector.
- The proposals have come under heavy criticism both in principle and on the detail and the obvious fallback of an anonymised 'Market Watch' style periodical must be a possibility. That being said the FCA's response to the House of Lords doubled down on the proposals and there is a meaningful risk that they will press ahead regardless of the blatant flaws in this proposal. Note there is also [this update](#) on the Bank of England's ("the Bank") approach to enforcement following the Financial Services and Markets Act 2023. Responses to the Consultation Paper are required by **28 June 2024**.

7. FCA / PRA – Artificial Intelligence Update

- Last week, the [FCA](#) and [PRA](#) published their updated AI strategies following the Government's publication of its pro-innovation strategy in February 2024. In summary, there is no fundamental change in their position – the FCA reiterate their position as a 'technology agnostic, principles-based, outcomes-focussed' regulator and that their regulatory framework does not usually mandate or prohibit specific technologies. This is echoed by the PRA who add that "technology agnostic" doesn't mean "technology blind" and the PRA are focussed on understanding and addressing risks that arise.
- Neither regulator outlines any new AI specific rules although they don't rule out 'future regulatory adaptations'. Instead, the FCA and PRA give further examples as to how they will seek to regulate AI within their existing framework – i.e. there are specific references to the Threshold Conditions, Principles (2,3,6,7,8,9), SYSC (particularly general organisational requirements, risk management and operational resilience), SMCR and the Consumer Duty (and on the PRA side there's reference to the Model Risk Management requirements data management requirements governance and operational resilience, amongst other things).

- The SMCR is mentioned multiple times and whilst there is no designated SMF that must be responsible for AI, the regulators reiterate that each SMF will be responsible for the use of AI within their areas of responsibilities. There is also specific reference to SMF 24 (Operations function) and SMF 4 (CRO) who typically have responsibility for technology and risk, respectively. The PRA paper references the requirement for relevant firms that there must be a Senior Manager responsible for the model risk management framework, which will cover AI models. It's clear that the SMCR is a clear regulatory lever for the FCA/PRA to pull in relation to the regulation of AI.
- Other areas of focus are operational resilience, critical third parties and outsourcing – there is a clear focus on these as they are referenced multiple times. The FCA specifically states that there is a “growing urgency” to take a more proactive approach to risks in these areas.
- For those subject to the Consumer Duty, the update very interestingly makes a suggestion regarding how the use of AI may be incorporated into annual Consumer Duty reports: “*The first annual report is due on 31 July 2024. This additional layer of reporting and oversight by a firm’s board might also include consideration of current or future use of AI technologies where it might impact retail consumer outcomes or assist in monitoring and evaluating those outcomes.*” (which is reasonably directional from them on this topic). Note there are lots of Consumer Duty updates from the FCA – for more on this sign up to [Consumer Duty View here](#).
- Quantum computing is also called out specifically as being an area both regulators are actively monitoring.
- One final interesting snippet that caught our eye was reference to how the FCA/PRA are using AI themselves. The PRA has specifically stated that it has introduced a cognitive search tool with AI capabilities that helps supervisors gain more insights from firms’ management information by extracting key patterns from unstructured and complex datasets. For firms submitting Board packs etc to the PRA regularly it will be interesting to see how your supervisory engagement with the regulator evolves in light of this AI technology assisting them in their supervisory roles.
- For those with an interest in this area the FCA have also published [Feedback Statement FS 24/1](#) on the “*Potential competition impacts from the data asymmetry between Big Tech firms and firms in financial services*”. Much of the same themes of the AI update were also addressed in Nikhil Rath’s latest [speech](#) on the Digital Regulation Landscape.
- We are doing a significant amount of work in relation to the use of AI within financial services including cross-border surveys, obligations registers or mapping given the incoming EU AI Act, reviewing Terms of Reference for AI Committees (or similar), Board training on AI and more. We’ve also held peer roundtables for asset management clients and banks – if you’d like to be a part of these or for us to arrange one with your peers then do let us know.

8. FCA – Complaints Data

- The FCA’s complaints data may be interesting for certain senior managers within your firm and those working on the Consumer Duty. The [new FCA page](#) provides an overview of financial services firms’ complaints reported to the FCA during 2023 H2 (1 July to 31 December 2023), including the latest trends and analysis by product groups. Whilst most products saw a decrease in the number of complaints, the product groups that experienced an increase in complaint numbers were: banking and credit cards, home finance and investments.

9. FCA – Dear CEO Letters

- The FCA’s [thematic review of retirement income advice](#), and subsequent but related [Dear CEO Letter](#), include a call to action for the CEOs of relevant consumer investment firms and senior managers to engage with the findings of the review and take action in response to them where required. The FCA has warned that there will be follow-up supervisory activity. The review highlights examples of good and bad practices, and whilst some firms are successfully considering customers’ needs and designing advice models that lead to good outcomes, other firms are lagging behind. The Dear CEO

letter outlines that the Thematic Review didn't consider files against the Consumer Duty as it was conducted prior to 31 July 2023, but acknowledges that without firms taking appropriate action it's unlikely that most firms will be compliant with all elements of the Consumer Duty.

- Here is another [Dear CEO letter](#) for those in the consumer finance portfolio relating to the requirement for relevant firms to maintain adequate financial resources. This was issued on 12 April 2024 and the FCA make it clear what immediate actions are required.
- This [Dear CEO letter](#) on consumer lending outlines the FCA's priorities, how the FCA expects firms to reduce and prevent serious harm, setting and testing higher standards, policy changes and actions for firms. Specifically, the letter outlines that the FCA has identified poor governance and inadequate senior management oversight as a root cause behind several drivers of harm. It references the SMCR, its interlock with the Consumer Duty, the need for succession planning, improving D&I, removing non-financial misconduct and having proper regard for ESG. The letter requires firms (specifically directors/Board members) to consider the obligations and expectations set out in the letter and to agree necessary actions. The letter states that the FCA's supervisory activity over the next 2 years will be to test firms against these expectations.
- Of interest to your CFOs might be the FCA's recent financial reliance survey data published [here](#).

10. FCA – Mr. Neil Woodford

- The FCA's announcements relating to the Woodford Equity Income Fund ("WEIF") have been ongoing for years. Most recently, the FCA issued its [Final Notice against Link Fund Solutions](#) ("LFS") finding it to have breached Principle 2 by failing to demonstrate the necessary skill, care and diligence in its management of WEIF and Principle 6 by failing to adequately manage the fund's liquidity, meaning that investors couldn't access their money at short notice.
- The FCA has also issued a [warning notice in respect of Neil Woodford and Woodford Investment Management Limited \("WIM"\)](#), proposing action against them for their conduct in respect of WEIF. The FCA considers Mr. Woodford (who held the CF 1 (Director) and CF 30 (Customer function) under the Approved Person Regime) to have breached Principle 2 (due skill, care, and diligence) and Principle 6 (due skill, care and diligence in managing the business of the firm).
- This is because the FCA considered Mr. Woodford to have (i) a defective and unreasonably narrow understanding of his responsibilities for managing WEIF's liquidity, (ii) failed to ensure a reasonable and appropriate liquidity profile for WEIF when making investment decisions in the face of ongoing redemptions and net outflows; (iii) failed to take adequate steps to satisfy himself that the liquidity framework applied to the WEIF was appropriate; and (iv) not exercised adequate oversight in respect of certain delegated aspects of his responsibilities and interactions between WIM and LFS.

11. Diversity & Inclusion

- Whilst there's no update from the FCA and PRA on their D&I consultation paper since our last [SMCR+ View](#), the [Parker Review Committee's 2024 update report](#) ("2024 Parker Review") and [Government's Report and recommendations for improving diversity and inclusion \(D&I\) practice in the workplace](#) ("D&I in the Workplace Report") have arrived.
- The 2024 Parker Review presents findings regarding the ethnic diversity of boards and senior management within FTSE 350 companies and large private companies. The report reveals that as of December 2023, 96% of FTSE 100 companies, 70% of FTSE 250 companies and 44% of private companies had at least one ethnic minority director. It also highlights the average ethnic minority representation in senior management, which was 13% for FTSE 100 companies and 12% for FTSE 250 companies which remains short of the average target for the proportion of ethnic minority representation in senior management in 2027.
- The D&I in the Workplace Report follows a six-month long panel on *Inclusion at Work*. The report's recommendations include (i) endorsement of the government for a new framework for D&I practices, focusing on effectiveness and value for money; (ii) creation of a digital tool (funded and facilitated by

the government) to help leaders and managers assess the efficacy of D&I practices and encourage providers of interventions to evaluate and demonstrate their impact; and (iii) clarification of legal status of D&I practices from the Equality and Human Rights Commission ("EHRC") particularly in light of recent rulings and their implications for HR policies and staff networks. Beyond these recommendations, the report and contributors identified that change will not be possible without engagement and ownership by senior leadership, outside of HR functions. Amongst other things, it suggests that change requires a proactive and impartial leadership involved in the establishment of a culture of diversity and inclusion.

- The FCA's Executive Director of Authorisations, Sheree Howard, recently gave a [speech](#) entitled "Reaping the rewards of investing in women" (a sentiment we strongly support) which focuses on the importance of attracting and retaining women in financial services, amongst other things.

12. FCA – Key Final Notices and Decision Notices

- In the latest cum-ex case, [Mr. Nailesh Teraiya has been fined £5.95 million](#) and banned from carrying out any regulated activity given his role as sole controller and CEO of Indigo Global Partners Limited which participated in a sham trading scheme. Mr. Teraiya was found to have breached Principle 1 (act with integrity) under the Approved Persons Regime. Mr. Teraiya has referred his Decision Notice to the Upper Tribunal.
- After an 8 week trial, Mr. Stuart Bayes was found [guilty of insider dealing](#). He both traded relevant shares himself, and also encouraged another individual to do the same.
- [Mr. Arthur Cobill](#) was found to have breached Principle 2 (due skill, care and diligence) under the Approved Persons Regime for providing incompetent and unsuitable advice to customers. The FCA would have imposed a £1,113,225 fine on him but has instead agreed for Mr. Cobill to pay £120,000 to the FSCS to contribute to relevant customers' redress.
- [Mr. William Hofstetter](#) has been found to have breached Principle 6 (take reasonable steps to ensure that the business of the firm for which they are responsible complies with the relevant requirements and standards of the regulatory system) because he incompetently oversaw a defined benefit pension advice process which resulted in customers' retirement funds being put unnecessarily at risk. Mr. Hofstetter has also been banned from performing a SMF role in the future and the FCA has withdrawn his SMF 3 (director) and SMF 16 (compliance officer) approvals.

13. FCA – Pensions Dashboard Service ("PDS") Firms

- Pension dashboards are digital interfaces allowing customers to find their pensions and view basic information about them in one secure place. To ensure sufficient consumer protection, the RAO (Regulated Activities Order) was amended to include operating a PDS as a regulated activity. The [FCA's consultation paper \(CP 24/2\)](#) covers a number of matters including the fact that firms who only hold permission for regulated PDS activity and, if applicable, 'making arrangements with a view to transactions in investments' in limited circumstances, will be a Limited-scope SMCR firm.

14. PRA - Approach for a Critical Third Parties ("CTPs") regime in the UK

- The consultation period for [CP26/23](#) (Operational resilience: Critical third parties to the UK financial sector) closed mid-March, as covered in our previous edition of the [December 2023 SMCR+ View](#). A recent [speech by Gareth Truran](#) outlines, amongst other things, how the proposed CTP regime will fit into the wider operational resilience framework. In particular, he highlights that it will "*complement, but not replace, the responsibility of individual regulated firms and their senior management*" and that firms still need to comply with the operational resilience requirements and be accountable for managing risks in their own outsourcing and third-party arrangements.
- The PRA aims to issue final requirements and expectations for CTPs in the **second half of 2024**.

Financial Stability, Operational Resilience

Operational resilience	
UK	EU
<p>PRA/FCA Consultation Paper 26/23 'Operational Resilience: Critical Third Parties to the UK Financial Sector' published on 7 December 2023</p> <p>Second UK Consultation paper expected Q4.</p> <p>This will include how and when data is collected on the use of third parties and will overlap with existing outsourcing notification requirements.</p>	<p>EU Digital Operational Resilience Act (DORA) Oversight framework, second batch of RTS and ITS published 17 Jan 2024 :</p> <ul style="list-style-type: none"> • 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

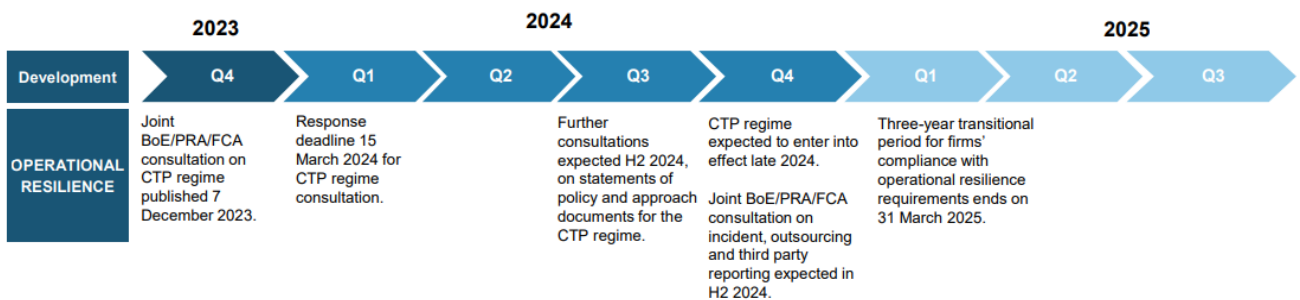
EU Digital Operational Resilience Act (DORA)



- [Regulation \(EU\) 2022/2554 on digital operational resilience for the financial sector \(DORA\) was published in the Official Journal of the European Union in December 2022](#) and entered into force on 16 January 2023.
- DORA puts in place a detailed and comprehensive framework on digital operational resilience for EU financial entities. EU entities must ensure they have the capacity to build, assure and review their operational integrity to ensure that they can withstand all types of disruptions and threats relating to information and communication technologies (ICT).
- [DORA introduces an EU-level oversight framework to identify and oversee ICT third party service providers deemed "critical" for financial entities.](#)
- DORA will be supported by 'Level 2' technical standards and 'Level 3' guidelines, which are under development.
- DORA will apply from 17 January 2025.
- The DORA package includes the Fintech Amending Directive ([see Slide 18](#)), which amends operational resilience requirements in a number of existing EU directives, including the UCITS Directive, the AIFMD and MiFID II.

- The European Commission issued a call for advice to the ESAs on the designation criteria (under which a third-party ICT service provider is designated as 'critical') and fees for the DORA oversight framework. The ESAs submitted their advice on 29 September 2023. The Commission is mandated to adopt the related delegated acts by 17 July 2024.
- The ESAs are mandated to develop, and submit to the Commission by January and July 2024, draft implementing and regulatory technical standards (ITS and RTS) and guidelines supporting various aspects of the DORA framework. The RTS, ITS relate to ICT risk management frameworks, the criteria for the classification of ICT related incidents, materiality thresholds for major incidents and significant cyber threats, digital operational resilience testing, ICT third-party arrangements management and the oversight framework.
 - The joint committee of the ESA's published consultation papers on draft ITS and RTS under Articles 15, 16, 18 and 28 of DORA on 19 June 2023, for responses by 11 September 2023.
 - The joint committee published a second set of consultation papers on 8 December, for responses by 4 March 2024, on RTS and ITS under Articles 20, 26, 30 and 41 of DORA, and guidelines under Articles 11(11) and 32(7) of DORA.

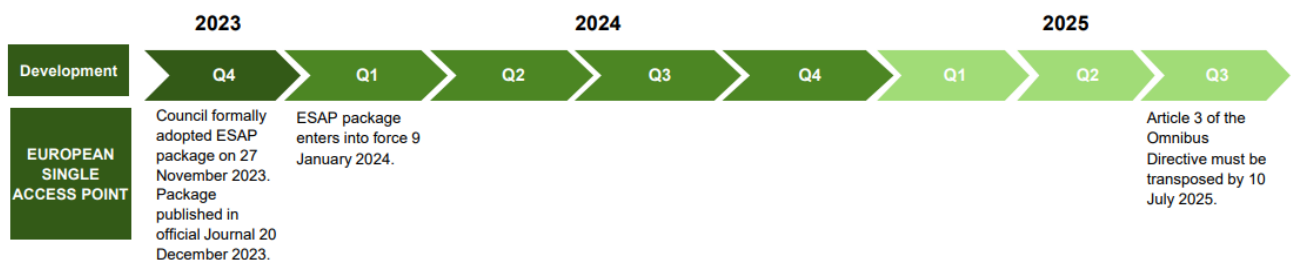
UK OPERATIONAL RESILIENCE



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

- clarify what information firms should submit when operational incidents occur; and
- collect certain information on firms' outsourcing and third party arrangements in order to manage the risks that they may present to the FCA's and PRA's objectives, including resilience, concentration and competition risks.
- Firms and FMIs have until 31 March 2025 to implement strategies, processes, and systems that enable them to address risks to their ability to remain within their impact tolerance for each important business service in the event of a severe but plausible disruption.

EUROPEAN SINGLE ACCESS POINT (ESAP)



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

BCBS update on Basel III implementation and cryptoasset prudential standard; *On 13 May, the BCBS provided an update on two key topics following a meeting of its oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS).*

- On Basel III implementation, the BCBS states that around two thirds of member jurisdictions will have implemented all, or the majority, of the standards by this year, with the remaining jurisdictions planning on doing so by next year. GHOS members unanimously reaffirmed their expectation of implementing all aspects of the Basel III framework in full, consistently and as soon as possible. Regarding the cryptoasset prudential standard, the GHOS agreed to defer implementation of the BCBS' prudential standard for banks' cryptoasset exposures by one year to 1 January 2026. As part of its ongoing monitoring of cryptoasset market developments, the BCBS consulted on a set of targeted revisions to the standard in December 2023 and will discuss whether to make any revisions to the standard later this year.
- [Press release→](#)

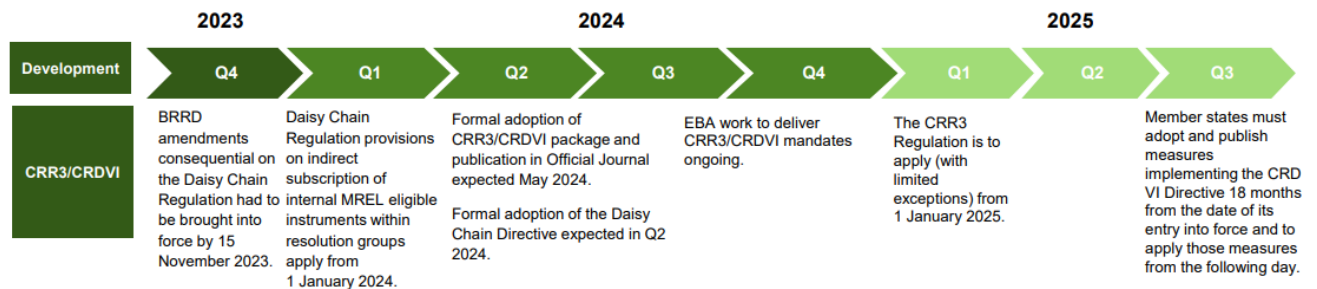
SRB 2024 MREL policy, feedback statement and latest MREL dashboard; *On 14 May, the SRB published its 2024 MREL policy and latest MREL dashboard. Among the changes, the 2024 MREL policy introduces a revised approach on internal and external Market Confidence Charge calibration and on the monitoring of MREL eligibility.*

- It also reflects the legislative changes on the MREL framework related to entities in a “daisy chain” and to liquidation entities introduced by Directive 2024/1174 (the “Daisy Chains” Directive). The Q4 2023 MREL dashboard presents the evolution of MREL targets and shortfalls in the quarter as well as the current level and composition of MREL resources. It shows that all the banks subject to targets with a deadline on 1 January were well placed to meet them. In addition, it highlights recent developments in the cost of funding and provides an overview of gross issuances of MREL-eligible instruments.
- The SRB has also published a feedback statement to its December 2023 consultation on the future of MREL. The SRB summarises the main comments raised by the respondents and sets out how they have been addressed, including in relation to: (i) the Market Confidence Charge; (ii) monitoring of eligibility; (iii) discretionary exclusions; (iv) a combination of transfer tools; and (v) longer term policy considerations.
- [Press release→](#) & [2024 MREL policy→](#)
- [Q4 2023 MREL dashboard→](#) & [Feedback statement→](#)

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.

CRR3/CRDVI

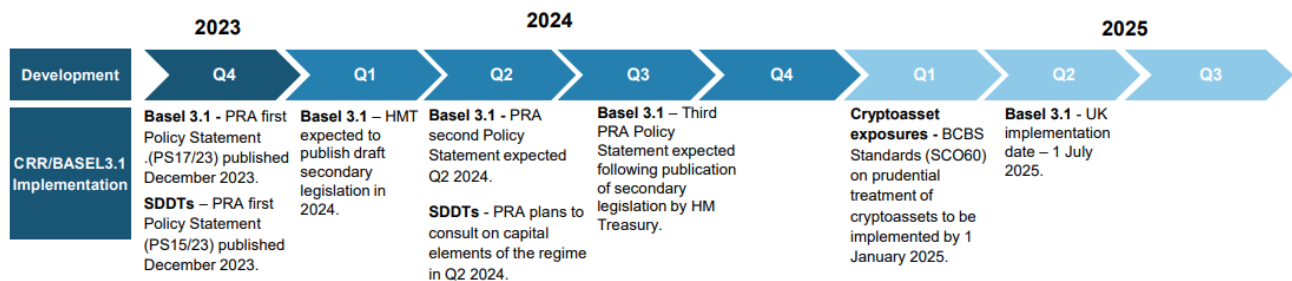


- [Revisions to the Capital Requirements Regulation \(CRR\) and the Capital Requirements Directive \(CRDIV\) known as the CRR3/CRDVI package](#) are being made to implement in the EU the final reforms agreed by the Basel Committee on Banking Supervision in December 2017 (known as Basel 3.1).
- Other revisions introduce some EU-specific measures, including on the proportionate application of the prudential regime, the fitness and propriety of senior staff, the incorporation of ESG risks within the prudential regime, and measures on supervisory powers (including authorisation and prudential supervision of third country branches).
- The so-called Daisy Chain Regulation has also made further revisions to the CRR to improve banks' resolvability, including clarifying the treatment of indirect subscription of internal MREL eligible instruments within a resolution group with a multiple point of entry resolution strategy. A further Daisy Chain Directive will be formally adopted in 2024
- Most provisions of the Daisy Chain Regulation have applied from 14 November 2022, apart from:
 - (i) provisions relating to the indirect subscription of internal MREL eligible instruments within resolution groups, which will apply from 1 January 2024;
 - (ii) Consequential amendments to the Bank Recovery and Resolution Directive (BRRD), which were required to be brought into force by member states by 15 November 2023.
- Political agreement on a directive (Daisy Chain Directive) making further targeted amendments relating to MREL was reached on 6 December 2023. Formal adoption is expected in 2024.
- Provisional agreement on the draft texts of CRR3 and CRDVI was reached in June 2023. Following further technical trilogues the final compromise texts were released in December 2023. Formal adoption is

expected in late April 2024 with publication in the Official Journal, and entry into force, expected in May 2024.

- The CRDVI includes provisions prohibiting certain activities from being conducted on a cross-border basis by non-EU ('third country') firms, requiring them to establish a branch in the EU and apply for authorisation unless they fall within an exemption. Third country branches will need to comply with prudential requirements including detailed reporting obligations.
- [The EBA has developed a roadmap for delivery of its many mandates under CRR3/CRDVI.V](#)
- Under the agreed text, Member states must adopt and publish measures implementing the CRD VI Directive 18 months from the date of its entry into force and to apply those measures from the following day. The CRR3 Regulation is to apply (with limited exceptions) from 1 January 2025.

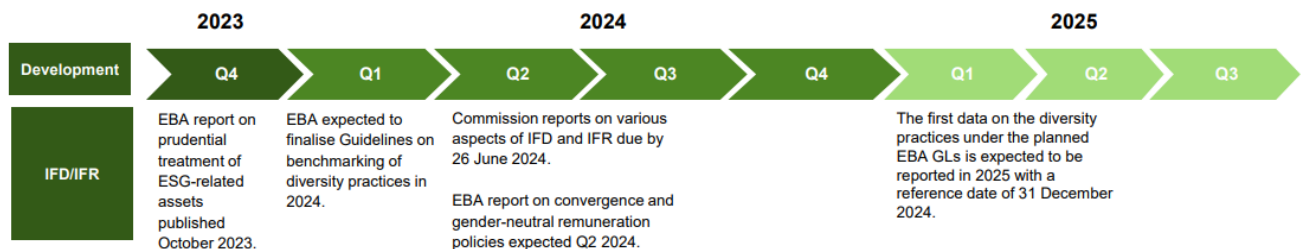
UK CRR/BASEL 3.1 IMPLEMENTATION



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

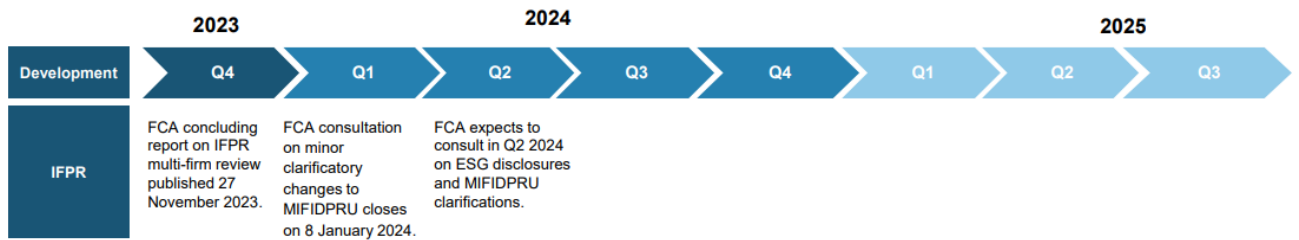
Basel 3.1 implementation, HM Treasury and the PRA will work to complete the repeal and replacement of the remainder of the prudential legislative framework as soon as possible.

EU IFD/IFR



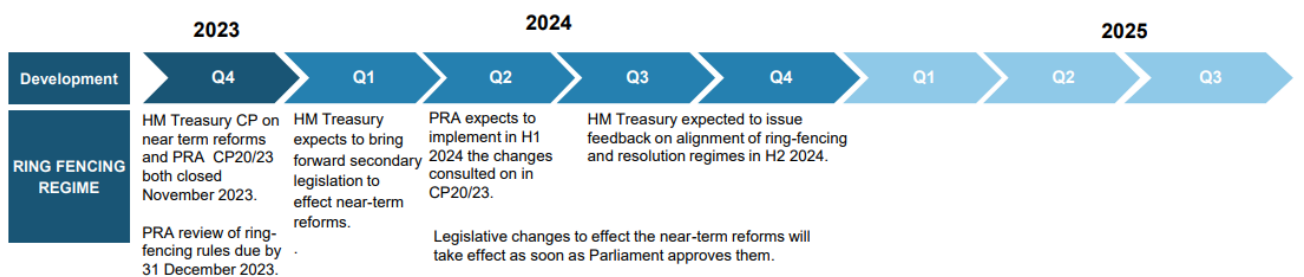
- [The Investment Firms Directive \(IFD\) and Investment Firms Regulation \(IFR\) created a new harmonised prudential regime for EU investment firms, replacing the application of the CRDIV prudential regime.](#)
- While certain larger investment firms remain treated as credit institutions and subject to the capital regime under CRDIV, firms that are not subject to CRDIV are subject to the new IFD and IFR prudential regime.
- [The IFD/IFR regime includes requirements on capital, consolidation, reporting, governance and remuneration.](#)
- The IFD and IFR are supported by a number of 'Level 2' implementing and regulatory technical standards (ITS and RTS) and 'Level 3' guidelines, not all of which have been finalised.
- An EBA report on the application of gender-neutral remuneration policies is expected in Q4 2023.
- The EBA was required to report by 26 December 2021 on whether dedicated prudential treatment of assets exposed to activities associated substantially with environmental or social objectives, in the form of adjusted K-factors or adjusted K-factor coefficients, would be justified from a prudential perspective.
- [Following a discussion paper in May 2022, In October 2023, the EBA published a report with short- and medium-term recommendations on integration of environmental and social risks in the prudential framework.](#)
- The EBA consulted between April and July 2023 on draft Guidelines on the benchmarking of diversity practices including diversity policies and gender pay gap under on the IFR and IFD. Finalised guidelines are expected in due course. EBA plans that first data on the diversity practices under these guidelines should be reported in 2025 with a reference date of 31 December 2024,
- An EBA report on the application of gender-neutral remuneration policies by investment firms is expected in Q2 2024 (originally envisaged in 2023).
- An EBA report on the degree of convergence of the application of the Chapter 2 of the IFD (Review process) among member states was expected by the end of 2023. This has not yet been published.
- The Commission is required to report on the IFD and IFR, with legislative proposals to amend the package if it considers this to be necessary, by 26 June 2024.

UK INVESTMENT FIRMS PRUDENTIAL REGIME (IFPR)



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

UK RING FENCING REGIME

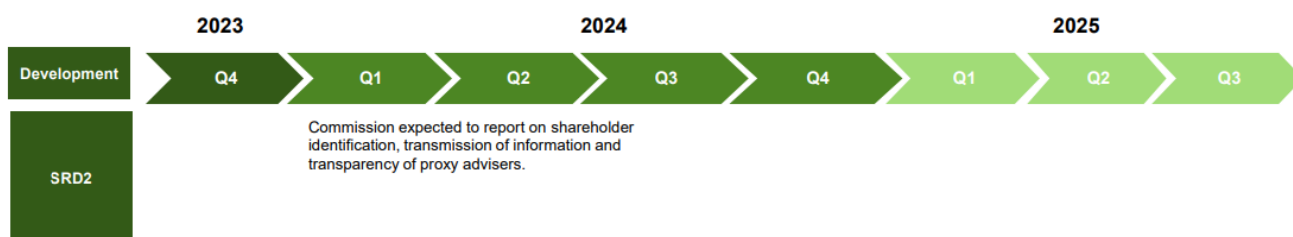


- The UK's ring-fencing regime requires banking groups within the scope of the ring-fencing requirements (those with more than £25 billion of core retail deposits) to split out their retail banking activities from their investment banking activities. This threshold is set to rise from £25 billion to £35 billion. The independent panel appointed by HM Treasury to review the operation of the regime, led by Keith Skeoch, published its report in March 2022. The panel noted that the regime has been beneficial for financial stability and should be retained, but that its benefit is likely

to reduce with time once the UK’s resolution regime is fully embedded. The panel made some recommendations for reforms to the scope of the regime, the scope of excluded activities, the restrictions on servicing relevant financial institutions and the ability of firms to establish operations or service customers outside the EEA.

- HM Treasury published its response to the panel’s recommendations in December 2022, committing to consult in 2023 on proposals for near-term reforms to the regime. [HM Treasury published its consultation on near term reforms in September 2023](#). That consultation closed on 26 November 2023.
- HM Treasury expects to bring forward in Q1 2024 the secondary legislation [\(of which a draft version was made available with the consultation\)](#) that will amend the main statutory instruments relating to ring-fencing. These are:
 - the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014 (SI 2014/1960); and
 - the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 (SI 2014/2080).
- The [PRA consulted in September 2023 \(CP20/23\)](#) on how ring-fenced banks (RFBs) should manage risks from third country subsidiaries and branches, reflecting HM Treasury's proposal to remove the legislative prohibition on RFBs having non-EEA branches and subsidiaries. That consultation closed on 27 November 2023. The PRA expects to implement the proposed changes in H1 2024.
- [HM Treasury launched a Call for Evidence on alignment of the ring-fencing regime with the resolution regime in March 2023](#), focused on the practical challenge of how the two regimes might be better aligned with each other and the wider regulatory framework. The Call for Evidence closed on 7 May 2023 and HM Treasury is expected to issue its formal response in H2 2024.
- The PRA is required under FSMA to carry out its next review of its ring-fencing rules by 31 December 2023, to report to HM Treasury on that review and to publish the report. The outcome of the review will feed into HMT and/or PRA work.

SRD2



- The original Shareholder Rights Directive (SRD) established rules promoting the exercise of shareholder rights at general meetings (GMs) of companies with offices in the EU and whose shares were admitted to trading on a regulated market within the EU.
- The revised Shareholder Rights Directive (SRD2) introduced amendments to SRD to enable shareholders to exercise voting and information rights in EU companies traded on regulated markets across the EU. Amendments to the SRD addressed perceived shortcomings relating to transparency and a lack of shareholder engagement.
- The amendments relate to the link between directors’ pay and performance, related party transactions, advice given by proxy advisers and facilitation of the cross-border exercise of voting and information rights.
- EU Member States were required to transpose SRD2’s amendments to SRD by 10 June 2019. Review clauses in Articles 3f(2) and 3k(2) of the SRD require the Commission to report on aspects of the regime.

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- 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.

Carbon Emissions, Green finance, ESG & Disclosures

Framework for development of UK Sustainability Reporting Standards and Sustainability Disclosure Requirements implementation update

On 16 May, the Department for Business & Trade published a framework and terms of reference for the development of UK Sustainability Reporting Standards. The framework sets out how the government will assess and decide whether to endorse the IFRS Sustainability Disclosure Standards for use within a UK context, as well as the associated roles and responsibilities of the UK government, UK regulators, standard-setters and advisory committees. The UK government aims to make endorsement decisions on the first two standards by Q1 2025. Endorsement does not legally oblige companies to follow the standard, but they may do so voluntarily. Once there is an affirmative endorsement decision, the FCA, subject to a consultation process, will be able to introduce requirements for UK-listed companies to report sustainability-related information to their investors using the standard. The FCA is empowered to determine the scope of companies that will be subject to the requirements as well as any exemptions. The government will decide on disclosure requirements against the endorsed standards for UK companies (i.e. registered companies) that do not fall within the FCA's regulatory perimeter, implementation of which will be by legislation. To assist with this process, the UK government has established a Policy and Implementation Committee (PIC), the membership of which will consist of UK government departments, UK regulators and UK standard setters. The terms of reference for the PIC are included in the document. HMT have also published an implementation update on its Sustainability Disclosure Requirements (SDR). The update sets out a timeline for the next steps on SDR, including in relation to: (i) transition plan disclosures – the FCA plans, through its consultation on implementing UK-endorsed ISSB standards, to consult on strengthening its expectations for transition plan disclosures with reference to the TPT Disclosure Framework; and (ii) SDR and investment labels – the government intends to consult in Q3 2024 on whether to broaden the scope of SDR to include funds under the Overseas Funds Regime.

[Framework and terms of reference](#) → & [UK Sustainability Reporting Standards webpage](#) → & [SDR implementation update](#) →

Three NGFS reports on Sustainable and Responsible Investment for Central Banks

On 16 May, the NGFS published a cover report and two technical documents on Sustainable and Responsible Investment (SRI) in central banks' portfolio management. The cover report "Sustainable and Responsible Investment in central banks' portfolio management – practices and recommendations" provides ten recommendations for central banks to deepen their understanding of SRI policies and improve their SRI practices. While accommodating central banks' own constraints, the report recommends ways of including sustainability considerations in governance frameworks, and of measuring the exposure to sustainability risks. It also offers guidance for central banks to implement their SRI policies and to integrate sustainability considerations in reporting practices and evaluation processes. The two technical documents provide deep dives into ways for central banks to take climate change into account in their non-monetary investments in corporates or in sovereign debt. The first technical document, "Decarbonisation strategies for corporate portfolios of central banks", discusses how central banks can integrate net-zero considerations into their investments in equity and corporate bonds. It also explores several challenges that central banks face when implementing these strategies. The second, "Considering climate-related risks and transition impact in the sovereign investments of central banks", looks at sovereign debt. It describes available metrics that can inform strategies to capture climate-related risks, opportunities, and impacts on central banks' sovereign holdings. It also offers advice on implementing these strategies.

[Press release](#) → & [Cover report](#) →

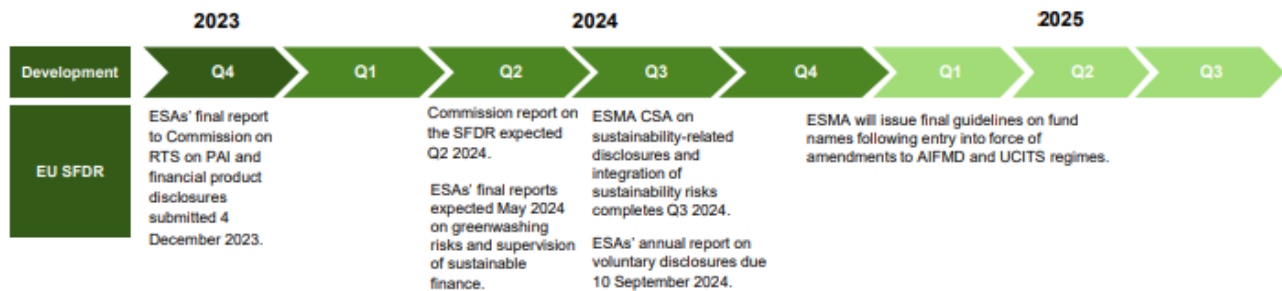
[Technical document – Decarbonisation strategies](#) → & [Technical document – Sovereign investments](#) →

ESMA guidelines on funds' names using ESG or sustainability-related terms

On 14 May, ESMA published a final report on its guidelines on fund's names using ESG or sustainability-related terms. The objective of the guidelines is to ensure that investors are protected against unsubstantiated or exaggerated sustainability claims in fund names, and to provide asset managers with clear and measurable criteria to assess their ability to use ESG or sustainability-related terms in fund names. The guidelines establish that to be able to use these terms, a minimum threshold of 80% of investments should be used to meet environmental, social characteristics or sustainable investment objectives. The guidelines also apply exclusion criteria for different terms used in fund names: (i) "Environmental", "Impact" and "sustainability"-related terms – exclusions according to the rules applicable to Paris-aligned Benchmarks; and (ii) "Transition", "Social" and "Governance"-related terms – exclusions according to the rules applicable to Climate Transition Benchmarks. In cases of a combination of terms, use of transition, sustainability- and impact-related terms, and for funds designating an index as a reference benchmark, further criteria are specified in the guidelines. ESMA also provides a summary of the responses it received to its consultation and an explanation of the approach taken to address the comments received. The guidelines will be translated into all EU languages and will subsequently be published on ESMA's website. They will start applying three months after that publication, subject to some transitional provisions for funds existing before that date.

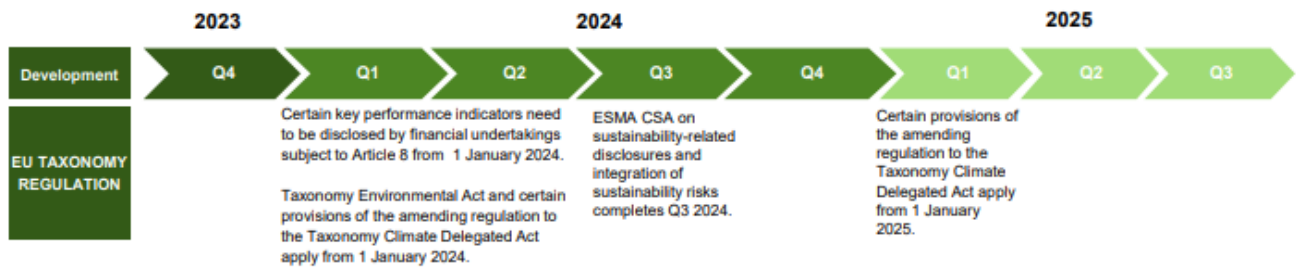
[Press release](#) → & [Final report](#) →

EU SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)



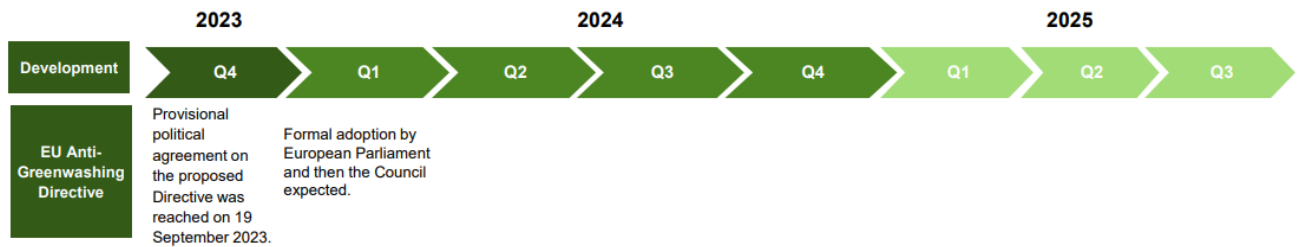
- The Sustainable Finance Disclosure Regulation (SFDR) sets out harmonised rules on disclosures to investors regarding the integration of sustainability risks and the consideration of adverse sustainability impacts in investment decision-making and investment advice.
- Whilst many of SFDR's provisions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



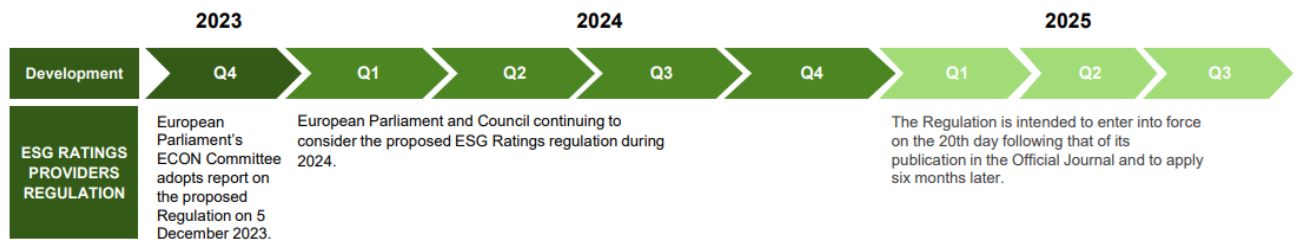
- [The Taxonomy Regulation sets out criteria that an activity must satisfy to be referred to as 'environmentally sustainable'](#). Two such criteria are that the activity must contribute substantially to at least one 'environmental objective' and that the activity must not significantly harm an 'environmental 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 UCPCD



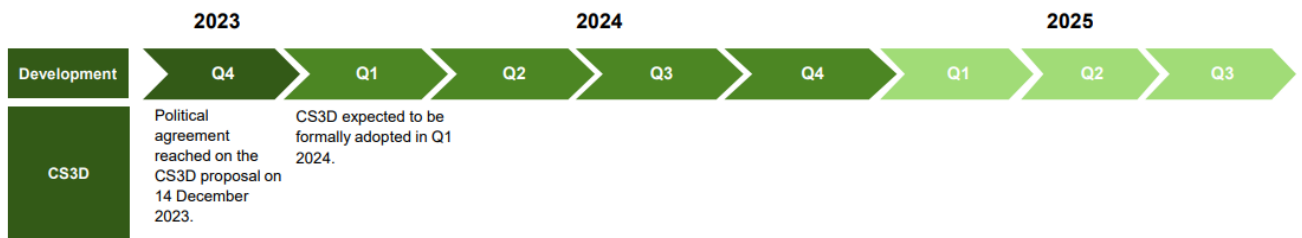
- **Anti-Greenwashing Directive;** A priority measure in the Commission’s 2023 Work Programme, the proposed Directive on Empowering Consumers for Green Transition (referred to as the Anti-Greenwashing Directive) is proceeding through the EU legislative process. The new Directive aims to strengthen consumer rights and protections with respect to commercial practices, including greenwashing, that prevent sustainable purchases.
- The Directive will amend the Unfair Commercial Practices Directive (UCPD) to:
 - extend the list of product characteristics about which a trader cannot mislead consumers to cover the environmental or social impact;
 - extend the list of actions which are to be considered misleading if they cause or are likely to cause the average consumers to take a transactional decision that they would not have otherwise taken; and
 - add new practices, including forms of greenwashing, to the existing ‘blacklist’ of prohibited unfair commercial practice.
- In March 2022, the Commission published a package of proposed measures as part of its New Consumer Agenda and Circular Economy Action Plan, aimed at making sustainable products the norm in the EU, boosting circular business models, and empowering consumers for the green transition.
- **The proposed Directive on Empowering Consumers for Green Transition (Anti-Greenwashing Directive)** is designed to ensure consumers take informed and environment-friendly decisions when buying products, and the rules strive to strengthen consumer protection against untrustworthy or false environmental claims by banning greenwashing and other practices that mislead consumers.
- The Council adopted its negotiating mandate on the proposed Directive on 3 May 2023. The European Parliament adopted its position at its plenary meeting of 11 May 2023. Provisional political agreement on the proposed Directive was reached on 19 September 2023 and the final compromise text was agreed in October 2023. Formal adoption of the Directive is awaited.
- Once adopted the Directive will enter into force on the 20th day following its publication in the Official Journal. The final compromise texts proposal envisages a 24-month transposition period with the Directive applying 30 months after its entry into force.

EU REGULATION OF ESG RATINGS PROVIDERS



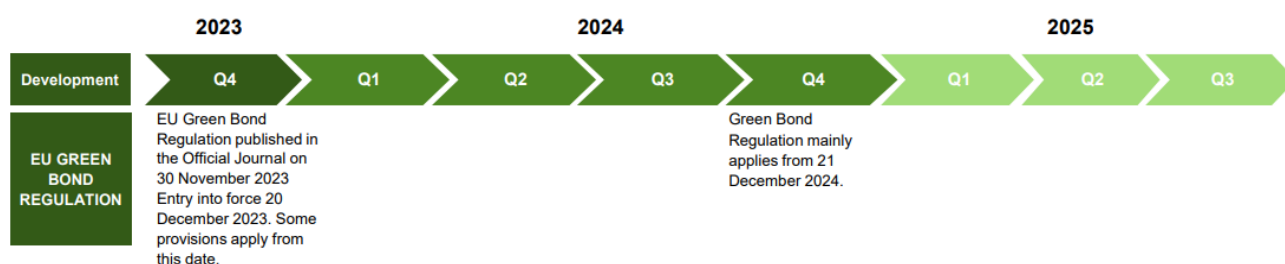
- EU regulation of ESG ratings; providers ESG ratings providers offer products that opine on the ESG characteristics or exposure of products and firms.
- Provision of ESG ratings plays an important role in the ESG ecosystem but is not currently regulated at EU level.
- Following a consultation and call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

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



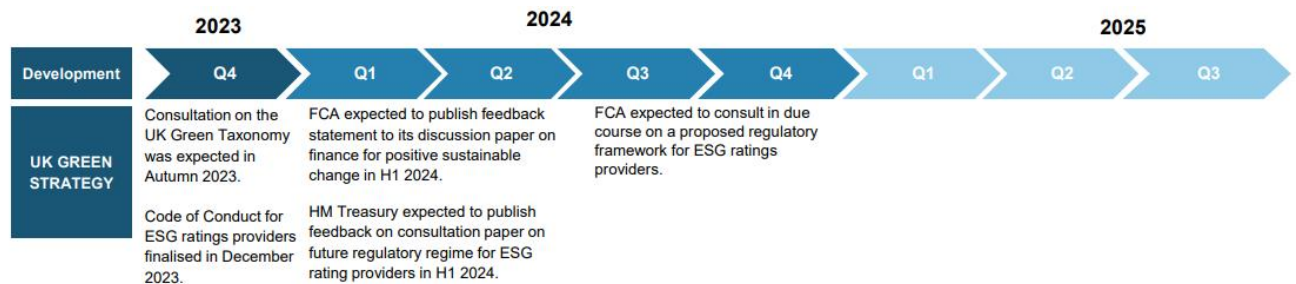
- [The Corporate Sustainability Due Diligence Directive \(CS3D\) sets out an EU legal framework on sustainable corporate governance, including cross-sector corporate due diligence along global value chains.](#)
- [The main effect of the CS3D will be to introduce obligations on in-scope EU and non-EU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

[EU GREEN BOND REGULATION](#)



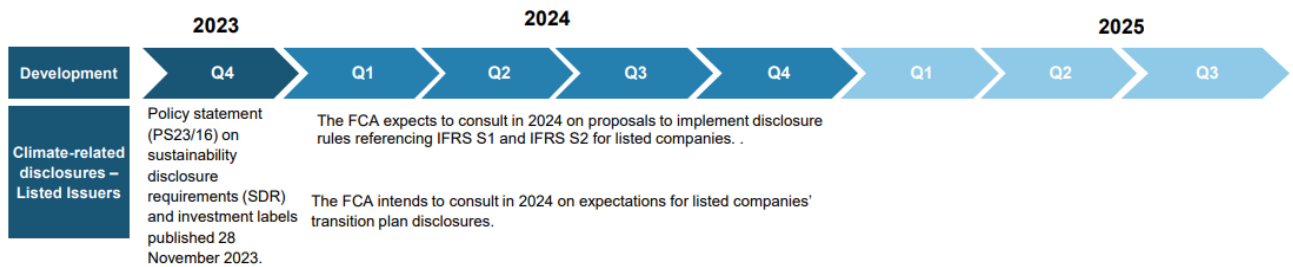
- [The Commission published its proposal for an EU Green Bond Standard \(EuGBS\) in July 2021V](#) and [political agreement was reached in February 2023](#). The Regulation was formally adopted in October 2023 and published in the Official Journal on 30 November 2023.
- [The EU Green Bond Regulation 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](#)



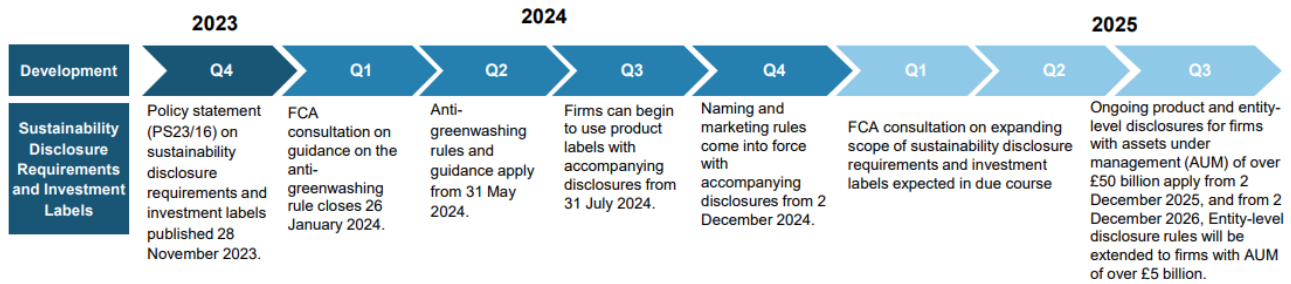
- [The UK is reforming its financial services regulation outside the EU and working towards a 'Smarter Regulatory Framework' for UK financial services.](#)
- The three key elements for the reforms are:
 - (i) FSMA 2023, which will revoke EU-derived financial services and markets legislation;
 - (ii) 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](#)



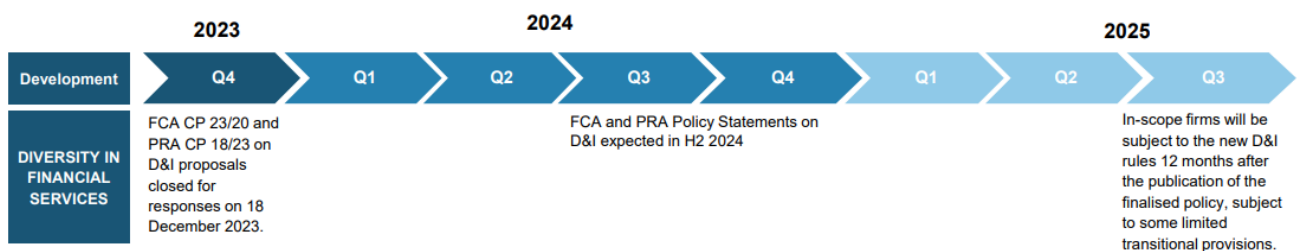
- [Climate-related disclosures – listed issuers; On 17 December 2021, the FCA published its final rules on extending the application of its climaterelated disclosure requirements from equity issuers with a premium listing to issuers of standard listed shares and standard listed issuers of \(GDRs\), in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



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

UK DIVERSITY IN FINANCIAL SERVICES



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

Roundup of Global ESG Developments

Framework for development of UK Sustainability Reporting Standards and Sustainability Disclosure Requirements implementation update

- On 16 May, the Department for Business & Trade published a framework and terms of reference for the development of UK Sustainability Reporting Standards. The framework sets out how the government will assess and decide whether to endorse the IFRS Sustainability Disclosure Standards for use within a UK context, as well as the associated roles and responsibilities of the UK government, UK regulators, standard-setters and advisory committees. The UK government aims to make endorsement decisions on the first two standards by Q1 2025. Endorsement does not legally oblige companies to follow the standard, but they may do so voluntarily.
- Once there is an affirmative endorsement decision, the FCA, subject to a consultation process, will be able to introduce requirements for UK-listed companies to report sustainability-related information to their investors using the standard. The FCA is empowered to determine the scope of companies that will be subject to the requirements as well as any exemptions. The government will decide on disclosure requirements against the endorsed standards for UK companies (i.e. registered companies) that do not fall within the FCA's regulatory perimeter, implementation of which will be by legislation.
- To assist with this process, the UK government has established a Policy and Implementation Committee (PIC), the membership of which will consist of UK government departments, UK regulators and UK standard setters. The terms of reference for the PIC are

included in the document. HMT have also published an implementation update on its Sustainability Disclosure Requirements (SDR). The update sets out a timeline for the next steps on SDR, including in relation to: (i) transition plan disclosures – the FCA plans, through its consultation on implementing UK-endorsed ISSB standards, to consult on strengthening its expectations for transition plan disclosures with reference to the TPT Disclosure Framework; and (ii) SDR and investment labels – the government intends to consult in Q3 2024 on whether to broaden the scope of SDR to include funds under the Overseas Funds Regime.

- [Framework and terms of reference](#) → & [UK Sustainability Reporting Standards webpage](#) → & [SDR implementation update](#) →

Three NGFS reports on Sustainable and Responsible Investment for Central Banks

- On 16 May, the NGFS published a cover report and two technical documents on Sustainable and Responsible Investment (SRI) in central banks' portfolio management. The cover report "Sustainable and Responsible Investment in central banks' portfolio management – practices and recommendations" provides ten recommendations for central banks to deepen their understanding of SRI policies and improve their SRI practices. While accommodating central banks' own constraints, the report recommends ways of including sustainability considerations in governance frameworks, and of measuring the exposure to sustainability risks. It also offers guidance for central banks to implement their SRI policies and to integrate sustainability considerations in reporting practices and evaluation processes.
- The two technical documents provide deep dives into ways for central banks to take climate change into account in their non-monetary investments in corporates or in sovereign debt. The first technical document, "Decarbonisation strategies for corporate portfolios of central banks", discusses how central banks can integrate net-zero considerations into their investments in equity and corporate bonds. It also explores several challenges that central banks face when implementing these strategies.
- The second, "Considering climate-related risks and transition impact in the sovereign investments of central banks", looks at sovereign debt. It describes available metrics that can inform strategies to capture climate-related risks, opportunities, and impacts on central banks' sovereign holdings. It also offers advice on implementing these strategies.
- [Press release](#) → & [Cover report](#) →
- [Technical document – Decarbonisation strategies](#) → & [Technical document – Sovereign investments](#) →

ESMA guidelines on funds' names using ESG or sustainability-related terms

- On 14 May, ESMA published a final report on its guidelines on fund's names using ESG or sustainability-related terms. The objective of the guidelines is to ensure that investors are protected against unsubstantiated or exaggerated sustainability claims in fund names, and to provide asset managers with clear and measurable criteria to assess their ability to use ESG or sustainability-related terms in fund names. The guidelines establish that to be able to use these terms, a minimum threshold of 80% of investments should be used to meet environmental, social characteristics or sustainable investment objectives.

- The guidelines also apply exclusion criteria for different terms used in fund names: (i) “Environmental”, “Impact” and “sustainability”-related terms – exclusions according to the rules applicable to Paris-aligned Benchmarks; and (ii) “Transition”, “Social” and “Governance”-related terms – exclusions according to the rules applicable to Climate Transition Benchmarks. In cases of a combination of terms, use of transition, sustainability- and impact-related terms, and for funds designating an index as a reference benchmark, further criteria are specified in the guidelines. ESMA also provides a summary of the responses it received to its consultation and an explanation of the approach taken to address the comments received.
- The guidelines will be translated into all EU languages and will subsequently be published on ESMA’s website. They will start applying three months after that publication, subject to some transitional provisions for funds existing before that date.
- [Press release](#) → & [Final report](#) →

This spring has seen an abundance of ESG policy news, with regulators globally delivering long-anticipated updates, from the final UK FCA Greenwashing Guidance, to ESMA’s guidelines on sustainability-related fund names to Hong Kong’s new sustainable finance taxonomy and finalised climate-disclosure rules.

- The ocean agenda also made waves this month with momentum on the ratification of the [Biodiversity of Areas Beyond National Jurisdiction Treaty](#) (BBNJ), otherwise known as the High Seas Treaty. With Monaco being the latest to ratify the treaty, the total number of ratifying states has reached [5 of the 60](#) needed to bring the treaty into force. While progress is relatively slow, there’s reason to be optimistic, with the EU Parliament also [voting](#) in favour of ratification at the end of April. This month also saw the penultimate round of negotiations for a [Global Plastics Treaty \(INC-4\)](#), with a mixed bag of outcomes (some commentary on the developments can be accessed [here](#)). Notably, the final negotiations scheduled for the end of the year, will need to finalise agreement on the scope of the treaty and whether it will capture and regulate the full lifecycle of plastic, including its production.
- Meanwhile in the UK, in an effort to paint a vision for the blue agenda the Crown Estate, in partnership with a consortium of ocean stakeholders including the Blue Marine Foundation, published a [roadmap to unlock vital investment in the protection and restoration of marine and coastal ecosystems](#) - an insightful read for those looking to accelerate investment into this space. Don’t forget, you can dive further into the blue economy by tuning into our podcast series [Seas of opportunity: navigating the Blue Economy](#) where you can check out my [recent conversation with Mere Takoko](#), founder of the [Hinemoana Halo Ocean Initiative](#) as we explore the power of Indigenous voices and local communities in safeguarding our blue ecosystems.
- In breaking news, just this week, the International Tribunal for the Law of the Sea (ITLOS) issued a ground-breaking advisory opinion on the legal duty of states to mitigate climate change. Having been a humble intern at ITLOS nearly 20 years’ ago, it is wonderful to see ITLOS lead the charge as the first international court to issue such an explicit opinion. Now the baton passes to the ICJ who is also due to opine on the topic.
- From blue to black, this month saw the G7 make its first collective and time-bound [commitment](#) to phase out unabated coal power, which could mark a significant step change for global climate progress, as G7 economies account for [25% of global CO2 emissions](#). This news comes in the wake of an encouraging [analysis](#) by the IEA that clean

energy represented 10% of global GDP growth and accounted for around 80% of new capacity additions to the world's electricity system in 2023.

GLOBAL DEVELOPMENTS

1. International Sustainability Standards Board (ISSB) updates (multi-sector); *Developments on biodiversity, ecosystems and ecosystem services and human capital*

- **What:** On 24 April, the ISSB [announced](#) it will commence projects to research disclosure about risks and opportunities associated with biodiversity, ecosystems and ecosystem services and human capital. The ISSB will focus on the common information needs of investors in assessing whether and how these risks and opportunities could reasonably be expected to affect a company's prospects. The ISSB will look at how it might build from relevant pre-existing initiatives, including the [SASB Standards](#), [CDSB](#) guidance and the Taskforce on Nature-related Financial Disclosures ([TNFD](#)).
- **Next steps:** The ISSB expects to publish a summary of market feedback and its work plan for the next two years in June, as an output from its Request for Information [Consultation](#) on Agenda Priorities which closed on 1 September 2023.
- *ISSB Taxonomy*
- **What:** On 30 April, the ISSB published the IFRS Sustainability Disclosure Taxonomy ([ISSB Taxonomy](#)), which aims to enable investors and other capital providers to efficiently analyse sustainability-related financial disclosures.
- **Key details:** The ISSB Taxonomy is designed to be consistent with the [IFRS Accounting Taxonomy](#) and compatible with other digital taxonomies, so that companies can provide a holistic digital financial reporting package to investors. As such, it does not introduce new requirements and is developed to complement a company's compliance with the IFRS S1 and IFRS S2, enabling companies to consistently tag information prepared using [ISSB Standards](#). The process of tagging will make the information computer-readable, enabling investors to extract, compare and analyse it more efficiently and will allow investors to compare sustainability-related financial information in a digital format.

2. NGFS publishes package of reports relating to transition plans (financial institutions)

- **What:** On 17 April, the Network for Greening the Financial System (NGFS) published three reports and a [cover note](#), furthering its work on transition plans. These updates address the role of transition plans in enabling the financial system to mobilise capital, manage climate-related financial risks, and the relevance of transition plans to micro-prudential supervision.
- **Key details:** The three reports published comprise:
 - [Tailoring Transition Plans: Considerations for EMDEs](#) which explores the needs and challenges of emerging market and developing economies (EMDEs) related to transition plans;
 - [Connecting Transition Plans: Financial and non-financial firms](#) which assesses the interlinkages between the transition plans of the real economy and financial institutions; and
 - [Credible Transition Plans: The micro-prudential perspective](#) which examines the credibility of financial institutions' transition plans and processes from a micro-prudential perspective.

- The reports identify three key action areas that can support the global adoption of transition plans:
 - i. developing international guidance for transition planning and interacting frameworks for the disclosure of transition plans,
 - ii. holistic transition plans which integrate both transition and physical aspects of climate change while considering the ongoing loss of nature; and
 - iii. enabling conditions for adopting plans, such as national climate frameworks and economy wide incentives to develop and disclose transition plans.
- The reports are intended to deepen collective understanding on issues and to help firms to mature their approach to transition planning.

3. Update of Basel Core Principles for effective banking supervision (financial institutions)

- **What:** On 24-25 April, the revised [Core Principles for effective banking supervision](#) were endorsed at the 23rd International Conference of Banking Supervisors in Basel, Switzerland and are now the minimum standard for sound prudential regulation and supervision of banks and banking systems.
- **Key details:** The Core Principles are:
 - universally applicable;
 - accommodating various banking systems; and
 - regulating a broad range of banks.
- These principles are used by supervisors to evaluate the effectiveness of their regulatory and supervisory frameworks and by the International Monetary Fund (IMF) and World Bank in the Financial Sector Assessment Program (FSAP) to assess banking supervisory systems and practices.
- The recent update to the global banking supervision principles includes, for the first time, climate change as a potentially material risk to financial stability. This means that both regulators and banks are now required to identify and address risks associated with climate change. This inclusion underscores the growing recognition of environmental factors in financial oversight.
- **Timing:** The updated Core Principles standard is effective immediately as they have been embedded within the consolidated [Basel Framework](#).

EUROPEAN DEVELOPMENTS

1. A flurry of sustainability-focused progress by the European Parliament (multi-sector)

- **What:** This month saw a surge of activity in Europe with several initiatives being voted through European Parliament (EP) across multiple sectors, representing a leap forward in the drive for more sustainable outcomes.
- **Key details:** Outlined below are some key EU sustainability updates observed over the past few weeks.
 - EP [approved](#) the [CSDDD](#), with 374 votes against 235 and 19 abstentions. Following its publication in the Official Journal, it will start to apply to in-scope firms from

2027. (See our latest briefing [here](#)). The final sign-off from the European Council on the regulation is scheduled for 24 May.

- The EP [adopted](#) measures to make packaging more sustainable and reduce packaging waste in the EU. The [rules](#) include packaging reduction targets: 5% by 2030, 10% by 2035 and 15% by 2040.
- EP [approved](#) the Net-Zero Industry Act ([NZIA](#)) which aims to bolster EU production in technologies needed for decarbonisation. The NZIA sets a target for Europe to produce 40% of its annual deployment needs in net-zero technologies by 2030, based on National Energy and Climate Plans and to capture 15% of the global market value for these technologies.
- EP approved new [eco-design rules](#), to make products sold in the EU more reusable, repairable, upgradeable and recyclable.
- Following our recent update in [April ESG View](#), the [Environmental Crimes Directive](#) was [published](#) in the Official Journal and entered into force on 20 May. Member States are required to implement the requirements by 21 May 2026 and publish a national strategy on combatting environmental criminal offences by 21 May 2027.
- The EP granted its [final approval](#) to a new regulation enabling the [EU to prohibit the sale, import, and export of goods made using forced labour](#).
- The EP also agreed to [withdraw](#) from the [Energy Charter Treaty](#) as it considers the Treaty to be no longer compatible with the EU's climate goals under the European Green Deal and the Paris Agreement, predominantly due to concerns over continued fossil fuel investments.
- In May, there has also been advocacy for momentum on the stalled EU Nature Restoration Law (see our [April ESG View](#) for details), with 11 EU Member States signing a [letter](#) urging other States to approve the regulation at the upcoming Environmental Council meeting on 17 June. We will be tracking this development into next month.
- This was a final push by the EP ahead of the long slumber that will likely prevail over the EU policy-making machinery given the summer break and upcoming EU parliamentary elections.

2. ESMA has published its Guidelines on fund names using ESG or sustainability-related terms (asset management)

- **What:** On 14 May the European Securities and Markets Authority (ESMA) published its Final Report containing [guidelines](#) (the Guidelines) on fund names using ESG or sustainability-related terms.
- **Key details:** The Guidelines are applicable to asset managers, including UCITS Management Companies, Alternative Investment Fund Managers (AIFMs) and self-managed collective investment schemes, imposing a minimum threshold of 80% of investments which should be used to meet environmental, social characteristics or sustainable investment objectives. The Guidelines also include a number of exclusion criteria for different terms used in fund names. Funds that include ESG terms in their name will need to either comply with the restrictions or amend their name. For more detail and our Top 10 talking points arising from the Guidelines, see our latest note [here](#).
- **Next steps:** The Guidelines will apply three-months after the date of their publication on ESMA's website in all EU official languages and as this timing may vary, firms are advised to monitor progress of the updated published translations. Managers of any new funds

created after the date of application of the Guidelines should apply them immediately in respect of those funds. Managers of funds existing before the date of application should apply the Guidelines in respect of those funds six months from the application date.

3. European Commission summary report of SFDR consultations (asset management)

- **What:** On 3 May, the European Commission published a [Summary Report](#) of the responses to its September 2023 [consultations](#) on the Sustainable Finance Disclosure Regulation (SFDR), (see our previous briefing [here](#)).
- **Key details:** Whilst the report does not provide the substantive views of the Commission, the feedback provides useful insights on perceived areas of uncertainty and potential areas of development for SFDR 2.0. Outlined below are a few key insights from the report.
 - *Uniform disclosures:* There is clear support for setting uniform disclosures for all financial products in the EU as well as additional reporting for products making sustainability claims. 89% of respondents support the broad objectives of the SFDR and the need for sustainability disclosures and 94% supported measures at EU, rather than national, level.
 - *Entity-level disclosures:* Most financial market participants and financial advisers did not consider it appropriate to include entity-level disclosure requirements in the SFDR. There were also split opinions on how useful such disclosures are in practice. Most respondents supported simplifying the entity-level requirements and streamlining these across other pieces of EU legislation.
 - *Support for a categorisation system:* There was support for a new EU-wide voluntary classification system for financial products. The majority of investment management industry respondents supported removing the Articles 8 and 9 categories in the SFDR and creating new categories of products based on investment strategy. It was also suggested that any criteria and indicators should, where possible, leverage the existing sustainable finance framework.
- **Next steps:** The report does not provide timing for when any new rules might be published but we expect this is unlikely to be before the end of 2024 following the appointment of the new EU Commission in autumn.

UK DEVELOPMENTS

1. FCA anti-greenwashing guidance (financial institutions)

- **What:** On 23 April, the FCA published its finalised guidance ([FG24/3](#)) on its new "anti-greenwashing rule" which was introduced as part of the package of measures establishing the Sustainability Disclosure Requirements (SDR) regime.
- **Key details:** The guidance is intended to help firms understand the FCA's expectations under the anti-greenwashing rule and provides examples as to how to implement the rule in practice. The rule itself provides that all communications an authorised firm makes to UK persons about the 'sustainability' characteristics of its financial products and services must be consistent with the sustainability characteristics of their financial product or service. It must also be fair, clear, and not misleading in respect of all communications (including financial promotions communicated by the firm) about financial products or services where they refer to environmental and/or social characteristics. The scope is therefore broad and

is intended to complement existing provisions in the FCA Handbook concerning client communications. The rule applies to all UK authorised firms and in respect of any UK client.

- **Next steps:** The rule and guidelines will apply from 31 May. Noting the fast-approaching deadline, firms should review their investor communications to ensure compliance with the anti-greenwashing rule and guidance and should ensure that existing measures taken to substantiate claims are documented in their policies and procedures are sufficient. See more on this development [here](#).
- Firms should also note the upcoming FCA TCFD reporting deadline of 30 June for in-scope Phase 2 asset managers. For how we can help, see [here](#).

2. UK framework on sustainability reporting standards (multi-sector)

- **What:** On 16 May, the Department for Business and Trade published a [framework](#) and terms of reference for the development of UK Sustainability Reporting Standards. The framework sets out the assessment, endorsement and implementation process for the IFRS Sustainability Disclosure Standards published on 26 June 2023 ([IFRS S1 and IFRS S2](#)).
- **Key details:** The framework clarifies that each standard issued by the ISSB requires analysis and assessment to determine its appropriateness for use within a UK context, prior to an endorsement decision. To assist with the assessment and endorsement of IFRS S1 and IFRS S2, the government has established:
 - an independent Technical Advisory Committee (TAC), whose purpose is to assess IFRS Sustainability Disclosure Standards on a technical basis and provide independent recommendations on endorsement to the Secretary of State for Business and Trade; and
 - a Policy and Implementation Committee (PIC), which is formed of UK government and regulator representatives.
- **Next steps:** The government aims to make endorsement decisions on IFRS S1 and IFRS S2 by the first quarter of 2025.

MIDDLE EAST AND AFRICA DEVELOPMENTS

1. ICMA, IsDB and LSEG publish Guidance on Green, Social and Sustainability Sukuk (financial institutions)

- **What:** On 29 April, the International Capital Market Association (ICMA), the Islamic Development Bank (IsDB), and the London Stock Exchange Group (LSEG) published the [Guidance on Green, Social, and Sustainability Sukuk](#) (the Guidance). This initiative, first developed at COP28 in December 2023, aims to stimulate the sustainable sukuk market which, as of 2023, has seen seven consecutive years of growth.
- **Key details:** The Guidance aims to:
 - inform issuers and other market participants about the criteria for classifying sukuk as green, social, or sustainable, in line with the ICMA Principles;
 - improve global investor understanding of sukuk as an asset class; and
 - enable global bond and sukuk issuers to access sustainable capital more easily, thereby supporting the achievement of the United Nations' Sustainable Development Goals.

- The Guidance outlines the application of the three sukuk types including: the Green Sukuk (instruments that fund or refinance eligible green projects); the Sustainability Sukuk (instruments where the proceeds are allocated to a combination of Sharia-compliant green and social projects); and the Social Sukuk (instruments that fund or refinance eligible social projects that are sharia compliant).
- The Guidance provides a high-level step-by-step process for issuers to issue a sustainable sukuk. It emphasises the creation of a sustainable financing framework based on four key pillars: Use of Proceeds; Process for Project Evaluation and Selection; Management of Proceeds; and finally Allocation and Impact Reporting.

2. South African Reserve Bank publishes Guidance Notices on climate risk and disclosure for banks and insurers (financial services)

- **What:** The Prudential Authority (PA) of the South African Reserve Bank (the supervisory arm of the bank), has published finalised Guidance Notices on how to manage climate-related governance and risk practices for [banking](#) and [insurance](#), as well as on climate-related disclosures for [banking](#) and [insurance](#). This Guidance was previously published for public consultation in August 2023.
- **Key details:** Both Guidance Notices have been designed to align closely with international standards, including the ISSB framework. The guidance on climate-related governance and risk practices requires that banks and insurers adopt appropriate governance foundations for climate-related risks and ensure an integrated approach to climate risk management. Notably, the guidance states that firms should undertake climate transition planning as part of their climate risk management processes.
- The climate-related disclosure Guidance Notices mirror the structure and pillars of TCFD and ISSB frameworks by including: “governance”, “strategy”, “risk management”, and “metrics and targets”. The Notices also include “*additional considerations*” with country-specific requirements, including reporting on whether and how scenarios consider South Africa-specific context and transition pathways and references to the South African green finance taxonomy.
- **Our view:** The Guidance Notices, while not legally enforceable, provide “*minimum expectations*” of firms and the PA will be monitoring implementation. The PA has said that “*climate-related disclosures are expected to become mandatory over time*”; therefore firms should be proactively engaging with the guidance and looking to implement.

APAC DEVELOPMENTS

1. Hong Kong publishes a Taxonomy for Sustainable Finance (multi-sector)

- **What:** On 3 May, the Hong Kong Monetary Authority (HKMA) published the [Hong Kong Taxonomy for Sustainable Finance](#) (Hong Kong Taxonomy) to enable informed decision-making on green and sustainable finance and facilitate relevant financial flows.
- **Key details:**
 - The Hong Kong Taxonomy encompasses 12 economic activities under four sectors namely power generation, transportation, construction, and water and waste management. It provides a standardised framework for classifying and labelling financial products and investments based on their environmental sustainability.

- The Hong Kong Taxonomy considers taxonomy developments in other jurisdictions, including Mainland China, the EU and the ASEAN. The key taxonomies referenced are the Common Ground Taxonomy (CGT), the EU Taxonomy, the Green Bond Endorsed Projects Catalogue, ASEAN Taxonomy and the Climate Bonds Taxonomy (CBT).
- To cater for the local circumstances and activities in Hong Kong, some metrics or thresholds have not been previously featured in any other taxonomies, have been included for example, “Construction of New Buildings”.
- To facilitate users to understand and apply the Hong Kong Taxonomy, a [supplemental guidance](#) has been prepared to provide background information, cases for illustrative purposes, and responses to frequently asked questions.
- **Next steps:** The financial sector is urged to use the Hong Kong Taxonomy to assess the greenness of projects and assets when labelling and developing products and making disclosures. The HKMA will seek to expand the coverage of the taxonomy to include more sectors and activities, including transition activities.

2. Hong Kong publishes conclusions to its consultation on climate-related disclosures (multi-sector)

- **What:** On 19 April, the Stock Exchange of Hong Kong (the Exchange) published the [conclusion paper](#) to its consultation on climate-related disclosures (the New Climate Requirements), undertaken last year (see our [May 2023 ESG View](#)), along with [Implementation Guidance for Climate Disclosure](#). The New Climate Requirements were closely informed by the ISSB’s IFRS S2 standards and align with Hong Kong’s vision statement for sustainable disclosure (as covered in our [April ESG View](#)).
- **Key details:** Some of the key developments to note are outlined below.
 - The New Climate Requirements were adjusted to take greater account of IFRS S2. In particular, implementation reliefs including proportionality and scaling-in measures have been introduced to address concerns over the reporting challenges that some issuers may face. Full details of amended text are outlined within the conclusion paper.
 - The Exchange has opted to introduce disclosure requirements with a phased approach:

	New Climate Requirements Effective Date	
	Disclosure on Scope 1 and scope 2 greenhouse gas emissions	Disclosure other than scope 1 and scope 2 greenhouse gas emissions
LargeCap Issuers (Hang Seng Composite LargeCap Index constituents)	Mandatory disclosure	“Comply or explain”: in financial years commencing on or after 1 January 2025 Mandatory disclosure: in financial years

	(Financial years commencing on or after 1 January 2025)	commencing on or after 1 January 2026
Main Board Issuers (other than LargeCap Issuers)		“Comply or explain” (Financial years commencing on or after 1 January 2025)
GEM issuers		Voluntary disclosure (Financial years commencing on or after 1 January 2025)

- **Next steps:** To prepare for the new requirements, issuers should look to familiarise themselves with the New Climate Requirements and Implementation Guidance, and review existing governance and processes with the new requirements in mind. The Exchange has said it will provide further guidance and training as appropriate, based on its observations and review of issuers’ compliance.

3. ASEAN publishes Version 3 of its Taxonomy for Sustainable Finance (multi-sector)

- **What:** In case you missed it, on 27 March, the Association of Southeast Asian Nations (ASEAN) Taxonomy Board (ATB) has published a [Version 3 ASEAN Taxonomy for Sustainable Finance](#) (ASEAN Taxonomy). The ASEAN Taxonomy adopts a multi-tiered framework which allows assessment of sustainable activities through either the principles-based Foundation Framework, or the Plus Standard with a more detailed methodology using application of technical screening criteria (TSC).
- **Key details:** Version 2 of the ASEAN Taxonomy came into effect on 19 February 2024 (which was covered in our [February ESG View](#)) and introduced TSC for the Electricity, Gas, Steam and Air Conditioning Supply (Energy) sectors. Notably, Version 3 introduces TSC for two additional focus sectors, namely Transportation & Storage and Construction & Real Estate. The Green classification for these new focus sectors have been aligned, where appropriate with relevant international sectoral guidelines and regulations and makes reference to widely used international taxonomies such as the EU Taxonomy. For those focusing on transition finance, the ASEAN Taxonomy’s Amber classification serves as a transition category.
- **Next steps:** The ATB will conduct targeted consultations on this new version with key stakeholder groups and users of the ASEAN Taxonomy, so keep your eyes peeled for these in future editions.

AMERICAS DEVELOPMENTS

1. The U.S. Federal Government releases new climate regulation on multiple fronts (multi-sector)

- **What:** The last month has seen a buzz of activity from the U.S. government on various climate-related regulations and policies. Some notable developments are outlined below.

- On Earth Day (22 April), President Biden [announced](#) \$7 billion in federal grants for residential solar projects serving 900,000-plus households in low- and middle-income communities and 2,000 corps positions are being offered across 36 states as part of his New Deal-style American Climate Corps green jobs training program.
- On 25 April, the Environmental Protection Agency (EPA) introduced a [suite of new rules](#) to reduce pollution from fossil fuel-fired power plants, including requiring all coal-fired plants that plan to run in the long-term (beyond 2039) to control 90% of their carbon pollution. Sector analysts have described this rule as [“probably terminal”](#) for most coal plants that are not already planning to retire.
- On 30 April, the U.S. Department of Treasury [released final tax credit guidance](#) for sustainable aviation fuel (SAF) production. The new guidance allows corn-based ethanol to qualify for the subsidy program under the [Inflation Reduction Act](#), if the production adopts and demonstrates certain climate-smart practices. Notably, on 25 April, the UK Government also shared its [SAF ambition](#), announcing a new target for 10% of jet fuel to come from sustainable sources by 2030.
- **Our view:** With greater pressure in an election year for candidates vying for political office to rebuild economies, fight inflation and reduce unemployment in the short-term, the sustainability policy agenda can, at times, appear less immediate and costly. However, we have seen that the choice does not need to be an “*either / or*” proposition, as we have seen with the U.S. administration positioning itself as supporting the triple bottom line: people, planet and profit.

ESG DISPUTES ROUND-UP

- On 21 May, NGOs filed a criminal complaint against French oil giant TotalEnergies and its top shareholders in Paris. Find out more in our [ESG Disputes Radar](#).
 - On 7 May, an Oklahoma Court [granted a temporary injunction](#), blocking the enforcement of “anti-ESG” legislation, the [Oklahoma Energy Discrimination Act of 2022](#), which prohibits government retirement systems from investing in companies that “boycott energy companies”. The Court found there was “substantial likelihood” that the case challenging the legislation would succeed on multiple fronts.
 - Ecodefense, one of Russia's oldest environmental organisations, has [filed an application](#) with the Russian Constitutional Court, challenging the government's inadequate climate policies. Ecodefense, joined by 18 others, argues Russia's current approach violates fundamental rights like the rights to life, health, a clean environment, freedom from discrimination, and protection for Indigenous peoples. A summary of the case can be accessed [here](#).

1. UK Government Climate Plan found unlawful (multi-sector)

- **What:** Following legal challenges in the High Court by Friends of the Earth, ClientEarth and Good Law Project, the UK government’s climate strategy [has been found unlawful](#) for the second time. The Court found that the government has breached the Climate Change Act 2008 by adopting the Carbon Budget Delivery Plan. As a result, the Secretary of State will have to revise the plan. The government’s previous climate action plan, the Net Zero Strategy, was also ruled to be unlawful following legal challenges by the same three organisations in July 2022.

- **Key details:** The Court held the Government's assumption that all its policies would achieve 100% of their intended emissions cuts was wrong and the quantified savings for each policy must represent what the Government realistically believes can be achieved. The UK is currently not meeting its domestic climate targets, and its 2030 international goal is unlikely to be met with the current plan.
- **Our view:** This judgment shows greater scrutiny into the environmental transitional plans established by public bodies and governments. Against this backdrop, private companies will have to consider their own transition plans to ensure they contain realistic and achievable targets to avoid similar litigation.

2. Legal appeal after TotalEnergies refuses to table its advisory shareholder proposal (multi-sector)

- **What:** On 18 April, the Ethos Foundation and a coalition of 19 international investors, supported by the FrenchSIF and representing 0.9% of TotalEnergies' share capital, filed a [shareholder resolution](#) at TotalEnergies' Annual General Meeting (AGM) to request the separation of the functions of Chair of the Board and CEO. The Board of Directors of TotalEnergies unanimously decided not to include the proposed resolution on the agenda of the AGM. This decision led several shareholders to the Nanterre Commercial Court to attempt to impose their proposal.
- **Key details:** The Board of Directors refused to register the resolutions for its AGM on the basis of its legality (as opposed to a judgement of its substance). An AGM can neither change the mode of governance in the articles of association of TotalEnergies (a power reserved to the extraordinary general meeting) nor be used to switch to dual governance (a power reserved to the Board of Directors). The activist shareholders have requested the inclusion of the resolution not with the intent of a vote having any binding legal consequences but rather to allow shareholders to express their views on the company's governance. It is now up to the Nanterre Commercial Court to decide whether it is possible for the AGM to take a consultative vote on the company's governance.
- **Our view:** The question before the Court is interesting from a legal perspective because it is representative of a current and wider debate on the possibility for minority shareholders to express their views and influence company policy. Increasingly "dissenting" resolutions are being submitted for the AGMS of major companies, particularly on environmental issues. This increasing trend can constitute a growing ESG risk for firms to consider.

3. Unilever found to be violating OECD - OECD Guidelines (multi-sector)

- **What:** On 7 May, the Dutch National Contact Point (NCP) [found](#) that Unilever was in breach of the OECD Guidelines for Multinational Enterprises (OECD Guidelines) by failing to engage in the OECD mediation process in good faith. The Dutch NCP has recommended that Unilever update its policies and practices on good faith engagement.
- **Key details:** In April 2018, a group of former workers of Unilever in the Democratic Republic of the Congo, filed a complaint against Unilever, alleging that in 2001 it unjustifiably dismissed 802 employees in the DRC and then failed to provide them a complete severance package. The parties agreed to commence mediation, although they were unable to come to an agreement. The Dutch NCP found that during the mediation process Unilever created a "pattern of hurdles" which frustrated the mediation process. Although the Dutch NCP could not uphold the underlying complaint, it nevertheless concluded that Unilever had

conducted itself in an overly “*legalistic*” manner, which was “*contrary to the spirit of the OECD Guidelines, which specifically ask from companies that they look beyond what the law requires*”.

- **Our view:** The Dutch NCP’s decision that Unilever should look beyond what the law requires in respect of its obligations under the OECD Guidelines serves as a stark warning that NCPs will interpret companies’ obligations in a broad manner. When assessing their own risk exposure, particularly in high risk jurisdictions, companies should avoid taking an overly-legalistic approach and should instead assess their activities against the spirit of the Guidelines. An adverse finding on an OECD complaint could lead to associated civil litigation, as well as potential reputational risk and exclusion from financing opportunities.

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

1. Taskforce on Inequality and Social-related Financial Disclosures call for feedback (multi-sector)

- **What:** In April 2023, Taskforce on Inequality and Social-related Financial Disclosures ([TISFD](#)) was created and aims to develop recommendations that enable businesses and investors to effectively identify, assess, and report on their inequality and social-related risks, opportunities, and impacts.
- TISFD has a Working Group looking to operationalise the taskforce, which is made up of 20 organisations, including the Organisation for Economic Co-operation and Development (OECD), the United Nations Development Programme (UNDP) and the International Labour Organisation (ILO) among others. Aside from international organisations, the likes of Schneider Electric and Generation IM are also on the Working Group.
- In advance of the TISFD launching in September 2024, the Working Group is [seeking feedback](#) from across sectors on the emerging governance structure and technical scope of TISFD. Topics open to feedback include: thematic scope; materiality approach; alignment with international standards; interoperability with existing standards and frameworks; governance principles; and outputs.
- **Timing:** No closing date is listed.

2. International Advisory Panel on Biodiversity Credits (IAPB) consultation on Archetypes (multi-sector)

- **What:** On 18 April, IAPB launched its second [consultation](#) on archetypes for biodiversity credits, which are a simple set of models as to how a biodiversity credit market could operate. It follows on from IAPB’s previous Call for Views, which took a broader approach with the aim of attracting a wide range of views on what the IAPB sees as the five design priorities for biodiversity credit markets. The feedback and results from the initial Call for Views can be found [here](#).
- This consultation builds on the issues highlighted through the Call for Views and focuses on understanding the range of possible market models for biodiversity credits and the key features that could influence their success. The aim of the consultation is to gather the

most information possible on a range of different possible models, which will then be analysed and integrated into IAPB products and recommendations.

- **Timing:** Consultation period closes at midnight on Friday 24 May.

3. UK FCA consults on extending SDR to portfolio management services (asset management)

- **What:** On 23 April, the UK Financial Conduct Authority (FCA) published a [consultation](#) paper (CP24/8) which considers extending the Sustainability Disclosure Requirements (SDR) and investment labels regime to portfolio management services.
- **Key details:** The FCA is proposing to extend the SDR and investment labels regime to all to all forms of portfolio management services, indicating that as the SDR and labelling regime has been developed primarily for retail investors, the proposals to extend the regime are primarily aimed at wealth management services for individuals and model portfolios for retail investors. Firms offering portfolio management services to professional clients (or institutional investors) can also opt into the labelling regime. More details on the SDR can be found in our [client note](#). For more detail on the implementation of SDR, on 16 May the UK government has [published](#) a helpful implementation update on SDR.
- **Next steps:** If the rules are implemented as planned, portfolio managers will be able to use the sustainability labels from 2 December 2024. In-scope portfolio managers will also need to make the accompanying disclosures from this point and the naming and marketing rules will also come into force on the same date as for fund managers, which means portfolio managers will have considerably less time to prepare. The consultation is open until 14 June 2024.

4. Hong Kong ESG data and ratings code of conduct (rating agencies)

- **What:** On 17 May, the Voluntary Code of Conduct Working Group (the VCWG) (sponsored by the Hong Kong Securities and Futures Commission) published a [consultation](#) seeking feedback on the draft [Code of Conduct for ESG ratings and data products providers](#).
- **Key details:** The Code of Conduct includes a framework of proposed actions for users which are underpinned by six key principles: good governance; ensuring high quality; conflicts of interest; transparency; confidentiality; engagement with rated firms. These principles were based on IOSCO's recommendations from its November 2021 final [report](#). Notably, the VCWG reached a consensus that no Hong Kong-specific considerations are required for this Code.
- The consultation invites responses to three key questions:
 - Does the Code comprehensively address aspects pertinent to the Hong Kong market (for providers, users, covered entities)?
 - Is the Code sufficiently clear to ensure adherence?
 - Do users find the self-attestation document included within the Code useful?
- **Timing:** The consultation period will run until 17 June 2024.

5. Consultation on the Exposure Draft of the 'Korean Sustainability Disclosure Standards' (multi-sector)

- **What:** On 2 May, the Korea Sustainability Standards Board (KSSB) of the Korea Accounting Institute (KAI) has published the [Exposure Draft of the 'Korean Sustainability Disclosure](#)

[Standards'](#) (the Standards) for [consultation](#). KSSB has used the [IFRS Sustainability Disclosure Standards](#) established by the ISSB as the foundation for the Standards, as well as taking into account country-specific circumstances and preparedness of domestic companies and industries.

- **Key details:** The Standards consist of:
 - two mandatory disclosure standards: KSSB 1 *General Requirements for Disclosure of Sustainability-related Financial Information* (based on [IFRS S1](#)) and KSSB 2 *Climate-related Disclosure* (based on [IFRS S2](#)); and
 - one non-mandatory disclosure standard: KSSB 101 *Sustainability Disclosure Standard 101, Additional Disclosure aligned with Policy Objectives*. This is a unique country-specific standard that allows companies to selectively disclose additional sustainability-related information as required by domestic laws or to meet/ promote the implementation of government sustainability-related policy objectives.
- **Timing:** Consultation period closes on 31 August 2024.

6. UK consults on measures to simplify corporate reporting (multi-sector)

- **What:** On 16 May, the UK government announced it is [consulting](#) on introducing new measures to simplify corporate reporting as part of its [Smarter Regulation](#) programme.
- **Key details:** The proposals aim to reduce reporting burdens on medium-sized companies and introduces 2 key proposals:
 - exempting medium-sized companies from producing a Strategic Report; and
 - amending the definition of a medium-sized company for corporate reporting so that the threshold for the maximum number of employees is increased from 250 to 500, aligning the employee threshold to a level that reflects what the government considers to be a medium-sized.
- The [Non-financial reporting review: impact assessment](#) published on 18 March 2024 estimated that the monetary uplift would save business around £150 million per year.
- **Next steps:** The government has also committed to consulting later in the year on further proposals to reduce the reporting burden on medium-sized companies. The consultation is open until 27 June 2024.

Ends. 01 June 2024