KPMG

Asset Management and Investment Funds newsletter

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July 2022

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- The European supervisory authorities (EBA, EIOPA AND ESMA – ESAS)
- The European securities and markets authority (“ESMA”), the EU’s securities markets regulator
- The European and fund asset management association (“EFAMA”)
- The International organisation of securities commissions (‘IOSCO’)

01

Cyprus updates

Establishment of a Cyprus equity fund under the management the European investment fund ("EIF")

The Republic of Cyprus, represented by the Ministry of Finance, has entrusted the EIF with the management of a new pool of funding – the Cyprus Equity Fund ("CEF")- to support innovative companies and startups based in Cyprus. The CEF will make available risk financing to companies seeking primarily pre-seed and seed capital to grow their business ideas and projects.

The CEF is to be co-financed by Recovery and Resilience Facility resources of the Republic of Cyprus and by Cyprus JEREMIE (Joint European Resources for Micro to Medium Enterprises) reflows. The potential funding under the Cyprus Equity Fund initiative may amount up to EUR 27m.

In this respect the EIF launched on the 11 May 2022 a call for expression of interest to select a financial intermediary ("Fund Manager") under the CEF.

The investment strategy of the selected underlying fund(s) of the CEF is expected to have the following distinct compartments:

- An acceleration compartment to provide initial financing to emerging entrepreneurs to research, assess and develop an initial concept; and
- A venture capital compartment to provide follow-on financing to successful graduates from the acceleration compartment, as well as direct investments to innovative companies, which have not been part of the acceleration compartment.

The fund manager shall be selected on the basis of EIF's policies, rules and procedures and in conformity with best practices and taking into account the selection criteria and principles underpinning the EU regulations and the experience and financial capacity of the applicants. In addition, the expressions of interest will be examined by the EIF on a comparative basis, using professional analysis and judgment, based on the disclosed selection criteria. Fund managers wishing to apply should demonstrate:

- An ability to secure significant private capital in addition to public support;
- A strong team and track-record of working with early stage, high-growth companies; and
- A fund strategy that supports, and invests in, the promotion of regional development, female entrepreneurship, sustainability and climate initiatives.

EIF will provide the selected fund manager its valuable expertise and share venture capital market good practices for the governance and deployment of the CEF.

The deadline for applications is 5 July 2022 and the selection process is expected to be completed by the end of the year.

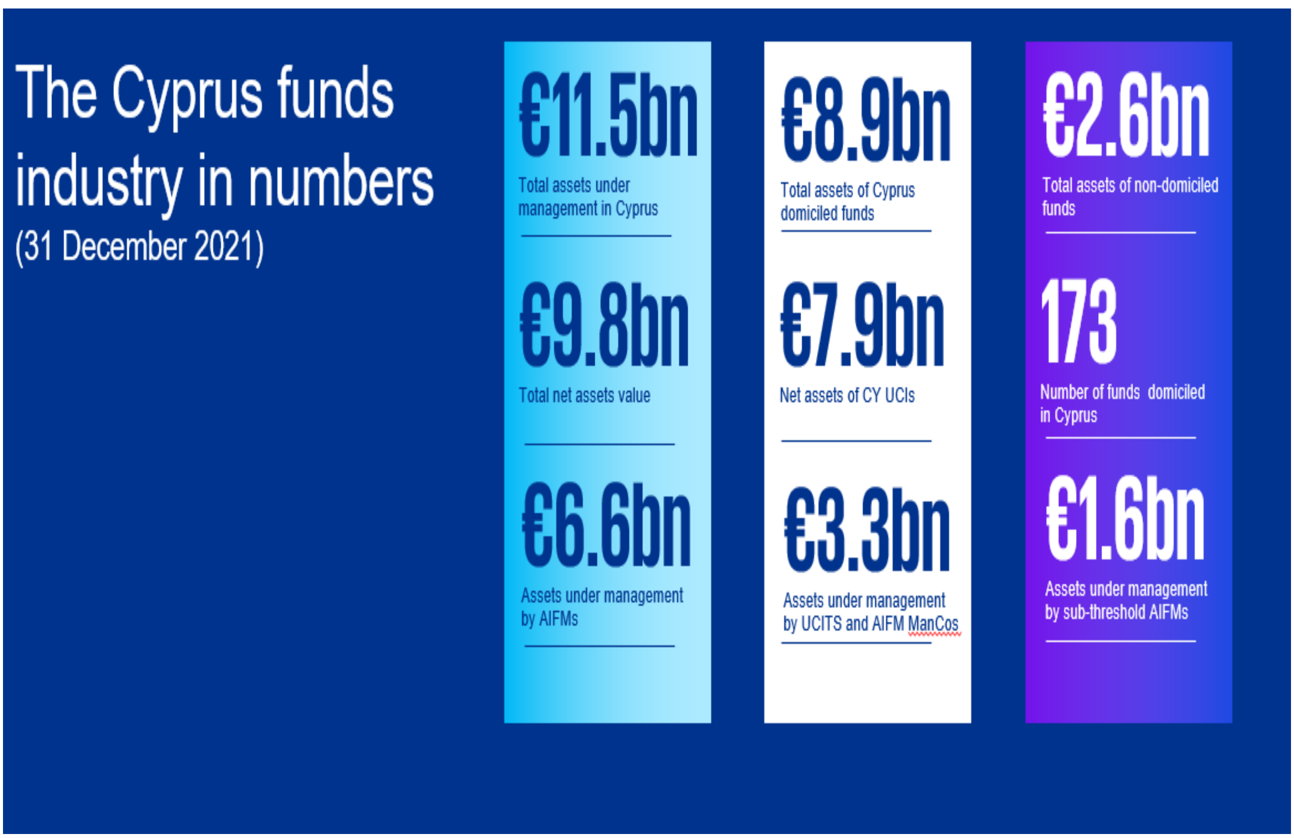
The Ministry of Finance and the EIF held on 4 of May 2022 an online information session to outline the CEF investment objectives and provide an overview of the application and selection process for interested fund managers which can be accessed here.

CySEC quarterly statistics

Based on the latest available statistics for the 4th quarter of 2021 the value of total Assets Under Management ("AuM") reached €11.6 billion, recording a 0.2% decrease since the 3rd quarter of 2021. Approximately 57% of the AUM relate to assets managed by the AIFMs, 14% by the sub-threshold AIFMs, 21% by the AIFMs and UCITS management companies, 7% by the UCITS management companies and only 1% by the regulated UCIs that are managed by foreign fund managers.

UCITSs invest in transferable securities (85.6%), followed by the investments in bank deposits (6.6%) and investments in UCITSs and UCIs (6.5%). AIFs, AIFLNPs and RAIFs invest mainly in private equity (38.9%), while the investment in hedge funds represents the 15.6% of the AUM. Regarding the categorisation of the unit-holders, for UCITS these are mainly retail investors (99.2%), while for AIF, AIFNLP and RAIF, 30.8% of them are professional investors, 57.3% Well-Informed Investors and only 11.9% retail investors

Source CySEC April 2022



02

European updates - European commission, European securities and markets authority (“ESMA”) and European supervisory authorities (EBA, EIOPA and ESMA – “ESAS”) and other industry updates

The european supervisory authorities (EBA, EIOPA AND ESMA – ESAS)

1.1 ESA recommendations to the European Commission on the PRIIPS regulation review

The ESAs published on 2 May 2022 their technical advice to the European Commission ("EC") on the review of the PRIIPs regulation. The advice will serve as input for developing the EC's retail investment strategy.

Taking into account the details provided by the EC in January 2021 on their intended approach to this review of the PRIIPs regulation, the ESAs recommend significant changes to the PRIIPs regulation. The recommended changes aim to improve the presentation of information provided to consumers and to make it easier for them to compare different products.

The advice addresses all the issues requested by the EC, including how to better adapt the key information document ("KID") to the digital age and whether to extend the scope of the regulation to other financial products. In particular, the ESAs are of the opinion that the KID would prove more useful to retail investors if presented in a much simpler and more user-friendly format.

In more detail, the ESAs recommend:

- Harnessing the opportunities of digital disclosure, such as by allowing information to be presented in a "layered" format;
- Not extending the scope to additional financial products at this stage, but further specifying the existing scope;
- Allowing different approaches for different types of products where this is necessary to ensure the appropriate understanding of retail investors;
- Allowing more flexibility on the information provided in the performance section of the KID including the indication of past performance;
- Changing the rules for multi-option insurance products to better facilitate comparison between different investments; and
- Introducing a new section in the KID to give prominence to sustainable objectives.

1.2 ESAs update supervisory position on SFDR

On 25 March 2022, the ESAs published an updated supervisory statement on the current interim period during which the level 2 regulatory technical standards ("RTS") under the EU Sustainable Finance Disclosure Regulation ("SFDR") are yet to be implemented. The RTS are important for investment managers (and others financial market participants) as they set out the templates that are to be used by firms that are promoting Article 8 ("light green") and/or Article 9 ("dark green") products, including investment funds.

This updated statement from the ESAs replaces the supervisory statement published in February 2021.

In the updated statement, the ESAs clarify the following points:

PAI reporting: The first principal adverse impact (PAI) information to be disclosed in accordance with the RTS should be made in a statement to be published by 30 June 2023, in respect of a reference period corresponding to the calendar year of 2022.

Article 9 products — pre-contractual and periodic disclosures: With respect to periodic disclosures for products, EU national competent authorities are encouraged to refer financial market participants and financial advisers to the requirements set out in the draft RTS of the final reports that were submitted to the European Commission on 4 February and 22 October 2021 during the interim period.

The periodic report required under Article 11(2) must be complied with in 2022 "irrespective of reference periods", and "for periodic disclosures issued between 1 January 2022 and 31 December 2022, the draft RTS can be used as a reference".

Taxonomy alignment: To comply with Article 5(b) of the taxonomy regulation (i.e., taxonomy alignment) (if applicable to the financial product), "an explicit quantification should be provided through the numerical disclosure as a percentage of the extent to which investments underlying the financial product are taxonomy-aligned".

Taxonomy alignment: To comply with Article 5(b) of the taxonomy regulation (i.e., taxonomy alignment) (if applicable to the financial product), “an explicit quantification should be provided through the numerical disclosure as a percentage of the extent to which investments underlying the financial product are taxonomy-aligned”.

Information on taxonomy-eligible activities (as opposed to taxonomy-aligned activities) should not be provided for the disclosure of the extent to which investments underlying the financial product are in taxonomy-aligned economic activities. “[…] While estimates should not be used, where information is not readily available from public disclosures by investee companies, financial market participants may rely on equivalent information on taxonomy alignment obtained directly from investee companies or from third party providers”.

1.3 ESAs issue joint supervisory statement on the application of the SFDR and Taxonomy Regulation

On 24 March 2022, the ESAs issued a joint supervisory statement on the application of the Regulation on Sustainability-related Disclosures in the Financial Services Sector (“SFDR”) and the Taxonomy Regulation (“TR”), with the objective of achieving effective and consistent application of the SFDR and to promote a level playing field and the protection of investors.

The statement notes that financial market participants and financial advisers are required to apply most of the provisions on sustainability-related disclosures laid down in the SFDR from 10 March 2021, while the application of the RTS is delayed to 1 January 2023 in order to provide these parties with sufficient time to gather the information necessary to adjust their practices to apply the specific requirements of the RTS, including the product-specific disclosures stemming from the TR. The statement notes that the delay in the application of the RTS has no impact on the application of the TR provisions. As such, the taxonomy-alignment related product disclosures apply in respect of the first two environmental objectives referred to in article. 9(a) and 9(b) TR from 1 January 2022, in accordance with article. 27(2)(a) TR. The delay also allows NCAs to prepare for the orderly and effective supervision of compliance by financial market participants and financial advisers with those requirements.

The statement sets out general guidance for the interim period, as well as supervisory expectations during this time and specific guidance as a reminder of the application timeline of some specific provisions of the SFDR, the TR and the related RTS.

The european securities and markets authority ("ESMA"), the european union's securities markets regulator

2.1 ESMA provides supervisors with guidance on the integration of sustainability risks and disclosures in the area of asset management

ESMA published on 31 May 2022 a supervisory briefing to ensure convergence across the European Union ("EU") in the supervision of investment funds with sustainability features and in combating greenwashing by investment funds.

This work will help combat greenwashing by establishing common supervisory criteria for National Competent Authorities ("NCAs"), to effectively supervise investment funds with sustainability features.

This briefing covers the following areas:

- Guidance for the supervision of fund documentation and marketing material, as well as guiding principles on the use of sustainability-related terms in funds' names; and
- Guidance for convergent supervision of the integration of sustainability risks by AIFMs and UCITS managers.

ESMA will work closely with NCAs to combat greenwashing, by promoting further supervisory convergence in supervising investment funds with sustainability features. This may include updating the supervisory briefing if needed considering experiences after the SFDR RTS starts applying on 1 January 2023.

2.2 ESMA study looks at reasons for lower costs in ESG funds

On 23 May 2022, ESMA has published a study looking at the potential reasons behind the relatively lower ongoing costs, and better performance, of environmental, social and governance ("ESG") funds compared to other funds, between April 2019 and September 2021.

ESMA recently determined that ESG equity undertakings for collective investment in transferable securities ("UCITS"), excluding exchange-traded funds, were cheaper and better performers in 2019 and 2020 compared to non-ESG peers.

Understanding the cost and performance dynamics of ESG funds is of particular interest as it may bring insights for the overall fund industry on how to make funds more affordable and profitable for retail investors.

ESMA is looking at some of the potential drivers behind this relative cheapness, and outperformance of ESG funds and finds several differences between the two categories of funds:

- ESG funds are more oriented towards large cap stocks as well as towards developed economies;
- The sectoral exposures also differ between ESG and non-ESG funds.

Even after controlling for these differences, ESG funds remain statistically cheaper and better performing than non-ESG peers. Further research is thus needed to identify the other factors driving these cost and performance differences.

2.3 ESMA consults on notifications for cross-border marketing and management of funds

ESMA is consulting stakeholders on the information and templates to be provided and used by firms, when they inform regulators of their cross-border marketing and management activities under the UCITS Directive and the AIFMD.

The purpose of the draft ITS and RTS issued on 17 May 2022 is to facilitate the process for notifying cross-border marketing and management activities in relation to UCITS and AIFs. This will be achieved by defining harmonised information to be notified to competent authorities and developing common templates to be used by management companies, UCITS and AIFMs.

The closing date for responses to the consultation is 9 September 2022.

Following the consultation period, the draft RTS and ITS will be finalised and submitted to the European Commission.

2.4 ESMA and NCAs find room for improvement in funds' liquidity stress testing

On 30 March 2022, ESMA advised that it had carried out a supervisory engagement with investment funds, together with National Competent Authorities ("NCAs"), focusing on liquidity risk in corporate debt and real estate funds. The results of the engagement showed that the funds included in the scope of the analysis did not pose any substantial risk to financial stability.

While ESMA noted that the overall degree of compliance is satisfactory, there was some room for improvement and continued monitoring, especially on liquidity stress testing and valuation of less liquid assets. Many NCAs reported that management companies were able to manage episodes of valuation uncertainty in March 2020 and that they have not identified any strong valuation issue for the funds in the scope of the exercise.

In 2022, ESMA will facilitate discussions on these topics among NCAs on the application of the liquidity stress testing guidelines in UCITS and AIFs and is conducting a 2022 common supervisory action on the valuation of less liquid assets in UCITS and open-ended AIFs.

2.5 ESMA publishes annual statistical report on performance and costs of EU retail investment products

On 5 April 2022, ESMA published its fourth annual statistical report on the cost and performance of European Union ("EU") retail investment products, reporting that UCITS with an environmental, social and governance ("ESG") strategy (including equity, bond and mixed funds) outperformed their non-ESG peers, and were also overall cheaper. The report examines the market between 2010-2020 and finds that, while costs show signs of reducing in certain jurisdictions, in most member states as well as in the EU as a whole, there is limited progress in funds becoming more affordable. Retail investors also continue to pay higher fees than professional investors.

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The report’s main findings include:

- Gross performance in 2020 was low or negative and highly volatile due to the COVID-19 pandemic.
- Costs remained a critical component when evaluating the ultimate benefits of an investment and reduced only marginally over time, with total costs higher for retail investors than for institutional investors, on average, and costs for cross-border funds higher than those for domestic funds.
- For UCITS, ESG equity, bond and mixed funds were overall cheaper than non-ESG peers, while their performance reflected the strong performance of specific sectors since the COVID-19 crisis. Within the ESG fund category, impact funds performed better than other ESG strategies and funds with sustainable investment as an objective performed better in net terms, including costs, than those promoting environmental or social characteristics, despite slightly higher costs.
- 15% of UCITS managers in the sample managed 90% of assets. Cross-border funds were, on average, larger than funds sold only in their home market and on average 60% of funds included in the sample were effectively sold cross-border.
- Costs were significantly higher for active UCITS than for passive funds and ETFs, with ETF UCITS performance in line with that of other passive UCITS investing in similar assets.
- In 2020, retail investors accounted for only 13% of the total NAV in the EU AIF market. The annualised monthly gross and net performance across the main retail AIFs fund types, significantly decreased compared with 2019.
- Total costs were largely attributable to entry costs and varied substantially by country but did not depend on issuance size or underlying type.

2.6 ESMA publishes information from NCAs on AIF and UCITS marketing

On 4 February 2022, as required under the cross-border distribution of funds (“CBDF”) Regulation, ESMA published on its website the hyperlinks to the websites of national competent authorities (“NCAs”) where information on the applicable national laws, regulations, and administrative provisions governing marketing requirements for AIFs and UCITS is published.

ESMA’s publication also includes summaries of the information published by the NCAs, including (for certain jurisdictions) information on the requirements for non-EU alternative investment fund managers (“AIFMs”) to market AIFs.

2.7 ESMA publishes fourth annual AIF statistical report

On 3 February 2022, ESMA published its fourth annual statistical report on the AIF sector, showing that the sector increased by 8% in 2020 in net assets to €5.9 trillion in net assets from €5.5 trillion in 2019.

The report also notes that the main risk faced by the sector relates to a mismatch between the potential liquidity of the assets and the redemption timeframe offered to investors. Although the report notes that, at an aggregate level, the mismatch is unlikely to materialise, it indicates that AIFs with a liquidity deficit would face challenges if large redemptions were to occur, particularly for real estate funds and funds of funds.

The report covers 30 members of the European Economic Area (“EEA”), and notes, inter alia, the following main findings:

- The size of the EEA AIF market continued to expand to reach €5.9tn in Net Asset Value (“NAV”) at the end of 2020, an 8% increase from €5.5tn in 2019. The growth of the EU AIF market results from the launch of new AIFs in 2020 and positive valuation effects.
- Funds of Funds (“FOFs”) accounted for 15% of the NAV of EU AIFs, at around €0.9tn. These have the second-largest retail investor participation at 20% of NAV, with open-ended FoFs remaining exposed to significant liquidity mismatch across all time horizons, including FoFs investing mainly in UCITS. The potential liquidity shortage for FoFs with a liquidity deficit is 16% of their NAV short-term (within 1 week).
- Real Estate Funds accounted for 13% of the NAV of AIFs, at €766bn and continued to grow in 2020. These funds are exposed mostly to illiquid physical assets which take time to sell, so liquidity risk remains a concern.

- Following the withdrawal of the UK from the EU, the size of the EEA Hedge Fund sector declined to €89bn from €354bn in 2019 (including the UK). Leverage remains very high, particularly for some strategies highly reliant on derivatives.
- Private equity funds accounted for 6% of the NAV of all AIFs (€363bn) and experienced the largest growth in 2020 (+29% compared with 2019). They follow a range of strategies and are almost exclusively sold to professional investors.
- Other AIFs accounted for 62% of the NAV of EEA30 AIFs, at c. €3.7tn (+4% compared with 2019). The category covers a range of strategies, with fixed income and equity strategies accounting for 68% of the NAV and an additional residual category amounting to 29%. Other AIFs are mainly sold to professional investors, although there is a significant retail investor presence.
- EU member states can allow non-EU asset managers to market alternative funds at a national level under the National Private Placement Regime ("NPPR"), even though such funds cannot subsequently be passported to other members states. The market for such non-EU funds is comparatively large, with the NAV of non-EU AIFs marketed under NPPRs' rules amounting to €1.3tn. NPPR fund marketing is concentrated in a small number of member states, with 99% of investors being professional investors

2.8 ESMA launches call for evidence on ESG ratings

On 3 February 2022, ESMA published a Call for Evidence on Environmental, Social and Governance ("ESG") ratings in order to gather information on the market structure for ESG rating providers in the EU. In particular, ESMA wishes to develop a picture of the size, structure, resourcing, revenues and product offerings of the different ESG rating providers operating in the EU. The call is mainly addressed to ESG rating providers, users of ESG ratings, as well as entities subject to rating assessment of ESG rating providers and is intended to complement a separate consultation to be launched by the European Commission seeking stakeholder views on the use of ESG ratings by market participants and the functioning and dynamics of the market.

The call for evidence closed for comments on 11 March 2022.

2.9 ESMA finalises rules on standardised information to facilitate cross-border distribution of funds ("CBDF")

On 1 February 2022, ESMA published a final report on implementing technical standards ("ITS") under the CBDF Regulation. The draft ITS set out requirements relating to the publication of information by NCAs on their websites (including in relation to fees and charges levied on AIFMs and UCITS management companies), the notification of information by NCAs to ESMA and ESMA's publication of information on its website (necessary for the creation of the central database on cross-border marketing of AIFs and UCITS).
ESMA has submitted the draft ITS to the European Commission for endorsement.

2.10 ESMA report on trends, risks, and vulnerabilities ("TRV")

On 15 February 2022, ESMA published its TRV Report for the first half of 2022.

ESMA's TRV reports are published periodically as part of ESMA's attempts to identify and assess at an early stage, TRV at a micro prudential level, across borders and across sectors. The TRV reports are wide-ranging and cover a broad range of financial-services-related topics.

For the asset management sector, the latest TRV report highlights that investment fund markets continued to grow, particularly with inflows into equity funds but that risks remained elevated, including liquidity risk and credit risk and higher inflation expectations raise concerns in relation to duration risk.

ESMA notes that growth in ESG markets remained steady and ESG fund assets increased by 9% in the second half of 2021, while ESG bond markets grew by 19%, but concerns over possible green asset overvaluation remained.

The TRV designated environmental risk as a distinct risk category in the risk dashboard for the first time (shown as an elevated risk, which is increasing versus the previous quarter) and new risk indicators on climate-related disclosures, firms' reputational risk, and EU carbon markets were included in the statistical annex to the TRV. See above regarding ESMA's TRV risk analysis on monitoring environmental risks in EU financial markets.

2.11 ESMA launches a common supervisory action with NCAs on valuation of UCITS and open-ended AIFs

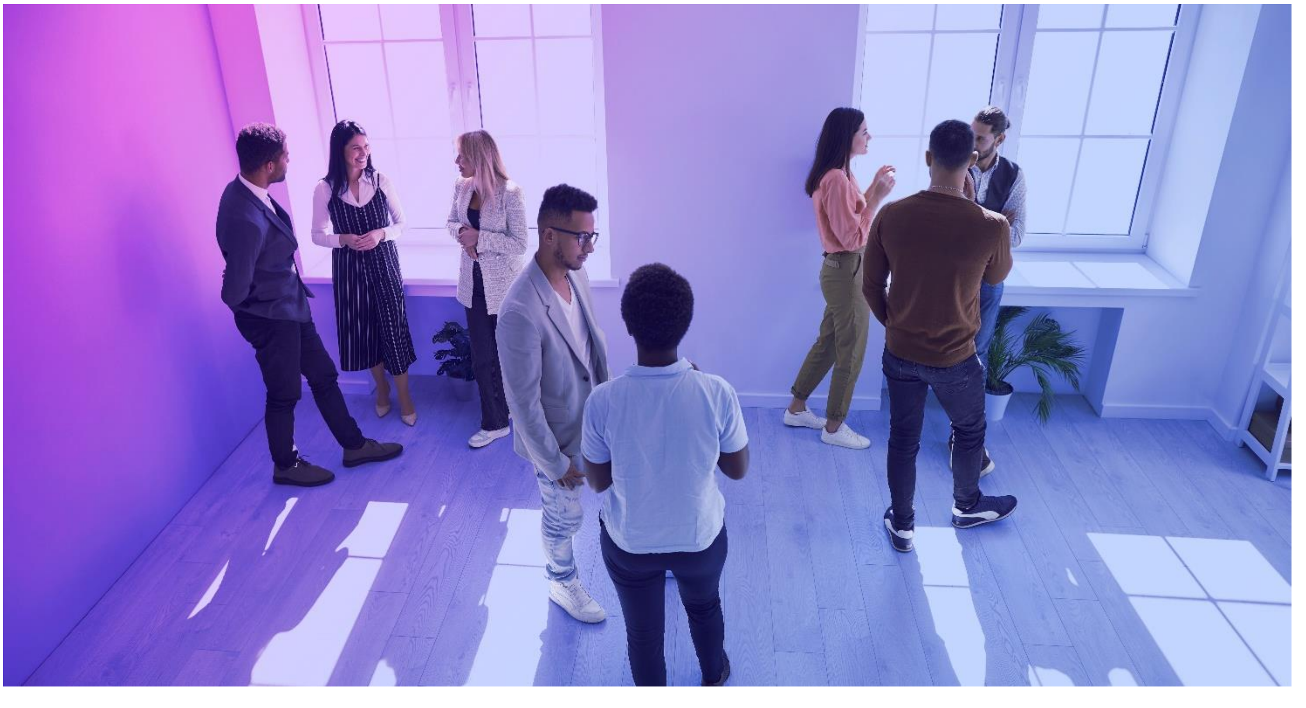
On 20 January 2022, ESMA launched a Common Supervisory Action ("CSA") with NCAs on the valuation of UCITS and open-ended AIFs across the EU. This will be conducted throughout 2022, focusing on fund managers that invest in less liquid assets, i.e. unlisted equities, unrated bonds, corporate debt, real estate, high yield bonds, emerging markets, listed equities that are not actively traded, bank loans, etc.

The CSA aims to assess compliance of supervised entities with the relevant valuation-related provisions in the UCITS and AIFMD frameworks, with the main purpose being the consistent and effective supervision of valuation methodologies, policies and procedures of supervised entities to ensure that less liquid assets are valued fairly during normal and stressed market conditions. ESMA confirmed that the work will be done using a common assessment framework setting out the scope, methodology, supervisory expectations and timeline for how to carry out a comprehensive supervisory action in a convergent manner. Amid sensitive market uncertainty and the current economic environment, the necessity of assessing valuation risks that may pose a potential threat to financial stability is of extreme importance.

This is the third CSA that ESMA and NCAs have launched on asset management. The first two covered UCITS liquidity risk management and supervision of costs and fees in UCITS. It is expected that NCAs will issue the CSA shortly and will share knowledge and experiences through ESMA to foster convergence in how they supervise valuation-related issues.

2.12 ESMA publishes updated AIFMD and UCITS Q&As

On 20 May 2022, ESMA published updated Q&As on application of the AIFMD and Q&As on application of the UCITS in light of the ESMA guidelines on performance fees. The issues (and responses) dealt with are the same in respect of both the AIFMD and UCITS but can be found in different sections of the relevant Q&A documents (Section XV in the AIFMD Q&As, Section XI for UCITS).



European and fund asset management association ("EFAMA")

3.1 EFAMA publishes latest statistics on funds

On 9 June 2022 EFAMA published its latest quarterly statistical release describing the trends in the European investment fund industry in Q1 2022. The main developments through the quarter are as follows:

• Net assets of UCITS and AIFs declined by 4.5%.

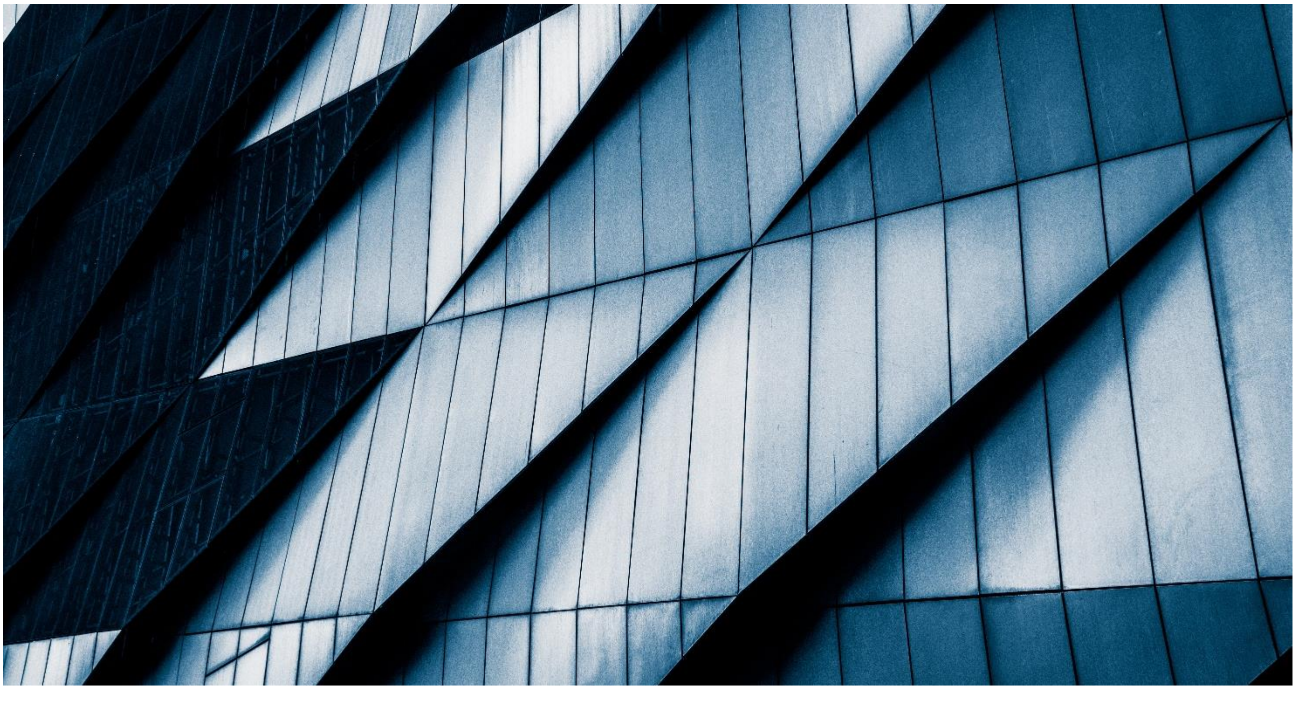
• UCITS registered net outflows of EUR 90 billion, compared to net inflows of EUR 238 billion in Q4 2021.

- UCITS equity funds continued to record net inflows (EUR 24 billion), compared to EUR 57 billion in Q1 2021.
- UCITS bond funds and MMFs recorded large net outflows (EUR 50 billion and EUR 119 billion, respectively).
- UCITS multi-asset funds recorded robust net sales (EUR 56 billion), compared to EUR 50 billion in Q4 2021.

• Net outflows from AIFs increased to EUR 19 billion, from EUR 5 billion in Q4 2021.

- AIF equity funds recorded net outflows of EUR 42 billion, compared to EUR 18 billion in Q4 2021.
- AIF bond funds recorded modest net inflows (EUR 6 billion), whereas AIF MMFs suffered small net outflows (EUR 5 billion).
- AIF multi-assets recorded net inflows of EUR 12 billion, compared to EUR 7 billion in Q4 2021.

• European households' net purchases of investment funds stayed at a high level in Q4 2021 (EUR 52 billion) and totaled EUR 245 billion for the full year 2021.

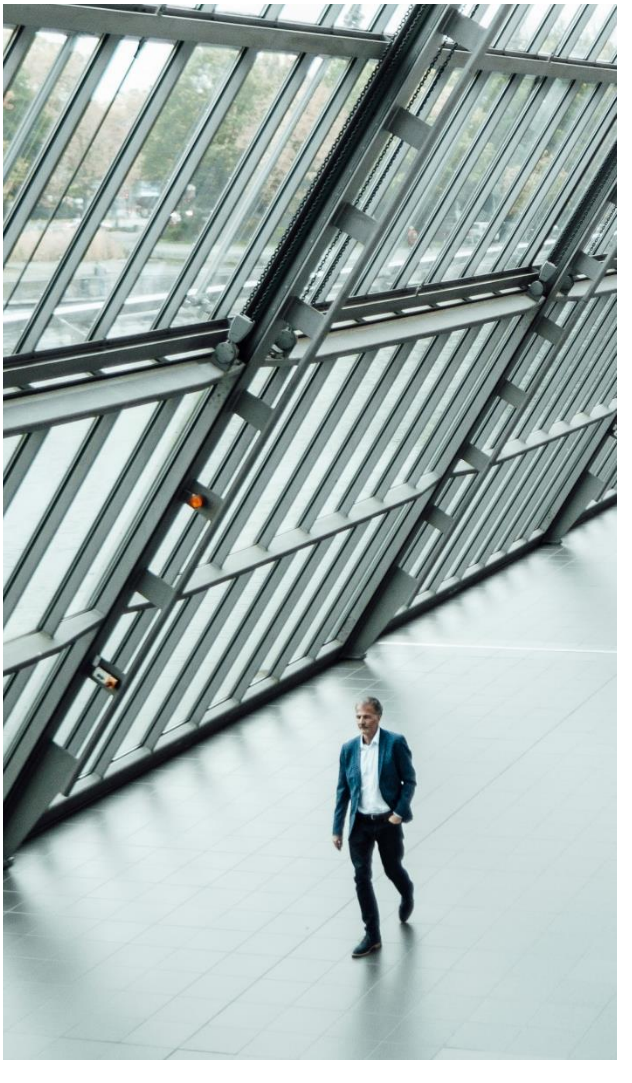


3.2 EFAMA position on the European Commission's review of the AIFM and UCITS directives

On 25 February 2022, EFAMA published a position paper setting out its views on the European Commission's decision to adopt a targeted approach in its review of the AIFMD and UCITSD. EFAMA considers that this focus on targeted improvements recognises the role the framework has played in encouraging the growth in the European AIF market over the past decade and its resilience even throughout recent market stresses.

However, EFAMA did have some comments and suggestions in a number of areas, namely:

- It strongly welcomed the list of liquidity management tools included in the directives, noting that liquidity risk management remains the responsibility of the manager, and that the removal of this function, or the imposition of prescriptive triggers for the activation of LMTs gives rise to pro-cyclical effects.
- EFAMA agreed that loan originating funds can provide a tangible benefit for the real economy, yet it was of the view that the rationale behind introducing rules specific to loans was unclear. It cautioned that certain rules in fact contradicted established market practice and would have the effect of reversing the growth of this industry, potentially making such products less accessible and attractive.
- EFAMA welcomed ESMA's proposed review on opportunities for the sharing of meaningful data between different regulators, including giving NCAs access to data reported by managers to national central banks. However, it noted that any proposal to introduce a supervisory reporting regime for UCITS funds should recall the stringent rules applicable to those funds.
- EFAMA welcomed the acknowledgement that delegation is an important factor for the success of the European fund industry, and that the amendments proposed would increase transparency and supervisory convergence. However, such a proposal, EFAMA noted, should specify that delegation rules should not apply to tasks for which the management company did not bear responsibility.
- EFAMA also welcomed the decision not to introduce a depositary passport, and strongly supported the decision to extend the depositary regime to include "investor" Central Securities Depositaries in the custody chain to guarantee consistent liability standards.
- With respect to disclosures, EFAMA considered the existing rules to be sufficient, and that the addition of new rules would serve to create confusion. It also noted that AIFMs require flexibility to tailor information to specific needs of investors, and that mandatory disclosures – such as established by MiFID – may lead to the disclosure of non-relevant information.
- Finally, EFAMA noted the need for grandfathering in the proposed rules, and to allow sufficient time for implementation.



International organization of securities commissions ('IOSCO')

4.1 IOSCO consults on good practices regarding the operation of ETFs

On 3 May 2022, IOSCO published a consultation report with the purpose of proposing a set of good practices on the operation of exchange-traded funds ('"ETFs") and to supplement IOSCO's Final Report on Principles for the Regulation of Exchange Traded Funds (the "2013 ETF Principles") published in 2013.

The report notes that since the publication of the 2013 ETF principles, ETF markets globally have continued to evolve and have exhibited sustained growth in assets under management. To this end, the IOSCO Board conducted a review on a broad range of issues and developments relating to ETFs to identify any gaps in the 2013 ETF Principles. Although the 2013 ETF Principles have been deemed to remain relevant and appropriate, with no major gaps or regulatory issues identified, differences were noted among jurisdictions in the way that ETFs operate, in the way they were regulated, and in the markets in which they trade. It was thus determined that the 2013 ETF Principles would benefit from the introduction of a set of proposed good practices, drawing on reviews, as well as the work and experience of IOSCO. The report does not seek to replace the 2013 ETF Principles, nor does it comprise standards or recommendations, but rather sets out 11 proposed good practices or 'measures', focusing on the features of ETFs, divided into four groups, namely:

- Effective product structuring (6 measures);
- Disclosure (3 measures);
- Liquidity provision (1 measure);
- Volatility control mechanisms (1 measure).

The deadline for submission of comments is 6 July 2022.

4.2 IOSCO publishes sustainable finance work plan

On 14 March 2022, IOSCO adopted an extensive 2022 work plan to develop sustainable finance. In a press release, IOSCO noted that it is planning a timely and thorough review of the International Sustainability Standards Board ("ISSB") two exposure drafts on IFRS sustainability disclosure standards:

- IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
- IFRS S2 Climate-related Disclosures.

IOSCO stated that if it determines that the IFRS sustainability standards are fit for purpose, its decision would provide all member jurisdictions with the basis to decide how they might adopt, apply or be informed by the ISSB standards.

Further, IOSCO notes that it will also push forward work to develop assurance standards, and has identified independent assurance of the quality of corporate reporting of sustainability information as a key element of building trust in sustainability reporting. IOSCO has also committed to an in-depth review of carbon markets to identify the vulnerabilities in nascent voluntary carbon markets, as well as the transparency and integrity in the functioning of carbon markets from the perspective of financial regulation.

Finally, IOSCO will also step up its engagement with both national regulators and market participants to push for the implementation of its recommendations addressed to asset management and ESG ratings and data providers.

4.3 IOSCO publishes investment funds statistic report

On 4 January 2022, IOSCO published its investment funds statistics report, the first of its kind by IOSCO, which is underpinned by a broad data survey to which 50 IOSCO members have contributed, representing 67% of total AUM of global investment funds. The scope of the survey forming the basis of the report includes all funds except money market funds, and the report analyses, in turn, relevant features of the hedge funds' industry, the open-ended funds' industry, and the closed-ended funds' industry, including AUM, investment exposures, leverage, collateral, unencumbered cash and cleared trades, and liquidity.

The report notes that leverage across asset management remains relatively low, with hedge funds appearing to have, in aggregate, sufficient portfolio liquidity to meet potential investor redemptions during normal times. However, the report also notes that it is difficult to indicate whether this would remain the case under stressed conditions.

With respect to open-ended funds, the report notes that, compared to hedge funds, these are not highly leveraged, even though the industry is ten times larger by AUM, reflecting the generally-applicable regulatory requirements and limitations on some open-ended funds, preventing them from using leverage above certain limits. Future iterations of the report will consider further metrics of leverage as other data becomes available. With respect to closed-ended funds, the report notes that these hold large portions of their asset allocation in physical assets and are not highly leveraged. However, this possibly masks the role of leverage as undertaken through private equity and depending on the level of leverage in those instances, there may be further consideration to be given to its potential impact on the real economy in times of crisis.

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