Navigating uncertainty

Evolving Asset Management Regulation report

September 2022

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Navigating uncertainty

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Executive summary

Just as regulators and industry were adjusting to the "new reality" we outlined in last year's report, the geopolitical and economic landscape is again undergoing major change and giving rise to significant challenges. **Policymakers are responding to developments and reviewing regulatory approaches and priorities. All stakeholders need to navigate widespread uncertainty.**

The focus on sustainable finance has further widened and deepened, with an increasing number of jurisdictions introducing rules for asset managers and funds. Reviews of the market events of March 2020 are approaching their conclusion, but recent events have raised new concerns about liquidity management within funds. Meanwhile, regulators continue to emphasize the need for robust governance and operational resilience.

Policymakers are walking a tightrope between expanding the available range of products to retail investors (allowing for alternative assets and strategies to assist economic recovery), while recalibrating their approaches to investor protection in an increasingly digital world.

Since the 2021 Glasgow COP26 summit, momentum continues to build around **sustainable finance** initiatives as investor demand increases. Regulatory proposals cover an increasingly broad range of topics and are adding more detail to existing frameworks. Policymakers continue to develop sustainable taxonomies, requirements to integrate sustainability into investment decision-making and disclosures, and product labels to inform investors. "Greenwashing" is a key area of concern around the globe. More broadly, initiatives to increase corporate reporting (which will improve information flow to asset managers) and to promote greener capital markets are gathering pace. Asset managers need to implement a complex range of new requirements while meeting their clients' evolving expectations.

Liquidity management in open-ended funds, and of money market funds in particular, remains high on the regulatory agenda and part of the **systemic risk** debate. Analysis of market events in March 2020 is concluding at international level and national regulators are considering their response. Russia's invasion of Ukraine has introduced new challenges in capital markets, which has caused regulators to adjust their priorities. Policymakers are concerned more broadly about stability and transparency in the capital markets, clearing arrangements, market conduct and fair treatment of investors.

Across the world, **investor protection** arrangements continue to be enhanced. Jurisdictions are at different stages of developing and updating their frameworks and requirements, but a common theme is the increasingly digital nature of distribution, which is posing both opportunities and challenges. Policymakers are raising their expectations of fund managers. Regulatory initiatives include an increased focus on value for money, product governance arrangements (including target market and distribution strategy), and new regulations for fund managers, administrators and depositaries.

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Governance also remains an area of focus. Some jurisdictions are seeking to implement enhanced accountability arrangements, while others are driving forward requirements to ensure that asset managers have diverse and inclusive cultures. Regulators continue to be keen that asset managers are **resilient** from an operational and cyber perspective. Worldwide, supervisors are increasingly focused on firms' capability to counter financial crime and comply with sanctions. More fundamentally, regulators in some countries are refining their expectations about the resources, capabilities and expertise that firms must have to run their day-to-day activities – their "**substance**". The debate is especially relevant to cross-border activities and in the new world of hybrid working.

Jurisdictions are increasingly competing for market share as asset management and fund domiciles. They are seeking to boost economic recovery from the pandemic and **widen investor choice**. Regulators are therefore introducing new vehicles and allowing the distribution of existing funds to a broader universe of investors. Investor protection considerations remain important, though the ability for overseas funds to be marketed to retail investors and the inclusion of crypto-assets in portfolios are active areas of debate.

> "All stakeholders need to navigate widespread uncertainty."

In the context of these regulatory developments, governments and regulators are constantly reviewing the most appropriate approach to regulation, resulting in **evolving regulatory structures and approaches** in these challenging times. In any year, one can expect to see a combination of new rules and supervisory guidance. In this report, it is notable that the volume of new guidance far outweighs the reported instances of rules being proposed or introduced.

Asset managers need to respond to challenging market developments, track regulators' busy agendas and review their capabilities to be able to navigate an uncertain environment.

Key questions for CEOs

- Are we tracking all regulatory developments and considering their potential impacts, both individually and in aggregate?
- Do we understand changes in regulatory structures and approaches, and do we have sufficient technology and data capabilities to keep pace with reporting expectations?
- Are we actively engaged with the sustainable finance agenda and are we prepared to implement the full range of new regulations that will impact us, directly or indirectly? Do we have access to the datasets and tools we need?
- Have we critically analyzed our experience during the 2020 and 2022 market stress, and re-assessed liquidity risk management for our funds?
- Are we monitoring regulatory expectations about the way the capital markets operate? Have we considered, and are we prepared for, how our clients and our systems might be impacted?
- Are we tracking new investor protection regulations and putting in place robust processes, systems and controls to meet the new requirements and evidence good outcomes for investors?
- Do we have effective board engagement and supporting governance arrangements in place? Do we place operational resilience at the center of our business strategy?
- Do we have sufficient resources and expertise at all levels in the business to be able to evidence "substance"? Do we actively and effectively oversee functions and tasks that we delegate or outsource to other parties?
- Are we utilizing the full range of emerging products and fund structures to deliver sound investment strategies to investors? Are we taking advantage of opportunities to invest in new markets and are we navigating new restrictions?

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01. Evolving regulatory approaches

Policymakers are concluding their pre-pandemic policy agendas, but the geopolitical landscape is again undergoing major change. The impact on people, the real economy and asset managers is significant. Regulators are having to adapt their priorities and schedules in the face of unexpected developments, increased uncertainty and economic pressures. Major changes to regulatory structures and approaches are underway.

Recent IOSCO[1] publications have covered wide-ranging topics – including digitalization, investor protection and market liquidity – and promoted good practices to foster international supervisory co-operation and information-sharing. In a marked step change, IOSCO has published its first dedicated sustainable finance work plan (see Chapter 2), which indicates increased focus on corporate reporting and assurance, new areas such as carbon markets, and implementation of recommendations addressed to asset managers. Regulators are also focused on risks in capital markets (see Chapter 3).

Structural change

Amidst an uncertain environment, many authorities continue to adapt their approaches, including fundamental changes to structure and scope.

In **Canada**, after years of discussion, a new single self-regulatory organization (SRO) will be created by end-2022, by consolidating two existing SROs and enhancing the overall governance structure. The new organization will focus on investor protection to promote public confidence and to accommodate innovation and change. Two existing investor protection funds will also be combined into an integrated fund independent of the new SRO. The aim of the re-organization is more efficient and effective regulation.

The Securities and Exchange Board of **India** (SEBI) has approved the supervision and administration of certain investment advisers by a separate body. Existing SEBI-registered advisers will need to seek membership of the other body and new advisers will need to obtain membership before applying for registration with SEBI. Conversely, new **Swiss** law brings smaller asset managers, previously supervised in the area of anti-money laundering only by self-regulatory organizations, under the direct and more extensive supervision of the financial market supervisory authority (FINMA), assisted by external supervisory organizations. The three-year transition period expires at end-2022, by when firms will need to submit authorization applications.

> “...accommodate innovation and change”

The **UK** is adapting its laws to reflect its position outside the EU. At the point of departure (“Brexit”), all EU regulations were copied into UK primary legislation. The government has signaled its intention to move gradually towards a model based on the UK’s existing law, which sets out the broad requirements but gives the regulators powers to make detailed rules. A new parliamentary committee will scrutinize regulators’ proposals. In **South Africa**, a new bill will consolidate financial sector laws into

1 International Organization of Securities Commissions

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a single overarching piece of conduct legislation and bring a broad scope of new activities within the conduct legislative framework (see also Chapter 4). Meanwhile, the **Isle of Man** regulator has proposed that its funding be provided predominantly by industry rather than the government, in line with international best practice.

New approaches

Regulators are changing their overall approach to investor protection as well as making specific amendments to rules. The Securities and Futures Commission (SFC) in **Hong Kong (SAR), China** has proposed extending the scope of its enforcement powers to bolster investor protection and to require compensation of investors under certain circumstances. The **US** Securities and Exchange Commission is proposing new rules for advisers to private funds (see Chapter 4).

SEBI has taken steps to implement an "investor charter" in **India**, to expand the scope of dispute resolution and to provide for an electronic interface processing investor queries and complaints. **Germany**'s Federal Financial Supervisory Authority (BaFin) has re-organized its contact point for whistle-blowers and formed a new Market Contact Group to gather information from the financial sector.

> "...a more proactive and assertive approach"

Australian regulators are perceived to be moving from reliance on self-reporting by asset managers to a more proactive and assertive approach. And the **UK** Financial Conduct Authority (FCA) will no longer structure its activities around the financial sectors and instead align them with cross-cutting strategic areas of focus. It has published performance metrics to demonstrate progress against targeted outcomes, including on fair value, suitability and treatment, confidence and access.

Some regulators are streamlining their approach and consolidating existing requirements. The Central Bank of **Bahrain** is consulting on rationalizing and simplifying its regulations for investment funds into a single module. **Canadian** securities regulators are implementing eight initiatives to reduce the regulatory burden for investment funds by reducing duplication, streamlining approval processes and codifying frequently granted exemptions from certain requirements. Investment funds will file a new prospectus every two years instead of annually.

Use of data and technology

Regulators are adjusting their practices to keep pace with technological advancements and developments in the industry, and to improve their own use of data and communications.

The **Spanish** regulator (CNMV) plans to make increasing use of data, to recruit additional data analysts, and to implement staff training on innovation, technology and sustainable finance. ESMA has emphasized the importance of data quality in **EU** firms' reporting and is working on its own data strategy. The FCA plans to transform how it collects data from **UK** firms, and intends to make firms' data submissions simpler and faster, make it easier for firms to understand reporting requirements and develop a unified data collection portal. And in **Germany**, BaFin continues its modernization plan to increase the effectiveness of its supervision with state-of-the-art technology. A new data intelligence unit gives supervisors a user-friendly tool with the information they need.

In **Hong Kong (SAR), China**, the SFC will introduce a new "next generation" digital platform for processing applications and for firms to communicate with it. The **Luxembourg** regulator has already implemented a digital platform where all forms and questionnaires must be completed and submitted.

Regulators continue to consider how best to promote innovation and competition. **The Isle of Man** regulator sought feedback to shape its future approach to fintech innovation and whether certain activities should be regulated. Regulatory "sandboxes" allow firms to test new ideas in a safe environment and are now being used to foster innovation. For example, the **UK** FCA has piloted a "digital sandbox" focused on solving regulatory challenges related to sustainability data and disclosures. In **Australia**, discussions have started on the regulation of the use of artificial intelligence.

Firms need to gear up for changes in the structure and approach of their regulators, including greater use of data and technology.

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02. Sustainability heats up

In 2021, we reported that sustainable finance was the issue most discussed by regulators, industry and investors. Since the 2021 Glasgow COP26 summit, momentum has further increased, as evidenced by the number of official statements from around the world on climate change.

Policymakers are pushing ahead with the development of taxonomies and proposals for asset managers to integrate environmental, social and governance (ESG) factors into their investment and risk management processes. Regulators are concerned about "greenwashing" and are prescribing disclosures and product labels to inform investor decision-making. Rules on corporate reporting by public companies and financial services firms, and proposals to regulate ESG ratings and data providers, are expanding. These will enhance information flow to asset managers, some of which will themselves be caught by the requirements.

In some jurisdictions, legal debates continue on whether asset managers' "fiduciary duty" must be narrowly interpreted as maximizing investment returns and is therefore not compatible with sustainable investing (unless that is the investor's express wish). As issuers increasingly analyze and disclose their own sustainability risks, and capital markets price securities accordingly, this debate is likely to evolve. Of more immediate concern for some is that investment in emerging markets and small cap companies, for which reliable sustainability data are difficult to obtain, may become less attractive for institutional investors that are subject to ESG requirements.

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ESG is increasingly an integral part of asset managers' business strategy. A KPMG in Luxembourg survey found that almost half of all funds managed by participating **Luxembourg** management companies were described as promoting environmental or social characteristics, or having sustainable investment objectives. A large majority of firms expressed the ambition to increase their percentage of such funds significantly over the coming months and years.

At the global level, IOSCO[1] published its first work plan specific to sustainable finance. IOSCO will review the new International Sustainability Standard Board's (ISSB's) proposed standards, develop assurance standards and review carbon markets. It is also urging regulators and industry to implement its 2021 recommendations addressed to asset managers and ESG ratings and data providers (see below). The recommendations for asset management focused on investor protection issues and aimed to improve sustainability-related practices, policies, procedures and disclosures.

Taxonomies multiply and expand

In October 2021, a BIS[2] report on taxonomies found a lack of use of relevant and measurable sustainability performance indicators, insufficient granularity and a lack of verification of achieved sustainability benefits. It proposed key principles for the design of effective taxonomies. Work is progressing on global definitions for corporate reporting purposes (see below). The **EU** was the first to impose detailed definitions of "E" within financial services regulation, via the EU Taxonomy Regulation. Other jurisdictions are rising to the challenge of developing their own taxonomies, with an eye to ongoing implementation issues with the EU Taxonomy.

From January 2022, the EU's detailed descriptions of activities relating to climate change adaptation and mitigation objectives became effective. Industry continues to experience difficulties around operationalizing the definitions, lack of data and lack of consistency with other regulations. Work on the remaining four environmental objectives has been delayed due to extended political debate regarding nuclear and gas energy sources. In March 2022, the Commission adopted amendments that, under strict conditions, would include nuclear and gas in the list of "green" activities covered by the Taxonomy. Given the invasion of Ukraine, there were calls for these highly-politized amendments to be revisited, with strongly-held and opposing views, but the amendments were finally agreed.

The **UK** has adopted the EU environmental objectives in its own taxonomy, but continues to consider the detailed criteria that will underpin these objectives. Criteria for climate change adaptation and mitigation are expected by end-2022. **Switzerland** is preparing climate scores for sustainable investments, which initially will be voluntary.

Taxonomies are being developed in other regions too. For example, the Association of Southeast Asian Nations (ASEAN), which covers ten jurisdictions, has published a classification for sustainable activities. The Green Finance Industry Taskforce of the Monetary Authority of **Singapore** (MAS) has published detailed thresholds and criteria for economic activities in the energy, transport and real estate sectors. And the **Australian** industry, via the Australian Sustainable Finance Institute, has committed to the development of a sustainable finance taxonomy as a priority, but recognizes that legislation may be needed for clarity and to manage greenwashing risks in retail funds.

Initial policy work within the **EU** on defining "socially sustainable" activities suggests that an "S" Taxonomy will present even more challenges than the "E" taxonomy. Social objectives may prove more difficult to draft and agree, quantitative measures will need to be formulated from scratch in many areas, and the availability and reliability of the data needed to calculate those measures are largely absent at present. It is recognized that S factors can be the most difficult to analyze and embed in investment strategies. The EU Platform on Sustainable Finance (an independent advisory body to the European Commission) explored in detail the merits and challenges of developing a social taxonomy. It subsequently consulted on "minimum safeguards" that require companies to implement procedures in compliance with OECD[3] guidelines and the UN guiding principles on business and human rights.

> "...difficulties around operationalizing the definitions"

Given the difficulties encountered with the E taxonomy, publication of a draft S taxonomy is not expected in the short term. And it remains to be seen whether regulators will in future grapple with detailed descriptions of "G" factors, or leave industry and investors to refer to long-standing global principles of good governance (see Chapter 5).

1 International Organization of Securities Commissions
2 Bank of International Settlements
3 Organization of Economic Co-operation and Development

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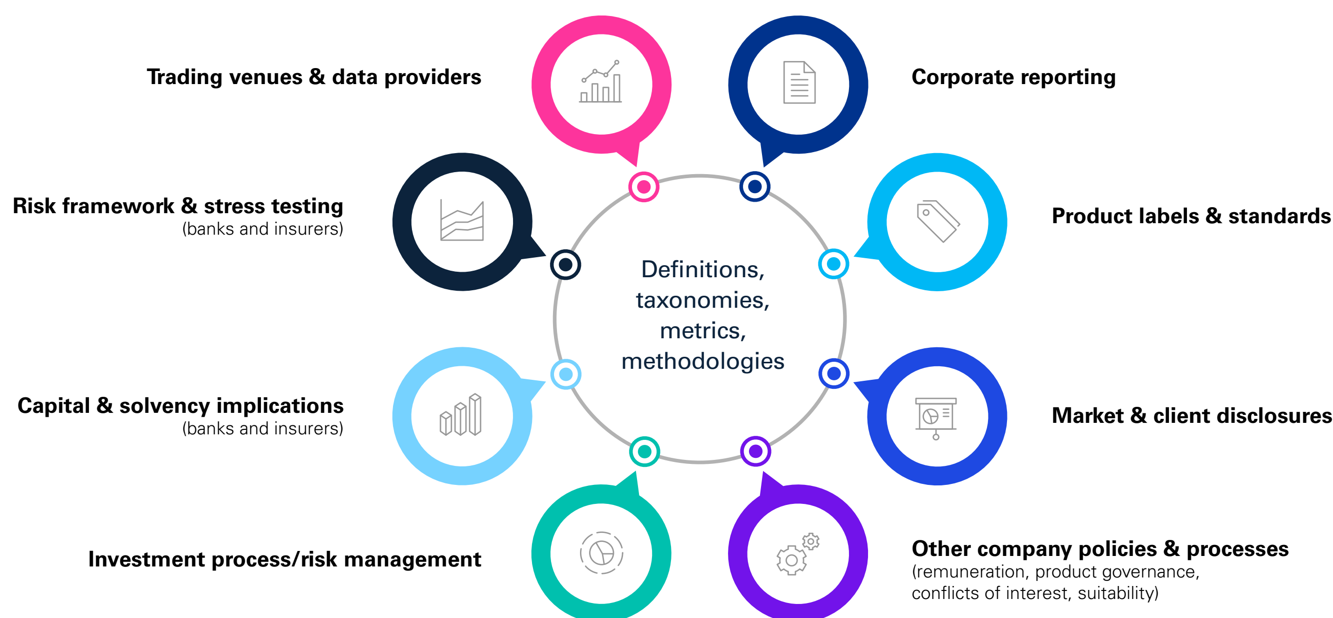
The ESG regulatory landscape



Incorporating ESG factors into investment

New regulatory requirements around the consideration of ESG risks in investment decision-making and risk management processes will be critical to advancing the sustainable finance agenda. An FSB[4] report in April 2022 noted that the incorporation of climate-related risks in risk management practices across asset managers and pension funds is at an early stage. It also found that regulatory and supervisory tools for asset managers are limited to micro-prudential measures. Stress tests and scenario analysis have been applied mainly for banks and insurers, and only a few jurisdictions have put these in place for asset managers.

New **EU** requirements came into force in August 2022 and integrate ESG factors into the existing requirements for fund managers, portfolio managers and financial advisers around decision-making procedures, organizational structures, risk management, due diligence, resources and conflicts of interest. The concept of "sustainability preferences" was also introduced into the investment advice and suitability process, which requires advisers to consider sustainability preferences (in addition to risk tolerance) in their clients' investment objectives. Some EU national regulators may accommodate a best-efforts approach by firms in the first stage. Industry has developed the European ESG Template ("EET") to facilitate the exchange of information between product providers and distributors. From November 2022, further amendments will require product manufacturers and distributors to consider sustainability risks in the target market for products. To assist implementation, ESMA[5] is updating its guidance in these areas.

> ...advancing the sustainable finance agenda

An MAS paper on environmental risk management highlights emerging and good practices by asset managers in **Singapore**, and identifies areas where further work is needed to strengthen resilience to environmental risk. In **Hong Kong (SAR), China**, the SFC has issued new rules that will require more than 1,800 fund managers to consider climate-related risks in their investment and risk management processes. There is a two-tier approach: a baseline set of requirements for all fund managers managing collective investment schemes; and "enhanced requirements" that will apply to fund managers with AUM[6] greater than HKD 8 billion. The **Japanese** Financial Services Authority (JFSA) expects firms to have established governance systems for climate-related risk, developed appropriate business models and strategies to respond, and put in place processes to assess and manage climate-related risks.

4 Financial Stability Board
5 European Securities and Markets Authority
6 Assets under management

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The **Australian** Prudential Regulation Authority (APRA) has published prudential guidance for managing the financial risks of climate change, which applies to superannuation (pension) trustees, as well as to banks and insurers. The guidance does not introduce new requirements but is intended to help entities manage climate-related risks and opportunities within their existing practices, in beneficiaries' best interests. Similarly, the Australian Securities & Investments Commission (ASIC) has identified climate risk as a material financial risk that should be managed in accordance with existing risk management practices and regulatory guidelines.

A "Dear CEO" letter from the Central bank of **Ireland** (CBI) to regulated firms, including asset managers, set out the CBI's supervisory expectations in five key areas – governance, risk management frameworks, scenario analysis, strategy and business model risk, and disclosures. The CBI noted that sector-specific guidance may be needed in due course. Meanwhile, the Spanish regulator plans to analyze the level of climate risk to which **Spanish** investment funds are exposed, considering different transition and physical risk scenarios and their impact on the net asset value of each fund, as well as the potential contribution to systemic risk.

Disclosures and greenwashing

In response to regulatory concerns about greenwashing, guidance and rules have been enhanced or introduced, requiring asset managers to make disclosures at both entity (management company) and product (fund or portfolio) level. Nevertheless, concerns are growing that requirements are being implemented inconsistently, terminology is confusing for investors, and the plethora of definitions and methodologies is preventing reliable comparisons between products. There is also the risk of overloading investors with disclosures.

> "...guidance for funds and their ESG disclosures, to combat greenwashing"

The **EU** led on mandatory and detailed ESG-related disclosures for asset managers and funds. Having introduced baseline requirements in the Sustainable Finance Disclosure Regulation (SFDR) in March 2021, the EU's long-awaited "level two" disclosure standards become effective in January 2023. They provide more detail on the content, methodologies and presentation of the information that asset managers and funds will need to disclose. At entity level, firms with less than 500 employees can choose to report on "principal adverse impact" (PAI) indicators, while at product level there will be new templates for funds to complete for pre-contractual and periodic disclosures.

SFDR implementation continues to give rise to questions around the meaning of and how to operationalize the rules, which continue to evolve. The European Commission and ESMA have also published certain clarifications, which comment on the impact of SFDR on non-EU companies marketing funds into the EU and seek to address the uneven implementation of SFDR across regulators and the industry. In May 2022, the European Commission asked the European Supervisory Authorities (ESAs) to align the detailed SFDR requirements with changes to the EU Taxonomy on nuclear energy and gas, and to consider extending the universe of PAI indicators. And in August 2022, the Commission asked the ESAs to advise on greenwashing risks and the supervision of sustainable finance policies.

National EU regulators have been undertaking reviews. For example:

- The **Belgian** regulator found that asset managers had "rapidly adapted" to SFDR and investors are more interested in investments with sustainability characteristics. It subsequently stressed the importance of compliance with the regulations.
- The **Dutch** regulator found that the integration of sustainability risks in investment policies could be more clearly stated, disclosures could be clearer, and funds' objectives were frequently too vaguely defined. A further study showed that funds have a wide interpretation of sustainability, a large share of holdings in sustainable funds are in technology stocks, and that investors struggle to assess fund managers' engagement and to rely on fund names.
- The **Italian** regulator has investigated funds classified as having sustainable investment objectives and has asked some fund managers to revise down their classifications to "promoting sustainable characteristics".
- The **Luxembourg** regulator encouraged fund managers to follow the draft regulatory technical standards before the final version becomes effective in January 2023.
- In 2021, the **Swedish** regulator found a significant portion of funds were categorized as sustainable products but that not all managers were complying with SFDR. It reiterated the need for disclosures to be consistent with funds' investment strategies. It is undertaking another review into whether funds are presented as being more sustainable than they are.
- The **Maltese** regulator continues to monitor firms' compliance with SFDR.
- The **Spanish** regulator plans to review funds' prospectuses and holdings, analyze funds' management reports and websites, and review the use of the term "sustainable" in funds.

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Some EU member states are implementing additional requirements at the national level. In **Germany**, for instance, certain information relating to SFDR disclosures is presented in funds' annual reports. Since the introduction of the "Fondsstandortgesetz" (Fund Jurisdiction Act) in 2021, external auditors are required to assess whether fund managers are meeting the requirements of certain aspects of the SFDR (for example, checking that the information is correct and complete). Material errors or omissions could lead to modified audit opinions.

In **France**, on an annual basis, asset managers will need to make available to their investors and the public a dedicated report to outline how ESG factors are considered in the investment strategy and how they are contributing to environmental transition. The AMF[7] has also updated its policy on funds that use Total Return Swaps, which can communicate about their consideration of non-financial criteria provided they meet certain conditions. The AMF has called on asset managers to be extremely vigilant in their communications.

On the other hand, to facilitate orderly SFDR implementation, the Central Bank of Ireland is establishing a fast-track filing process for pre-contractual document updates to Irish funds. Managers will be able to attest their compliance with SFDR.

UK asset and fund managers must publish on their websites both entity and product-level disclosures on climate change that are consistent with the TCFD[8] recommendations – larger firms will need to make their first disclosures from 2023 and smaller firms a year later. Under the FCA's new Sustainability Disclosure Requirements (SDR), these disclosures will be extended to cover a wider range of sustainability factors. A further consultation is expected in autumn 2022.

The **US** Securities and Exchange Commission (SEC) has set ESG as an examination priority for 2022, focusing on whether ESG activities are commensurate with what is being marketed and communicated to investors and intermediaries, and whether investment advisers' proxy voting is aligned. It has also published rule changes regarding funds and their disclosures. Amendments to the fund names rule would extend the requirements to any fund name with terms relating to specific characteristics (including ESG factors). The rule requires funds whose names focus on certain investments to invest at least 80 percent of the value of their assets in those investments. A second set of amendments would require funds and advisers to provide more specific disclosures based on the ESG strategies they pursue. For example, funds focusing on environmental factors would need to disclose greenhouse gas emissions associated with their portfolio investments. Thirdly, the SEC proposes to require funds to tie the description of each voting matter to the issuer's form of proxy and to categorize each matter by type. The goal is to help investors identify votes of interest and compare voting records.

Various regulators have provided guidance for funds and their ESG disclosures, to combat greenwashing. In November 2021, the **Swiss** regulator provided guidance focused on sustainability-related information at the fund level and the organizational structures of firms managing these products – as well as rules of conduct at the point of sale. The **UK** FCA published "guiding principles" for managers of retail funds, setting out its expectations on the design, delivery and disclosure of ESG funds. And guidance from the **Canadian** securities regulators on ESG-related investment fund disclosures covers investment objectives, fund names, investment strategies, risk and sales communications.

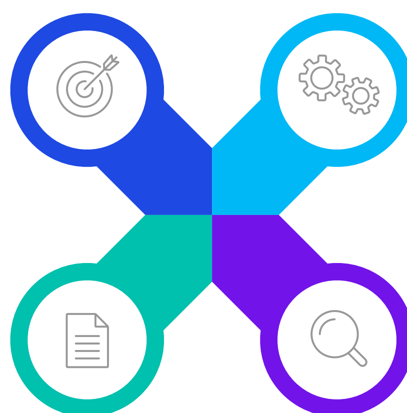
The EU Green Bond Standard

01 Taxonomy alignment

Contributes substantially to, and does not significantly harm, one or more of the six environmental objectives

02 Green Bond framework

Confirms alignment with the EU GBS; explains how the issuer's strategy aligns with the environmental objectives; provides details on use of proceeds, reporting and other key aspects



03 Reporting

Mandatory reporting on use of proceeds (allocation report) and environmental impacts (impact report)

04 Verification

Mandatory verification of the Green Bond Framework and final allocation report by an external reviewer

7 Autorité des Marchés Financiers

8 Taskforce on Climate-related Financial Disclosures

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In July 2022, ASIC published a non-binding "information sheet" which makes certain recommendations for **Australian** fund managers and trustees of superannuation schemes concerning the naming, promotion and offering of sustainability-related products. It complements a new guide on product disclosure statements. ASIC encouraged voluntary TCFD disclosures and reiterated relevant existing rules and its expectations, specifically regarding prohibitions against misleading and deceptive statements and conduct, as well as disclosure obligations. ASIC is also undertaking surveillance and enforcement action against any misleading claims relating to sustainability. In **Hong Kong (SAR), China**, the SFC has provided additional guidance on disclosures and reporting for authorized funds that incorporate ESG factors and for funds with a climate-related focus.

In July 2022, the **Singapore** regulator set expectations on how requirements apply to retail ESG funds. The circular included new guidelines regarding fund names (for example on the use of ESG-related terms) and expectations on disclosures in fund prospectuses across a fund's investment focus and strategy, reference benchmark and risks. Enhanced reporting and disclosures will also be needed in ESG funds' annual reports and on websites (for example around how an ESG focus is measured and monitored).

> "Enhanced reporting and disclosures will also be needed"

The **Guernsey** Financial Services Commission has consulted on introducing measures to mitigate the potential risk of greenwashing. Its proposed guidance would reinforce expectations relating to disclosure requirements and would apply where explicit sustainability claims are made. It noted its consultation would keep the jurisdiction in step with other jurisdictions' investor protection measures.

In **India**, SEBI has created a new advisory committee on ESG matters and set out its long-term intention to prescribe ESG disclosures for all mutual fund schemes. And in **Japan**, the JFSA plans to conduct a wide range of research and analysis on the state of ESG in the asset management industry, including specific indicators, and to promote the monitoring of asset managers.

Mandatory "kitemarks"

Labels and standards for products can increase investors' understanding of what is on offer. Over time, industry-led frameworks are set to be superseded by regulation. Regulators are opting for either "kitemarks" that certify whether a product has met certain minimum criteria, or prescriptive labelling schemes that seek to describe the nature of products and their investment strategies.

In the **EU**, local labels and standards (which generally take the form of kitemarks) have been in use for several years, including the Nordic Swan, the Luxflag and the Belgian Febelfin. The **French** AMF's "Doctrine" is not a labelling scheme as such but requires consistency between what is said in marketing material and the actual investment management of the fund (by imposing minimum standards on products that hold themselves out as having ESG characteristics) and contains rules on fund names.

First out of the blocks with proposals on mandatory product labels were **Germany** and the **UK**, which would require all funds (or at least all funds claiming to be sustainable) to be assigned one from a suite of labels depending on the extent of their sustainable investment. However, BaFin (the German Federal Financial Supervisory Authority) announced in May 2022 that the introduction of the new guidelines was postponed due to the developing regulatory environment and challenging geopolitical situation. It is not yet certain whether the guidelines will be implemented ahead of the EU ecolabel being introduced (see below). Meanwhile, feedback to the FCA's initial proposals for labels such as "transitioning", "aligned" and "impact" was critical, saying the labels will not be meaningful for retail investors. The FCA has delayed its consultation to take account of other international policy initiatives and to ensure stakeholders have time to consider the issues.

Other regulators favor kitemarks. In **Guernsey**, for example, the regulator has consulted on rules that will allow voluntary designation of funds as "Natural Capital Funds". The kitemark will be available to funds committed to making nature-positive investments, setting and monitoring against appropriate targets, and making relevant disclosures.

A draft **EU** ecolabel regulation has been delayed due to protracted discussions on the Taxonomy Regulation (see above) but is expected by end-2022. It will apply to all types of funds (as well as insurance-based investment products and bank structured products) and will be additional to SFDR disclosures. The criteria will be based on minimum investment thresholds in EU Taxonomy-aligned activities. For example, bond funds wishing to use the kitemark might need to be at least 70 percent invested in green bonds, and equity funds might have to meet a series of thresholds.

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Greener capital markets

Regulators are turning their attention to the functioning of the capital markets, which will impact asset managers in their role as market participants. Frameworks for green or social bonds are being developed, and ESG ratings and data product providers are under scrutiny.

> Frameworks for green or social bonds are being developed

In **Japan**, the JFSA intends to establish a framework for objectively confirming the eligibility of green bonds. Meanwhile, the proposed **EU** Green Bond Standard is being debated by the co-legislators.[9] It will apply to any type of issuer – listed or non-listed, European or international – and will require initial and periodic reporting, and external verification by an approved entity. It will help asset managers and investors to identify green bonds, but it will also require them to reclassify their existing bond holdings. The European Commission is expected to issue a similar proposal for EU social bonds. And to assist the development of **UK** social bonds, the FCA is considering providing indicators on the social benefits of projects, working with government ministries and agencies.

IOSCO's final report on ESG ratings and data providers calls for greater regulatory oversight. It found unclear definitions, a lack of transparency regarding methodologies, uneven coverage of products offered, potential concerns about conflicts of interest, and that better communication between providers and rated companies is needed. IOSCO set out recommendations for regulators, ESG ratings and data products providers, users of ratings (including asset managers) and rated companies. Regional and national regulators are beginning to respond.

The JFSA plans to develop a code of conduct for **Japanese** rating agencies and data providers regarding issues such as the transparency and comparability of evaluation methodologies and governance. ESMA gathered feedback on the market structure of ESG ratings providers in the **EU** and provided its findings to the European Commission in June 2022. It noted that there are many non-EU providers and the "investor pays" model is the most common. Entities covered by ESG ratings dedicate some resources to their interactions with ESG ratings providers, but ESMA identified certain shortcomings, such as a lack of transparency around the basis for a rating.

Separately, the European Commission consulted to gain a better understanding of the dynamics of the **EU** ratings market, and to identify possible shortcomings in relation to the consideration of sustainability risks in credit ratings and the disclosures made by credit ratings agencies. The **UK** FCA has said it can see a clear rationale for regulatory oversight of certain ESG data and rating providers, and for a globally consistent approach.

9 The European Parliament and the Council of the EU

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Corporate reporting to increase

Increased reporting by corporates within annual financial reports will provide much-needed data for asset managers' investment decisions, enable improved disclosures to investors and inform company ratings.

The ISSB was created in November 2021 to improve the quality, transparency, reliability and comparability of sustainability reporting, with an initial focus on climate risk. To date, it has published two exposure drafts that set out the overall requirements for an entity to disclose sustainability-related financial information on risks and opportunities. Countries are already preparing for the new standards. For example, **Japan** has established a new Sustainability Standards Board.

Meanwhile, the FSB welcomed the October 2021 TCFD status report, which noted the acceleration of climate-related financial disclosures, and published documents to support decision-useful disclosure. Jurisdictions are seeking to broaden the information disclosed by public companies in accordance with the TCFD recommendations and, as described above, some jurisdictions propose to extend these requirements to all financial services firms and to larger private entities.

> "... acceleration of climate-related financial disclosures"

The European Financial Reporting Advisory Group has consulted on draft European Sustainability Reporting Standards, which will interface with the disclosure requirements under the incoming Corporate Sustainability Reporting Directive (CSRD). CSRD will require listed companies and "public interest entities" subject to existing **EU** reporting requirements, to report from January 2024 on their impacts on the environment and risks to the company from the environment ("double materiality"). CSRD will subsequently be extended to large private entities.

Authorities around the globe are introducing TCFD-related reporting requirements and guidance. The **UK** FCA requires companies with a premium or standard listing to disclose on a "comply or explain" basis against the TCFD recommendations. The **US** SEC has proposed that public companies should disclose climate-related risks that could impact aspects of their business and include climate-related financial metrics in a note to their audited financial statements. It has also proposed attestation requirements related to emissions data. From 2024, **Swiss** public companies, banks and insurance companies that exceed certain size thresholds will be required to make TCFD disclosures. The **Canadian** regulators have proposed new requirements for issuers to publish TCFD-type disclosures. And **Australia** is encouraging companies to provide meaningful and useful voluntary disclosures about climate impacts, in line with the TCFD, ahead of any mandatory requirements.

Some jurisdictions have introduced or are considering mandatory TCFD-aligned disclosures for financial institutions (including asset managers). **Malaysia**'s central bank and Securities Commission have published a TCFD application guide to assist Malaysian financial institutions with preparing for climate-related disclosures. The current intention is for all Malaysian financial institutions to adopt a set of basic recommendations from 2024.

Other jurisdictions are requiring broader ESG reporting. From April 2022, **Japanese** companies listed on the newly-opened prime segment of the Tokyo Stock Exchange are encouraged to enhance the quality and quantity of their disclosures based on the TCFD recommendations or an equivalent framework. However, authorities also plan to introduce new disclosure requirements on human capital and guidelines on human rights due diligence. In **Saudi Arabia**, the stock exchange has published reporting guidelines intended to be a resource for listed companies to encourage transparency across all ESG factors. Under the **UK** SDR, existing requirements for TCFD-aligned reporting will be extended to cover wider sustainability factors.

Key questions for firms

- Are we engaging in taxonomy debates, to help policymakers develop requirements that are operationally workable and lead to meaningful disclosures for investors?
- Have we considered the full range of new regulations or amendments that will impact us directly or indirectly, and are we on track to update our approach to meet clients' and supervisors' expectations?
- Are we prepared to respond to the volume of regulatory change and different approaches across the jurisdictions in which we operate?
- Have we developed effective methods for the consideration of environmental risks within our investment strategy, and investment and risk management capabilities, including alignment with relevant taxonomies?
- Are we meeting our clients' needs? Have we carefully considered the products we offer, and are we providing clear and informative disclosures and communications to our clients, in line with supervisors' expectations?
- Do we have an efficient process for gathering and analyzing data on underlying assets and exposures?

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03. Systemic risk: A regulatory priority

Liquidity management in open-ended funds (OEFs) remains high on the regulatory agenda. Analysis of the repercussions of the March 2020 "dash for cash" for OEFs in general, and for money market funds (MMFs) in particular, is concluding at international level, but national regulators continue to consider their response. Russia's invasion of Ukraine has introduced new challenges in capital markets, which has caused regulators to adjust their priorities.

Policymakers are concerned more broadly about stability and transparency in the capital markets, fair treatment of investors and market conduct. Asset managers will be impacted by reforms to trading and clearing arrangements. They will need to ensure appropriate dealing arrangements are in place for their clients.

The Financial Stability Board (FSB) has prioritized potential financial stability issues arising from the war in Ukraine. ESMA's[1] June 2022 report on trends, risks and vulnerabilities noted significant asset repricing, sharp jumps in commodity prices, and increased inflationary pressures. ESMA had already warned about liquidity concerns for alternative investment funds (AIFs).

While MMF reform has progressed quickly, OEFs more broadly have been subject to a longer debate – reviews by the FSB and IOSCO[2] are due to conclude this year, but outcomes are uncertain. Central banks and securities regulators will need to reach agreement on the nature and scale of vulnerabilities arising from liquidity mismatch to reach a policy conclusion. New analyses and commentary continue to emerge.

The regulation of exchange-traded funds (ETFs) has also been revisited by IOSCO, but no fundamental changes have been proposed. Existing recommendations have been complimented with proposed good practices.

Reforming Money Market Funds

In October 2021, the FSB set out a policy framework to enhance MMF resilience, calling on regulators to assess and address vulnerabilities in their jurisdictions. The IMF[3] set out its own policy considerations a month earlier, including better aligning investors' incentives, strengthening MMF risk management and addressing "market frictions" in short-term funding markets.

> "... require or facilitate the use of liquidity management tools"

Various jurisdictions have begun to consult on proposed reforms, including in the **US**, the **EU** and the **UK**. Reform options are largely aligned across jurisdictions and with the FSB's proposals. The potential changes would seek to reduce so-called "threshold effects" resulting from MMFs breaching liquidity limits (and therefore implementing liquidity fees, gates or suspensions), and to require or facilitate the use of liquidity management tools (LMTs), including "swing pricing". The reforms also seek to amend MMF reporting requirements and stress testing frameworks. In the meantime, authorities continue to adjust existing approaches. For example, ESMA revised its guidelines regarding stress test scenarios for EU MMFs.

1 European Securities and Markets Authority
2 International Organization of Securities Commissions
3 International Monetary Fund

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A wider focus on open-ended funds

The analysis of the March 2020 events on OEFs more generally, and the corresponding policy response, is expected to conclude shortly.

In November 2021, the FSB's Non-Bank Financial Intermediation (NBFI) progress report found that vulnerabilities can arise from liquidity mismatch in OEFs, that LMTs were used inconsistently, and that OEFs' asset sales contributed to stress in underlying markets. In parallel, the IMF proposed expanding the availability of LMTs and noted the benefits of swing pricing. It also suggested that a conclusive move away from daily liquidity for funds investing in illiquid assets would be beneficial, and that enhanced reporting and disclosure on OEF liquidity is "vital".

More recently, in April 2022, a joint FSB/IMF report on US dollar funding and emerging market economy vulnerabilities found that during the "dash for cash", some fixed income emerging market funds invested in less-liquid assets experienced large outflows, and that the behavior of fund managers may have added to selling pressures. It also found that emerging market funds made extensive use of swing pricing.

The remainder of 2022 will be critical in deciding the policy direction. IOSCO and the FSB are reviewing the implementation and effectiveness of their earlier recommendations. In the meantime, central banks and securities regulators have reiterated their expectations, conducted their own analyzes and set out their own proposals:

- The **French** regulator has proposed measures to promote a wider adoption of liquidity management tools.
- As part of the **EU** AIFMD[4] review, the European Commission proposed harmonizing the availability of LMTs for UCITS[5] and AIFs.
- The **Maltese** regulator found that liquidity risk in the retail investment fund industry remains contained, with most funds capable of withstanding extreme redemption requests.
- From January 2022, the **Japanese** regulator introduced new liquidity criteria for the classification of assets and new requirements for stress testing.
- The **Spanish** regulator published a technical guide for fund managers, covering policies and procedures, fund design and pre-investment analysis, liquidity analysis and control, and LMTs.
- New **Swiss** requirements became binding from January 2022. Fund managers are now required to review liquidity risks and other material risks at regular intervals under various scenarios and document the results. Dedicated liquidity thresholds need to be defined for each fund.
- The **UK** regulators proposed a framework to enhance swing pricing and to improve asset-side liquidity classification.
- The CBI consulted on macroprudential measures for **Irish** property funds. The proposals would introduce leverage limits and additional guidance to align funds' redemption terms more closely with the liquidity of their assets.

Importantly, regulators' ongoing focus is not limited to the policy space. ESMA's supervisory engagement found "room for improvement" and the need for continued monitoring on liquidity stress testing and the valuation of less liquid assets. In **Sweden**, the regulator has analyzed the need for additional LMTs and plans to test how well prepared the fund sector is for a future crisis. The **Maltese** regulator also plans to incorporate liquidity risk management into its supervisory engagements. And in the **Netherlands**, fund liquidity management has been identified as an important area of supervisory focus in the regulator's latest forward-looking agenda.

Regulators are also reviewing how asset managers value the assets held by their funds. IOSCO plans to conduct exploratory work on fund valuations in 2022, looking at situations where fund managers fair value securities if reliable market practices are not available. ESMA launched a "common supervisory action" in January 2022 to examine **EU** fund managers' approach to valuing less liquid assets.

Impact of the war in Ukraine

As well as the terrible humanitarian impact of Russia's invasion of Ukraine, the war has had consequences for financial markets and the real economy. In the fund management space, in addition to navigating increased volatility in the capital markets, there are challenges for funds with exposures in the region that have become illiquid, hard to value or subject to sanctions.

Various regulators have set out their expectations and potential new rules. For example:

- The **UK** regulator issued new rules allowing the use of side pockets under limited, emergency measures.
- The **Luxembourg** regulator provided clarification regarding temporary and structural measures available to fund managers, including the use of LMTs.
- The **French** regulator reminded asset managers of their obligations regarding risk management, and that they have LMTs to protect clients' interests, as well as to ensure financial stability and guarantee market integrity.
- ESMA promoted convergence in the way that **EU** fund managers and regulators respond to the crisis, to provide clarity and to remind fund managers of their obligations. ESMA concluded that AIF managers can consider using side pockets where it is in the best interest of investors, and that side pockets in UCITS "could be permissible".

4 Alternative Investment Fund Managers Directive
5 Undertakings for collective investment in transferable securities

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- The CBI emphasized that the liquidity position of **Irish** funds must be reviewed on an ongoing basis and be aligned with the fund's redemption policy, and an appropriate suite of LMTs should be deployed. It permits the creation of side pockets in UCITS under certain circumstances and established a streamlined authorization and approval process.
- In the **US**, certain funds with high concentration of exposures to Russia have been provided regulatory relief to suspend redemptions in order for such funds to accomplish an orderly wind down.

Some regulators are also looking to strengthen ties in the light of recent events. For example, in June 2022, the Spanish and Ukrainian regulators signed a memorandum of understanding on mutual assistance and co-operation.

Reporting to regulators increases

Regulators continue to consider whether they have the appropriate data to supervise funds and their managers.

> "... initiative to close data gaps identified in the global financial crisis"

In November 2021, the FSB noted the lack of sufficient data to analyze the impact of liquidity mismatch on redemptions. Subsequently, in June 2022, the FSB and IMF announced they had completed the second phase of a G20 initiative to close data gaps identified in the global financial crisis. They noted that challenges remain for some countries regarding non-bank cross-border exposures. Meanwhile, IOSCO has expanded its regular hedge fund survey publication to include other open-ended and closed-ended funds, capturing an estimated 67 percent of the global investment fund universe.

The SEC[6] has identified **US** private funds as being a 2022 examination priority. Having identified "significant information gaps", it consulted on enhancements to reporting by private funds. The proposals would require hedge fund and private equity fund managers to notify the SEC of relevant reporting events within one business day, would decrease the reporting threshold for large private equity advisers from USD 2 billion to USD 1.5 billion funds under management (FUM), and would require more information from larger funds regarding their strategy, use of leverage and other matters. The SEC's intention is to improve its ability to assess systemic risk and its oversight of private fund advisers, given recent growth in the industry.

The Monetary Authority of **Singapore** (MAS) set out its reporting requirements in cases of significant redemptions, gating or suspension of funds. Fund managers now need to notify the MAS if aggregate net redemptions exceed 10 percent of a fund's FUM in a calendar week or exceed five percent of FUM in any given dealing day. The MAS also plans to introduce a standardized fund gating and suspension report to ensure consistency of reporting.

6 Securities and Exchange Commission

Developments in fund liquidity management

2017 and 2018

Back in 2017, the FSB published its policy recommendations to address structural vulnerabilities in asset management.

In 2018, IOSCO then updated its recommendations regarding fund liquidity management.

2020

The onset of the pandemic and 'dash for cash' required central banks to make historic interventions in financial markets. Funds experienced significant redemptions. The FSB commenced its 'holistic review'.

2021

The FSB and IOSCO commenced an analytical review on open-ended funds.

In October, the FSB published its final policy proposals for Money Market Funds.
In November, it set out initial observations on open-ended funds in its Non-Bank Financial Intermediation (NBFI) progress report.

2022

The Russian invasion of Ukraine required regulators to consider additional guidance and new rules (for example for 'side-pockets').

Regulators have begun to consult on changes to Money Market Funds. The FSB and IOSCO will conclude their reviews on open-ended funds later this year.

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The **Luxembourg** regulator (CSSF)[7] requested fund managers notify it of significant developments and issues in the context of the Ukraine crisis. Notifications are required if a fund's net redemptions exceed five percent of a fund's net asset value (NAV) on any day, 15 percent of NAV over a calendar week, or if gates or deferred redemptions are applied. The CBI updated its reporting requirements for **Irish** MMFs and clarified aspects of its new "Fund Profile V2 return" and reporting requirements for authorized funds. It has also called for regulatory reporting of market risks under AIFMD to be reviewed.

Demands for transparency

In April 2022, IOSCO published a report on equity market data and noted three considerations for regulators: the importance of considering pre- and post-trade in promoting transparency; the need to ensure fair access to market data; and that consolidating data has the potential to reduce costs and help identify liquidity and compare execution quality.

In Europe, both the **EU** and the **UK** have been reviewing their rules under the Markets in Financial Instruments Directive and Regulation (MiFID II and MiFIR). Overall, the proposed changes attempt to improve the existing requirements rather than significant change. There is some consistency between the EU and the UK approaches, for example:

- Asset managers are now allowed to pay for research on certain small and medium-sized companies using their clients' money (the regulators having previously "unbundled" commissions and prohibited such practices).
- The EU is moving to a full ban on payment for order flow to improve best execution.
- Both are seeking to improve conditions to establish a "consolidated tape" with securities price and volume data to increase price transparency and competition between trading venues.
- Both are aligning the derivatives trading obligation with the clearing obligation, so that derivatives that must be traded on exchange must also be centrally cleared.

But there is also divergence in some areas. For example, the EU is changing the "double volume cap" (a limit on the level of "dark trading" to a certain proportion of total trading in an equity) to a single volume cap, which would further limit dark trading, and is amending best execution reporting. On the other hand, the UK will completely revoke the double volume cap, best execution reporting and the requirement for equities to be traded on a restricted list of venues.

In the meantime, EU national regulators' expectations have continued to evolve. For example, the **Belgian** regulator will no longer separately request aggregated transaction data and will instead rely on MiFIR transaction reporting.

> "... improve access to fair, accurate and timely information"

The **US** SEC has proposed increasing the availability of information regarding securities lending transactions to improve access to fair, accurate and timely information. Securities lenders would be required to provide details of transactions to a registered national securities association, which would then make the terms available to the public.

The **EU** Short Selling Regulation was originally introduced to increase transparency of short positions and reduce settlement risk. In 2022, ESMA analyzed short selling bans adopted during the pandemic and proposed amendments to the operation of emergency measures (for example, long and short-term selling bans), enhanced record keeping requirements, and a new centralized system for the publication and disclosure to the public of net short positions. Separately, ESMA proposed a three-year postponement of the mandatory "buy-in" regime under the Central Securities Depositaries Regulation, which would come into play where a transaction fails to settle and would give buyers more flexibility and rights to compensation payments.

The **French** AMF[8] completed a series of thematic inspections regarding best execution. It requested that asset managers review policies and procedures governing best execution, improve their monitoring of execution quality and strengthen internal control systems. Best execution is also a regulatory theme in **Singapore**, where the MAS's new requirements became effective in March 2022. The new rules require asset managers to have policies and procedures in place to ensure best execution, and enhanced existing business conduct requirements relating to handling customers' orders.

Derivatives and clearing

IOSCO and banking authorities continue to roll out margin requirements for non-centrally cleared derivatives. From September 2022, funds that have an aggregate average notional amount of non-centrally cleared derivatives greater than EUR 8 billion came under the rules for the first time. They now need to exchange initial margin on uncleared OTC[9] derivatives contracts.

As part of a program to increase the scope of regulation and to promote investor protection, the **Chinese** authorities introduced various changes that impact the structure of derivatives markets and market participants. New requirements relate to investor suitability, risk disclosure, controls and transaction reporting. The revised approach will centralize supervision of China's national futures market and allow for cross-border futures trading for the first time. The requirements relating to total return swap transactions have also been updated and broadened.

7 Commission de Surveillance du Secteur Financier
8 Autorité des Marchés Financiers
9 Over-the-counter (not on exchange)

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In February 2022, the European Commission extended **EU** temporary equivalence for **UK** central counterparties (CCPs) until June 2025, providing certainty to market participants. At the same time, the Commission consulted on ways to expand central clearing activities in the EU and improve the attractiveness of EU CCPs, to reduce over-reliance on systemic third-country CCPs. In April 2022, the Commission recognized certain **US** exchanges supervised by the SEC as equivalent to EU regulated markets (allowing derivatives traded on these exchanges to be treated as exchange-traded under EU law) and amended its previous equivalence decision for US CCPs to cover certain additional products.

The **Canadian** regulators proposed amendments to streamline and harmonize OTC derivatives data reporting standards. The amendments could reduce complexity and costs while improving the consistency and quality of data available to regulators.

Regulating crypto markets

Policymakers across the world are introducing enhanced regulatory frameworks for the classification, issuance, trading and custody of crypto-assets, including the development of crypto securities registers. Central banks are considering the prospect of central bank digital currencies (CBDCs).

For the first time, IOSCO has published a roadmap to prioritize work on crypto-assets to address potential investor protection, market integrity and financial stability issues, with findings expected in Q4 2023. The first workstream will assess emerging risks around crypto-assets and the different legal and regulatory considerations in each jurisdiction. The second will focus on decentralized finance. It will develop a shared understanding among IOSCO members of emerging risks and trends and how to manage them, produce potential guidance for members, and consider how existing IOSCO principles and standards could be applied.

> "... should be captured by robust regulations"

The FSB also published a statement emphasizing that crypto-assets must be subject to effective regulation, service providers need to comply with their legal obligations, and ongoing international work must be progressed. The FSB considers that "stablecoins" (asset-backed crypto-assets) should be captured by robust regulations and supervision if they are to be widely adopted as a means of payment.

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Meanwhile, national regulators have expanded, or are proposing to expand, their regulatory perimeter and oversight. For example:

- **Australia** has consulted on new requirements regarding the classification of crypto-assets, and licensing and custody requirements. In addition, the regulators released guidance for product issuers and market operators regarding exchange traded-products, an information sheet to help firms understand their obligations under existing requirements (clarifying that firms need to hold an authorization in relation to crypto-assets), and set out expectations regarding risk management and a policy roadmap.
- Crypto service providers are now subject to enhanced regulation in **Cyprus**. They are required to register with the regulator and comply with capital and governance requirements.
- Amendments to **Swiss** laws on crypto and distributed leger technology (DLT) require the regulation of custody/storage of crypto-assets and trading facilities. This offers opportunities for financial intermediaries, which can provide these services without the need for a separate license. Other impacts on regulation enter into force gradually throughout 2022.
- A new **German** law introduced the management of cryptocurrency securities registers as a new financial service, which requires a license from the regulator.
- **Guernsey** approved a new law on lending, credit and finance that covers virtual asset service providers, which comes into force by end-2022. Firms will have to be licensed by the regulator.
- The **UK** intends to bring activities that issue or facilitate the use of stablecoins used as a means of payment into the UK regulatory perimeter.

Provisional agreement has been reached on the **EU**'s proposals to regulate crypto-asset markets and the issuers of stablecoins. The proposed regulation – known as MiCA – aims to clarify the application of existing EU rules to crypto-assets and introduce a new, harmonized legal framework for crypto-assets covered by existing rules. The EU has also finalized a pilot regime that sets out conditions to operate a DLT-based market infrastructure, defines which financial instruments can be traded within the pilot and details the cooperation between DLT market infrastructure operators, regulators and ESMA.

The **US** regulators continue to scrutinize the practices of investment advisers and commodity pool operators in relation to crypto-assets, and are actively engaged in enforcement where they believe such activities are inconsistent with the law or regulations.

Supervising market conduct

Supervisors continue to focus on improving market conduct. In July 2021, the Central Bank of **Ireland** published a review of market abuse risks, setting out findings and expectations. The review identified some good practices but also areas that should be significantly improved. These included trade surveillance and suspicious transaction reporting frameworks, timely public disclosure of inside information, the quality of insider lists, and staff awareness and training. In the **Netherlands**, the regulator has identified the prevention of market abuse as a priority in its 2022 agenda and plans to focus on improving the quality of suspicious transaction and order reports.

Key questions for firms

- Have we critically analyzed our experience during the 2020 market stress and reassessed our liquidity risk management framework for each fund?
- Do our policies, controls, governance arrangements and documentation regarding fund liquidity management need to be augmented to ensure they continue to meet regulatory expectations?
- Have we thoroughly analyzed and considered all the factors arising from the war in Ukraine in the context of our portfolio holdings and application of liquidity management tools?
- Are we tracking regulatory developments regarding trading, settlement and clearing, and implementing changes as needed?

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04. Enhancing investor protection

Around the world, retail participation in investment products is increasing, and distribution models are adapting to technological changes. IOSCO has reiterated that "protecting retail consumers from misconduct and scams and fraud is a pre-requisite to maintain trust and confidence in markets".

Regulators are responding accordingly and raising the bar of expected standards. Asset managers are increasingly being expected to evidence how they are delivering products to their target market and delivering good outcomes for clients. New requirements are being introduced, and long-standing issues are being reviewed with an even closer focus, such as "value for money".

Promoting good investor outcomes

While regulators widen choice for investors (see Chapter 6), they are also taking steps to drive up standards and ensure investors are appropriately protected in changing times.

The Central Bank of **Ireland**'s (CBI's) 2022 consumer protection outlook identified five cross-sector risks that it sees as the primary drivers of risks for consumers: poor business practices and weak business processes, ineffective disclosures to consumers, the changing operational landscape, technology-driven risks and the impact of shifting business models. It also set out key conduct risks in securities markets and the actions firms should take to identify, mitigate and manage those risks (including governance, conflicts of interest and misconduct risks). In the **Netherlands**, the regulator has made retail investor protection a priority in its 2022 agenda. It aims to provide a reasonable level of protection for retail investors against taking excessive risks.

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In **South Africa**, the Conduct of Financial Institutions (COFI) Bill will restructure the regulatory framework (see Chapter 1) and lead to the creation of a new customer-focused regulatory approach. Conduct themes will be identified, underpinned by cross-cutting requirements, and supplemented by sector-specific requirements if needed. For asset managers, additional sector-specific conduct standards will be developed for collective investment schemes (enhancing their regulation), alternative funds (delivering a fit-for-purpose framework) and retirement funds.

> "... firms to put retail customers at the center of everything they do"

The **UK** FCA[1] has adopted its new "Consumer Duty" package, which firms must implement by July 2023. Building on its existing approach to consumer protection, the new rules aim to drive cultural change across all sectors and require firms to put retail customers at the center of everything they do. A new principle states that a firm "must act to deliver good outcomes for retail customers". There are also three new cross-cutting rules (acting in good faith, avoiding foreseeable harm, and enabling and supporting consumers to achieve their financial objectives) and four outcomes for firms to deliver (on products and services, price and value, consumer understanding and consumer support).

The CBI plans to gather consumer and industry feedback this year on its consumer protection code, 15 years after it was originally introduced. The regulator will consider how the **Irish** code has evolved over time and take account of developments in the wider **EU** consumer protection framework. The CBI will also review whether its approach to consumer protection needs to be adapted in the context of rapid technological change and innovation. In **Canada**, the securities regulators plan to establish a new "Investor Advisory Panel" to enhance retail investor protection. The panel will advise the regulators on how to ensure retail investors' concerns are at the center of any new rules to improve investor protection.

ESMA[2] made recommendations to enable **EU** investors to get the information they need and to protect them from aggressive marketing techniques. It proposed making disclosure documents machine-readable to create searchable public databases, creating a standard format for the presentation of costs and charges, and allowing regulators to impose risk warnings and address aggressive or misleading marketing communications. Separately the European Commission consulted on enhancing the existing suitability and appropriateness assessment framework as part of its retail investment strategy. Following stakeholder input that called for changes to simplify, improve, automate and standardize the way investors' profiles are assessed, the Commission proposed an enhanced client assessment regime based on the client's investment objectives, risk tolerance and personal constraints. As noted in Chapter 2, ESMA also consulted on updating aspects of the suitability guidelines from a sustainability perspective.

Work continues at national level. In **Spain**, the regulator produced a technical guide for assessing appropriateness, to increase the transparency of the regulator's role and help firms understand its expectations. The guide emphasized the need to gather information regarding clients' financial literacy and to consider wider factors such as education and prior investment experience. The CBI identified areas for improvement by **Irish** firms, including the need for a more client-focused approach using tailored suitability assessments, an enhanced assessment of clients, more detailed and personalized suitability reports, and closer oversight where clients wish to proceed with unsuitable transactions based on their own initiative.

Regulators are also considering how to educate investors better and improve market access. In **India**, SEBI[3] has launched a new mobile app in Hindi and English to improve investors' awareness of securities market concepts. SEBI also introduced a new framework for "accredited investors" in the Indian securities market. Third-party entities would issue accreditation certificates to investors in line with procedures that the third parties will publish on their websites. **Australia** has launched a comprehensive review of financial advice arrangements to consider how regulatory settings support Australians' access to affordable advice. ASIC[4] is monitoring marketing by asset managers and distributors of managed funds to identify the use of misleading performance and risk in promotional material. And in **Malaysia**, there are calls to promote greater financial inclusion.

Delivering value for money

Regulators are renewing their focus on costs, charges and value for money for investors. Having previously introduced rules that require fund managers to perform an "assessment of value" on each share class and publish an annual report, the **UK** FCA evaluated how firms had implemented the requirements and found that most fund managers were not meeting its expectations. Shortcomings included assumptions that could not be justified (for example, assuming existing fund charges already reflected economies of scale), not complying with the FCA's seven minimum considerations in the manner expected, and performing the assessment at the level of the fund rather than share class. When considering performance, some fund managers did not consider specifics regarding a fund's investment policy, investment strategy and fees. The FCA expects fund managers to address shortcomings and will perform a follow-up review to assess how firms have reacted to its feedback.

1 Financial Conduct Authority
2 European Securities and Markets Authority
3 Securities and Exchange Board of India
4 Australian Securities and Investments Commission

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In the **EU**, ESMA completed its Common Supervisory Action on costs and charges, and found room for improvement. ESMA stressed the importance of fund managers having a structured and formalized pricing process and noted divergent market practices around what the industry considers "undue" costs. Further shortcomings were identified around the identification of conflicts of interest, over-reliance on delegate managers, use of efficient portfolio management techniques, and securities lending fixed-fee split arrangements. Some national regulators plan to perform follow-up work, for example in **Malta**. ESMA also found that ESG funds can provide better returns for investors, and that UCITS[5] with an ESG strategy outperformed their non-ESG peers and were cheaper overall. ESMA concluded that retail investors continue to pay higher fees than professional investors.

Other regulators are proposing new rules in this area. In **Canada**, the securities regulators have proposed enhanced total cost reporting for investment funds and segregated mandates. The changes aim to improve the transparency of fees and charges. In addition, from June 2022, they introduced a ban on the payment of trail commissions by fund managers to dealers, under certain circumstances. In Mainland **China**, the "buy-side mode" pilot program continues to be rolled out for fund investment advisory services, which clearly distinguishes investment advisory services from fund distribution services ("sell-side mode") and is causing a shift in the way in which fees are charged.

Performance fees are also an area of focus. In **Luxembourg**, the regulator sent a questionnaire to fund managers to collect standardized key information regarding performance fees with a view to ensuring compliance with ESMA's 2020 guidelines.

> "... a range of poor practices"

Disclosure of charges is being reviewed in the **UK** and the **EU**. The European Supervisory Authorities (ESAs) identified a range of poor practices in how EU manufacturers of packaged retail investment and insurance products (PRIIPs) – which include investment funds – describe their products. A lack of clarity in disclosures led to the ESAs setting expectations to ensure information is better presented to retail investors. They provided advice to the European Commission on changes to the rules to make PRIIPs disclosures more consumer-friendly. UCITS do not need to produce the PRIIP document until January 2023, but other types of retail funds are already in scope. In the **UK**, UCITS-equivalents have until December 2026. For other types of retail funds, the FCA has made rule changes that will take effect from 2023, including the removal of future performance scenarios.

Product governance: the product lifecycle

5 Undertakings for collective investment in transferable securities

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In November 2021, the **Australian** Prudential Regulation Authority (APRA) urged superannuation members to engage more actively with their scheme provider to maximize their retirement savings. A number of "MySuper" products failed APRA's first annual performance assessment. APRA is working with the trustees of those products to improve performance or merge with other funds.

Reviewing product governance arrangements

Regulators are paying specific attention to product governance.

In **Australia**, new product design and distribution obligations (DDO) came into force in October 2021. Asset managers need to meet investors' needs and distribute products in a more targeted manner. Manufacturers must notify the regulator where the product is distributed in a manner inconsistent with the product's target market. In response, asset managers are enhancing the way they document their target market determination to mitigate confusion in the market.

As trailed in last year's report, new requirements came into force as part of **Canada**'s Client Focused Reforms (CFR). The conflicts of interest and referral requirements became effective in June 2021, ahead of other changes (including on relationship disclosure information) in December 2021. Following implementation, firms continue to consider how best to comply with their product maintenance and approval processes, to meet supervisory expectations.

ESMA has reviewed the **EU** product governance guidelines in the context of sustainable finance and its upcoming amendments to the MiFID II[6] product governance regime (see Chapter 2). It has also concluded its 2021 "common supervisory action" held with EU regulators. The findings indicate that firms approach identifying the target market as a "formalistic exercise", which does not always result in a compatible distribution strategy, and the information exchange between manufacturers and distributors needs to be improved.

Saving for retirement

Various changes are underway to change how people save for retirement and to ensure they are adequately protected, which could impact the operations of asset managers and investment funds but also provide opportunities.

In **South Africa**, following the onset of the Covid-19 pandemic, regulators are focusing on savers who may need to access some of their savings early due to financial hardship. The Treasury has proposed the creation of a "two-pot" system for retirement contributions to create greater flexibility, and avoid existing circumstances where employees may feel the need to resign from their job in order to trigger access to part of their pension. Under the proposals, one account could be accessed at any time and the other account would need to be preserved until retirement and would not be accessible. Separately, there are proposals to introduce an "auto" or mandatory system of retirement saving for employees and self-employed persons. Such a program would address issues for workers who fall outside existing occupational pension schemes.

In the **Netherlands**, a new pensions system is to be introduced, based on defined contributions instead of defined benefits. The new system will expand the regulator's supervisory responsibilities and tasks (for example, a new requirement to supervise pension funds against the risk preference of the scheme member population).

Australia has introduced a new "Retirement Income Covenant" requirement on superannuation trustees. In line with regulators' expectations, the new Covenant encourages trustees to focus on the retirement outcomes of beneficiaries and works in tandem with DDO and member outcome obligations. On a different note, the digital transformation of the pension system in **Hong Kong, SAR (China)** will streamline existing arrangements and automate administrative processes, with potential benefits to both investors and providers.

Distribution and digital finance

Evolving technological and marketing developments have increased regulators' focus on product distribution.

IOSCO sought feedback to help regulators address emerging conduct issues in the context of increased retail participation in securities markets, the greater influence of social media, increased digitalization and escalating fraudulent activity. The final report is awaited. IOSCO also consulted on risks from the digitalization of retail marketing and distribution, and observed that in some jurisdictions, digitalization is accelerating faster than the underlying regulatory framework. IOSCO therefore put forward a toolkit with seven policy measures and five enforcement measures, which focus on online marketing, distribution and onboarding, use of new investigatory techniques, and increased cross-border co-operation and collaboration.

In **Brazil**, new rules will be introduced to regulate the treatment of distributors (known as Agentes Autonomos de Investimento, or AAIs). The changes will end existing requirements for exclusive distribution arrangements, focus more on the suitability of products, and lead to greater transparency on costs and rebates. In the **EU**, ESMA produced new guidelines on marketing communications such as advertisements, messages on social media and in other materials.

6 Markets in Financial Instruments Directive

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New regulations for managers

Some jurisdictions are introducing new regulations or significant enhancements to existing regulatory frameworks, which will impact asset, wealth and fund managers.

In the **UAE**, the Securities and Commodities Authority introduced a new rulebook for asset managers operating outside the Dubai International Financial Centre and the Abu Dhabi Global Market. The rulebook introduced new regulations regarding the classification of clients (retail and institutional), the suitability assessment and other customer protection measures. Meanwhile, **Saudi Arabia**'s Capital Markets Authority announced amendments to its investment fund regulations, bringing fund governance requirements and standards regarding the termination and liquidation of funds into line with wider international standards, enhancing the role of the fund board of directors, and increasing the level of transparency and disclosure in investment fund reporting.

Authorities in **Brazil** introduced a comprehensive new regulation for the fund industry, which took effect from July 2022 but with a transition period. Changes include:

- Giving funds a legal definition and treating them as corporations (with implications in case of bankruptcy)
- Allowing for the creation of share classes to accommodate different strategies (bringing challenges for local administrators and adapting their systems)
- Introducing limited liability for investors – removing the need for investors to contribute where funds suffer losses that exceed net assets
- Introducing limited liability for service providers, including the administrator, manager and custodian
- Permitting retail investors to invest up to 100 percent of their portfolio offshore

The **Cayman Islands** have removed a previous exemption from regulation for certain types of family office, bringing them under the scope of regulation if they are conducting certain securities investment business. And **Jersey** has introduced changes to its law to increase protection for Limited Liability Partnerships (including "safe harbor provisions"), new third-party rights and annual reporting requirements.

The **US** SEC has proposed to enhance the regulation of private fund advisers and to provide better protection for private fund investors. The new rules aim to increase transparency. Private fund advisers will be:

- Required to provide investors with quarterly statements with information on fund fees, expenses and performance
- Prohibited from providing preferential treatment unless disclosed to current and prospective investors
- Subject to new requirements related to fund audits, books and records, and adviser-led secondary transactions
- Prohibited from engaging in several activities and from charging certain fees and expenses (such as fees for unperformed services)
- Required to document the annual review of their compliance policies and procedures in writing

> "... provide better protection for private fund investors"

At end-2021, the transition period relating to new **Swiss** rules aligned with the EU MiFID rules ended. The new Swiss rules seek to strengthen investor protection (while providing for flexibility for professional clients) and aim to link conduct rules and product regulations with the targeted product segment. The rules include organizational requirements, execution procedures and avoiding conflicts of interests. Firms also need to provide clients with disclosures and suitability assessments. The Swiss model is more liberal in some areas than the EU regulations (for example around client classification), which may offer advantages for cross-border transactions and services provided to third countries.

In **Malaysia**, the Securities Commission published revised guidelines regarding the compliance function for fund management companies, with updates to the requirements on rebates and soft commissions. It also issued revised guidelines on Islamic fund management. The updates ensured consistency with other guidelines on the appointment of Shariah advisers, expanded the roles and responsibilities of the Shariah adviser, set out new requirements for the Islamic fund management company to ensure that employees assist the Shariah adviser, and inserted requirements for the certification of Islamic funds (as well as minor tax amendments).

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A focus on fund service providers

Regulators are also considering how to increase their oversight of fund service providers.

Cyprus consulted on bringing fund administrators' activities into the regulatory perimeter for the first time. The regulation would introduce capital requirements, rules on board composition, specific organizational requirements (including a regulatory compliance officer, AML[7] officer, internal auditor and legal adviser), and other requirements regarding the use of software and annual reporting obligations to the regulator.

In **Hong Kong (SAR), China**, the regulator concluded on its 2019 proposals to enhance the regulation of trustees and custodians of authorized funds, which have not been directly regulated to date. The regulator noted that responses to its consultation generally supported the proposals (agreeing they were in line with other comparable international centers) and published a further consultation to implement the regime.

The CBI proposed changes to the **Irish** regulations on the protection of client assets. The proposals would extend the scope and application of the client asset requirements and enhance them in some respects (including in relation to wholesale activities – for example, by extending the scope of the regime to banks undertaking investment business).

On the supervisory front, the **Maltese** regulator plans to review depositaries' compliance with the rules, and in the **UK**, the FCA has published its supervisory priorities for depositaries, which include operational resilience, the safety of client assets, oversight of fund managers, safekeeping of high risk investments, and responding to market and regulatory changes.

Key questions for firms

- Are we tracking new regulations regarding investor protection and putting in place robust processes, systems, and controls to meet the new requirements?
- Do we have appropriate and sufficient management information to monitor and mitigate conduct risk, and evidence good outcomes?
- Do our product governance and distribution frameworks meet regulators' expectations, particularly in the context of online marketing?
- Have we considered whether our products offer investors value for money at a granular level – for example, by fund share class?
- Are we utilizing technology to reduce reliance on manual processes to ensure effective oversight of distribution, portfolio management and fund administration functions?

7 Anti-money laundering

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05. Governance, resilience, substance

Regulators expect asset managers to be well governed and operationally resilient. They are exploring new accountability frameworks to allocate responsibilities more precisely to senior managers. Diversity and inclusion are increasingly important topics for some regulators, which are becoming frustrated with a lack of industry progress. And in several jurisdictions, supervisors are focusing on firms' arrangements to comply with sanctions and to prevent financial crime.

Closely linked to developments around investor choice (see Chapter 6), the debate continues on what represents appropriate "substance" in particular legal entities and, in particular, how delegated portfolio managers are appropriately overseen. Firms need to navigate a difficult and uncertain path between meeting employee demand for remote or hybrid working and ensuring appropriate on-site resources.

Refining governance and accountability

Regulators continue to focus on the way that asset managers are managed and controlled by those charged with governance.

Building on its new requirements for listed companies, the **UK** FCA[1] has sought industry views on improving diversity and inclusion in regulated firms. It is expected to consult on new rules later this year and to publish final rules in 2023. The FCA has warned that firms that do not embrace diversity of thought will struggle to serve the needs of a diverse customer base and manage conduct risk effectively. In the **EU**, proposals to introduce binding pay-transparency measures for EU companies with at least 50 employees are progressing. The proposals would allow employees to better compare salaries, expose gender pay gaps and allow for pay assessments and gender action plans.

Regarding remuneration and risk, in **Australia** APRA[2] wrote to all regulated entities with guidance to strengthen incentives for individuals to manage risks prudently, apply consequences for poor risk outcomes, and improve oversight, transparency and accountability on remuneration.

Larger firms need to have undertaken a self-assessment and implemented plans, ahead of January 2023. APRA also issued a broader Prudential Standard for superannuation schemes with requirements for investment governance (including on investment objectives, the due diligence process, stress testing, liquidity management plans and valuation governance frameworks).

> "... impose new binding and enforceable obligations"

The Central Bank of **Ireland** (CBI) provided further information on the proposed "Individual Accountability Framework". This would introduce a senior executive accountability regime for certain regulated firms, conduct standards to impose new binding and enforceable obligations, enhancements to the fitness and probity regime, and changes to the regulator's enforcement approach. It also emphasized the importance of the role of "designated persons" in fund management companies (those working between the board of directors and its delegates) and welcomed an industry-developed professional certificate for designated persons.

1 Financial Conduct Authority
2 Australian Prudential Regulation Authority

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Additionally, the CBI provided feedback about changes to its pre-approved list of controlled functions. The amendments will extend the scope of in-scope branch manager roles (from EEA countries to non-EEA countries), introduce standalone functions for non-executive directors and the head of AML[3] compliance, and remove the function for head of investment.

In **Malta**, the regulator has launched a new corporate governance code for authorized entities which sets out guiding principles complemented by supporting principles to enhance the legal, institutional and regulatory framework for good governance. It should be complied with on a "best efforts" basis.

Strengthening resilience

Since the successful shift to hybrid and remote working at the onset of the pandemic, the heightened supervisory focus on operational resilience has lessened, but it continues to remain an important topic and new rules and frameworks continue to be developed.

In **South Africa**, the regulators plan to introduce a new conduct standard regarding sound practices and processes for information technology (IT). The standard focuses on various IT topics across governance, strategy, risk management frameworks, oversight, dealing with confidential information, program management, business interruption recovery and notifying authorities of material issues.

As discussed in our 2021 report, work continues on the draft **EU** regulation on digital operational resilience for the financial sector ("DORA"). The regulation seeks to strengthen the IT security of financial entities and will require critical third-country IT service providers to EU financial entities to establish a subsidiary in the EU, to enable effective oversight. Provisional agreement has now been reached and the regulation is expected to enter into force by 2025 at the latest. The **UK** is also seeking to bring certain third parties within the regulatory perimeter.

The government has proposed having the power to designate certain third parties as "critical", and thereafter allowing regulators to make rules, gather information and take enforcement action on those firms' activities. Regulators are now seeking feedback on how they could use their proposed powers.

The CBI has published cross-industry guidance on operational resilience. The guidance signaled the **Irish** regulator's expectations regarding the design and management of operational resilience, emphasized boards' and senior management's responsibilities, and required them to take appropriate action to ensure operational resilience frameworks are sufficiently robust. The CBI also noted that IT and cybersecurity risks are a key concern and that boards need to ensure that risks are identified and mitigated.

> "... ensure operational resilience frameworks are sufficiently robust"

In the **UK**, new cross-sector rules on operational resilience came into force in March 2022 to ensure that firms can prevent, adapt and respond to operational disruptions. Regulated firms now need to identify important business services and map how they are supported (for example, by people, processes and technology). Firms then need to set impact tolerances with thresholds around a maximum tolerable disruption and test their ability to contain disruption to within those tolerances.

Similarly, SEBI[4] has published a circular regarding the cyber resilience framework for **Indian** asset managers and their funds. Asset managers now need to identify and classify critical assets and maintain a list of those assets to be approved by the board and trustees. And the **Maltese** regulator plans to "intensify its supervisory activities" regarding firms' cybersecurity.

In the EU, **ESMA**[5] provided guidelines on outsourcing to cloud service providers that came into effect from July 2021. The guidance covered various topics including the governance and oversight of cloud outsourcing arrangements, due diligence, contractual elements and exit strategies. In **Luxembourg**, the CSSF[6] expanded the scope of the EBA's[7] guidelines to capture investment fund managers and outsourcing of IT activities. The CBI also published cross-industry guidance under its strategic theme of "strengthening resilience", to assist regulated firms with identifying, monitoring and managing their outsourcing risks. The CBI will take a risk-based approach when assessing firms' adherence to the guidance.

Jurisdictions continue to enhance their data protection laws which will have operational impacts for asset managers. For example, in the light of rapid technological developments, strengthened **Swiss** data protection rules will enter into force in September 2023, **Australia** has commenced a review of its Privacy Act, and **China** has introduced new security laws preventing the transfer of certain information outside the country.

Countering financial crime

Since the Russian invasion of Ukraine, countries have imposed sanctions on Russia, placing demands on firms' systems and controls to ensure compliance. Around the world, regulatory scrutiny on AML and CFT[8] has also significantly increased.

3 Anti-money laundering
4 Securities and Exchange Board of India
5 European Securities and Markets Authority
6 Commission de Surveillance du Secteur Financier
7 European Banking Authority
8 Counter-terrorist financing

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Governance: Regulatory focus

The Financial Action Task Force's (FATF's) activities continue to drive regulatory activity in local jurisdictions. In March 2022, the **UAE** was added to the FATF list of "jurisdictions under increased monitoring" (known as the "grey list"), increasing pressure on regulators and asset managers to improve standards, and leading to the potential for greater enforcement. As part of FATF's 2021 assessment of **South Africa**, "significant weaknesses" were identified in parts of the country's systems. The regulator has set out its expectations and remedial work is underway to make the relevant improvements. **Malta** is no longer subject to increased monitoring by FATF and was removed from the grey list in June 2022.

In **Guernsey**, the **Cayman Islands** and **Bermuda**, AML and sanctions compliance continue to be a priority for regulators. In the **Netherlands** and **Ireland**, the central banks have prioritized combating financial and economic crime as a specific area of focus. Under the revised **EU** AML Directive, service providers are required to register with the financial regulators. Member States are implementing the new rules, such as in **Belgium**.

> "... perform more frequent and thorough updates of client files"

Some jurisdictions are changing their approach or bringing in new rules. In **Jersey**, the government is engaging with industry on amendments to its financial crime strategy. The new **Swiss** Anti-Money Laundering Act will enter into force from January 2023 to address weaknesses identified in the previous FATF review. The rules will require firms to perform more frequent and thorough updates of client files, verify information on beneficial owners, and comply with new additions regarding virtual assets. The CBI updated its AML and CFT guidelines for the **Irish** financial sector, including a new requirement to undertake specific enhanced due diligence when dealing with customers in high-risk countries. Also, the sources of information that can be used to identify customers and beneficial owners have been broadened. The regulator identified weaknesses in corporate governance, business wide risk assessments, outsourced AML activities and customer due diligence.

The **Luxembourg** CSSF extended the offence of money laundering to cover tax fraud and evasion. It has implemented a self-assessment questionnaire for fund management companies to complete regarding their compliance with the AML and CFT rules, and required firms' auditors to perform work on parts of the questionnaire and to issue an AML/CFT external report with their findings.

The **UK** has completed a review of its AML/CFT regulatory and supervisory regime. Whilst progress and improvements have been made, the review identified continuing deficiencies in AML and CFT risk assessments across the regulated sector. Supervisors continue to note inadequate customer due diligence or policies, controls and procedures as common failings.

Substance and delegation

Policymakers continue to redefine what constitutes "substance" in a business, and what activities may (or may not) be delegated and under what conditions. Various jurisdictions are amending or clarifying the substance rules within their tax laws, which may impact asset managers and funds – **Bermuda**´s Economic Substance Act is just one example.

On the regulatory front, the word "substance" tends to have a different meaning to that in tax legislation. Regulators are concerned that regulated entities should have sufficient resources, expertise and capabilities to oversee tasks they delegate to third parties, and

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that delegation should not result in the abdication of responsibilities by regulated entities. Some authorities may also be concerned whether delegation is enabling overseas firms to provide services into their jurisdictions.

The **Guernsey** Financial Services Commission has introduced guidance to clarify that maintenance of local "mind and management" is a relevant factor in the Commission's assessment of the prudent conduct of business of a licensee. The Commission expects that licensees, other than those administered by another firm in Guernsey, will ensure that there is a level of local oversight and management of operations within the jurisdiction commensurate with the scale and nature of the activity carried out.

The **UK** FCA completed a supervisory review of so-called "host" management companies that delegate portfolio management to many third parties. It focused on firms' business models and potential conflicts of interest. Shortcomings were identified across firms' due diligence and oversight of third-party portfolio managers, governance and oversight (for example a lack of challenge by independent directors and ineffective conflicts of interest management), and adequate financial resources. The FCA has also required reports on individual firms and will undertake follow-up supervisory work.

In **South Africa** the new requirements regarding the delegation of administration functions by fund managers entered into force. Various new rules were brought in, including on seeking prior approval for the delegation of functions, conducting due diligence on the delegate and ensuring delegates have appropriate disaster recovery plans in place.

In the **EU**, where the act of delegating portfolio management and administrative activities is the common model for fund managers, the review of the Alternative Investment Fund Managers Directive (AIFMD) has reignited the substance and delegation debate. Some are also calling for more extensive rules on delegation by UCITS[9] management companies to be introduced, including new notification requirements to increase transparency for national regulators, minimum staffing requirements, and powers given to the European Commission to decide on "equivalent" jurisdictions. The political compromise reached will influence the industry delegation model.

"... implications for firms' resources"

Meanwhile, national regulators have been increasing their scrutiny of local substance, which has implications for firms' resources and the recruitment market. A survey by KPMG in **Luxembourg** found that, on average, fund management companies have increased the number of full-time-equivalents (FTEs) by 14 percent compared to 2021. FTEs in all functions across the fund management value chain are increasing, but there is a particular demand for experienced professionals in core substance functions (risk management, anti-money laundering compliance and delegation oversight).

In May 2022, the CBI reminded **Irish** investment firms (including asset managers) with branches outside the EU/EEA of the need to consider certain requirements in relation to their operations:

- ESMA's supervisory briefing on the supervision of non-EU branches of EU firms providing investment services and activities
- ESMA's Opinion to support convergence in the supervision of investment firms in the context of Brexit
- The CBI's own requirements

Use of tied agents is also under the spotlight. A supervisory briefing issued in February 2022 set out ESMA's and national regulators' common understanding on the supervision of firms using tied agents to provide investment services and/or activities. The aim was to develop a convergent EU supervisory culture regarding the use of UK tied agents and to foster improved investor protection.

Key questions for firms

- Do our governance structures, accountability frameworks and staff conduct meet the regulatory requirements?
- Have we mapped and identified the critical services we provide to clients and the sensitivity of the data we hold? Have we implemented appropriate controls and recovery plans to prevent disruption and data loss?
- Do we have a robust framework and controls in place to mitigate against AML/CFT risks and promptly implement new sanctions requirements?
- Have we reviewed the sufficiency of the "substance" of our first, second, and third-line functions against supervisors' evolving expectations?

9 Undertakings for collective investment in transferable securities

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06. Widening investor choice

Regulators continue to create new fund vehicles to offer more flexibility to fund management companies and investors, and to compete for market share. Authorities are also aiming to bolster private investment in illiquid assets to assist economic recovery. New vehicles and strategies are increasingly being made available to sophisticated and retail investors, enabling them to diversify their portfolios into wider asset classes. Regulators are keen, though, to mitigate potential conduct risks and prevent harm.

Amidst volatile markets, some regulators have been clarifying their expectations of fund managers regarding the inclusion of crypto-assets in portfolios. Many regulators remain cautious.

New and enhanced products

Since last year's report, regulators have continued to make new fund vehicles available and to revisit existing frameworks.

The new **Australian** Corporate Collective Investment Vehicle (CCIV) became effective from July 2022, offering fund managers a new corporate structure with the possibility of establishing sub-funds to cater to retail or professional clients. The CCIV is designed to increase the competitiveness of the Australian asset management industry and is expected to appeal to overseas investors who are more familiar with a corporate vehicle. Regulations were also passed to facilitate the development of "Innovative Retirement Income Stream Products". The regulations provide the guiderails that need to be met to qualify for certain tax and social security treatment. Such products are said to be gaining traction.

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The Securities Commission **Malaysia** (SCM) liberalized its framework for unit trusts, enabling retail funds to invest in and offer a wider range of investment instruments and activities, potentially enabling management companies to develop more innovative products. And in Mainland **China**, the Securities Regulatory Commission (CSRC) published new rules, standardizing the framework for public pension investments and allowing Chinese investors to purchase pension funds that meet certain eligibility and size criteria.

Amendments to the rules for **Polish**-domiciled ETFs[1] are being considered as part of the implementation of the government's capital market development strategy. The intention is to enable Polish ETFs to be established as UCITS[2], which raises challenges around admitting units of open-ended funds to trading.

In **Brazil**, it is proposed to increase the level of permitted leverage for funds with retail and qualified investors. Additionally, the proposals would allow retail investors to invest in funds that can invest 100 percent of their assets in Brazilian Depositary Receipts (BDRs) where the underlying securities or ETFs are traded abroad, and in other assets with certain restrictions. Currently, retail investors can only invest in BDRs directly and not through fund structures. The proposals would also increase by 20 percent the amount that funds can invest in offshore assets, up to 40 percent of NAV[3] for retail investors and 60 percent for qualified investors. In a similar move, the **South African** Pension Funds Act was amended to enable them to increase investment in private assets up to 15 percent of total assets.

> "... mainstream asset managers to move into alternative assets"

The rules for **Italian** "reserved" alternative investment funds (AIFs), which were intended mainly for professional investors, have been updated. The minimum initial investment was lowered from EUR 500,000 to EUR 100,000, provided the investor has received financial advice and their holding does not exceed 10 percent of their total financial portfolio. There have also been revisions to the regulations that govern Italian Individual Savings Plans ("piani individiali di risparmio" – PIRs) and to their tax treatment. For ordinary PIRs, the annual investment limit has increased from EUR 30,000 to EUR 40,000, and the maximum total investment from EUR 150,000 to EUR 200,000. The rules for "alternative" PIRs have been aligned more closely with those for ordinary PIRs, to allow investment in more than one alternative PIR and to make some adjustments to tax arrangements.

Allowing long-term and illiquid assets

Across jurisdictions there appears to be an increased appetite for mainstream asset managers to move into alternative assets.

The new **Australian** government has pledged to reduce barriers to superannuation investment in priority areas, including infrastructure, energy, manufacturing and housing to play a greater role in financing the real economy. In addition to the increase in the private assets limit mentioned above, proposed amendments to the **South African** Pension Funds Act encourage investments in infrastructure. As part of the changes, the definition of infrastructure was revised to align more closely with the UN principles for responsible investment. The existing limits on infrastructure investments were also reviewed, but the overall investment limit was kept at 45 percent of FUM[4].

The new **UK** open-ended Long Term Asset Fund (LTAF) regime was launched in November 2021. LTAFs must be authorized, be at least 50 percent invested in illiquid assets, be valued at least once a month and have a minimum 90-day notice period for investor redemptions. Currently, LTAFs are available only to professional, sophisticated and high-net-worth investors, but the Financial Conduct Authority (FCA) is consulting on making these funds available to a broader subset of retail investors. In **Switzerland**, the planned Limited Qualified Investor Fund (L-QIF) regime is expected to be available for fund launches from April 2023. It will allow for the inclusion of various alternative assets for the first time.

The **EU** European Long-Term Investment Fund (ELTIF) regulation is under review. ELTIFs are closed-ended and can invest in long-term investments, such as social and transport infrastructure projects, and real estate. As of October 2021, only 57 ELTIFs had been launched, in only a handful of member states and with low FUM. Various rule changes have been proposed to broaden the scope of ELTIFs' qualifying portfolio investments, allow more flexible investment rules, reduce "unjustified" barriers to entry for retail investors and to ease certain rules for professional-only ELTIFs. Members of the European Parliament are calling for the creation of a sub-category of ELTIFs to be marketed as environmentally sustainable (meeting stricter requirements and being aligned with the EU Taxonomy Regulation), and for the possibility of open-ended ELTIFs. In the meantime, individual countries are considering how best to optimize the regime, including consideration of national tax treatments.

As part of the review of the Alternative Investment Fund Managers Directive (AIFMD), there are discussions about EU rules for loan-originating funds. Such funds already exist in some member states, which are reviewing their national regimes, for example in **Cyprus**.

1 Exchange-traded funds
2 Undertaking for collective investment in transferable securities
3 Net asset value
4 Funds under management

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Crypto-assets and retail funds – yes or no?

Sentiment towards crypto-assets has changed. The volatility of crypto-asset markets has increased, and some types of crypto-asset have experienced significant challenges – for example, the collapse of a prominent stablecoin[5] in May 2022. Although some ETFs referencing virtual assets continue to be approved and listed, regulators across the world have published warnings for retail investors regarding the risks involved in crypto-assets.

In February 2022, the Financial Stability Board (FSB) assessed risks to financial stability from crypto-assets. It found that while hedge funds are allocating increasing amounts to crypto-assets, mainstream asset managers' interest remains limited. However, IOSCO's[6] 2022 consultation report noted an "exponential increase" in retail interest in crypto-assets. Regulators are considering enhancing the emerging regulatory framework around the trading and settlement of crypto-assets to prevent fraud and enhance investor protection (see Chapter 3). This might increase managers' and investors' confidence in such assets.

Regulators are also considering asset managers' involvement in crypto-assets, particularly regarding the ability for retail funds to invest in crypto-assets (or derivatives based on crypto-assets). There have been different approaches and responses to date. Most regulators remain cautious about allowing crypto-assets as eligible assets in retail funds, but some are allowing greater flexibility for funds promoted only to professional investors.

In September 2021, the Mainland **Chinese** authorities said they deemed cryptocurrency-related business to constitute illegal financial activities – a statement which impacted global crypto-asset prices. In **Hong Kong (SAR), China**, such business is not outlawed, but the regulator imposed additional investor protection measures on the distribution of crypto-asset products, including selling restrictions and a crypto-asset "knowledge test".

Factors to consider in the choice of fund vehicle

5 Asset-backed crypto-asset
6 International Organization of Securities Commissions

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In **South Africa**, the proposed amendments to the Pension Funds Act also included a new restriction on retirement funds investing in crypto-assets because of the high risks involved. The national treasury noted that this restriction would be consistent with an intergovernmental approach that does not permit collective investment schemes and pension funds to have exposure to crypto-assets.

In November 2021, the **Luxembourg** regulator (CSSF)[7] noted that pension funds and UCITS for retail investors are not allowed to invest directly or indirectly in virtual assets, but that for funds for professional investors, investments in virtual assets "could be compatible" if this would not prevent compliance with existing rules. The CSSF also noted that managers of AIFs that invest in virtual assets must obtain prior authorization, provided guidance considerations regarding anti-money laundering and terrorist financing risks, and clarified that depositaries of such funds would need to comply with certain conditions. The Central Bank of **Ireland** (CBI) has permitted certain funds for professional investors to invest in listed cash-settled bitcoin futures. It also considered whether a UCITS can invest directly or indirectly in crypto-assets and concluded that it would be "highly unlikely" to approve such UCITS.

In December 2021, ESMA[8] noted that the application of the **EU** AIFMD to fund managers investing in crypto-assets would need to be assessed on a case-by-case basis. ESMA reminded fund managers of the high risks involved in crypto-asset investments but stated that AIFs may in principle invest in any assets if the fund manager ensures compliance with AIFMD.

Regulators are also considering how funds can be made available to investors in a more streamlined way and reduce costs and inefficiencies. Increasingly, the industry is exploring solutions to "tokenize" funds using distributed ledger technology (DLT). The CSSF has clarified that service providers in **Luxembourg** may use DLT to maintain a fund's unit/shareholder register. And in **Germany**, the finance ministry published a new law in 2021 (known as the "KryptoFav") allowing for the possibility of issuing units of funds using DLT.

> "... greater impetus for Islamic social finance"

Shariah-compliant financing

The SCM is committed to deepening the Islamic capital market in **Malaysia** through widening access to Shariah-compliant funding, instilling greater impetus for Islamic social finance and encouraging Islamic fintech growth. It has launched a Shariah Screening Assessment Toolkit for micro, small and medium-sized enterprises, to facilitate shariah-compliant financing, which must fall below the specified benchmark ratios for business activities, cash and debt.

Overseas funds – in or out?

Some authorities are open to overseas funds being marketed to investors in their jurisdiction, while others are considering new restrictions.

Switzerland is open to a wide range of investors and businesses, including the marketing of overseas funds in the country. For qualified investors and wealthy retail clients who have signed an opt-out declaration, no regulatory approval is required, but rules on designation and marketing apply. For wealthy retail clients, a Swiss-based representative and paying agent must also be appointed. Marketing to retail clients requires prior regulatory approval, which requires equivalent supervision (verifiable by means of bilateral agreement between the supervisory organizations), investor protection and documentation.

The CBI has revised its guidance on the requirements for non-EU AIFs that wish to market to retail investors in **Ireland**. It has clarified the information and documentation required, to assist fund managers with the application process. The provisions establishing the new **UK** Overseas Funds Regime (OFR) commenced in February 2022. The FCA is considering how the OFR will work in practice and will consult during 2022 on necessary amendments to its rulebook. The OFR will allow the UK to recognize other jurisdictions as having equivalent fund rules. Funds domiciled in those jurisdictions could then apply under a fast-track process to be permitted by the FCA to market to UK retail investors. In the meantime, the FCA has clarified that EEA funds will need to continue to produce current disclosures, rather than the new requirements being introduced by the EU in January 2023. As a result, there will be different requirements for EEA funds marketing in both jurisdictions.

To improve the cross-border distribution of products within the **EU**, ESMA consulted on templates to be used by firms when making notifications to regulators about cross border marketing and management activities. The goal is to develop common templates and to harmonize the information to be notified to regulators. On the other hand, there are moves to tighten the marketing of overseas funds to EU investors. The passports provided for under AIFMD, which would allow foreign managers to manage EU funds and overseas funds to be marked into the EU to professional investors, have not been enacted and there are no signs that they will be.

Moreover, the ability for EU professional investors to seek out investment in overseas funds on their own initiative ("reverse solicitation") is also under scrutiny, with calls for national regulators to adopt a more consistent approach between member states. As a first stage, there may be calls for managers or investors to provide data on the extent to which reverse solicitation is used. A letter from ESMA to the European Commission highlights that most national regulators do not possess such data.

7 Commission de Surveillance du Secteur Financier
8 European Securities and Markets Authority

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Chinese markets open and tighten

China continues to open its capital markets to both domestic and foreign firms and investors, but is also imposing restrictions. Some overseas-owned subsidiaries in China have been approved for the first time.

To deepen mutual stock market access between Mainland China and Hong Kong (SAR) ("Stock Connect") and to promote the development of both capital markets, the CSRC and the Hong Kong Securities and Futures Commission (SFC) agreed in principle to the inclusion of eligible exchange-traded funds (ETFs) by Mainland China/Hong Kong exchanges in Stock Connect. Trading commenced in July 2022. The regulators have agreed arrangements for cross-boundary regulatory co-operation and investor education, and will enhance co-operation on enforcement against cross-boundary illegal activities and market misconduct. Ashley Alder, SFC Chief Executive Officer said that ETF Connect *"will catalyse Hong Kong's growth as an ETF hub and underscore Hong Kong's unique role connecting global capital with the Mainland."*

According to public commentary, establishing "offshore" China funds has become one of the main channels for foreign investors to invest in underlying Chinese products. Such funds may invest in the Chinese market through Stock Connect, and through the Qualified Foreign Institutional Investor (QFII) regime, under which a wide range of financial transactions are permitted.

The Qualified Foreign Limited Partnership (QFLP) pilot program marks its tenth anniversary in 2022 and, together with the foreign direct investment (FDI) scheme, has become a major route for foreign institutions to access Chinese equity markets. Thirteen cities have established the QFLP pilot program, each with distinct characteristics that provide diverse options for foreign institutions. For domestic investors, the Qualified Domestic Limited Partnership (QDLP) – which permits qualified institutions to raise funds onshore to invest in offshore markets – also has its tenth anniversary in 2022. Along with the Qualified Domestic Institutional Investor (QDII) and Qualified Domestic Investment Enterprise (QDIE) schemes, it has become a major offshore asset allocation channel for domestic institutions and high-net worth individuals.

In January 2022, the State Administration of Foreign Exchange (SAFE) introduced a pilot program to facilitate further cross-border investment and financing activities in certain regions, highlighting the existing QFLP and QDLP pilot programs as important examples. Subsequently, the relevant regional bureaus of SAFE issued detailed implementation rules for the reform of foreign exchange administration and other relevant operational guidelines for the QFLP and QDLP pilot programs.

In a counter move, in December 2021, the CSRC proposed to exclude mainland China investors from the scope of "Stock Connect" between the Mainland China and Hong Kong (SAR) stock markets. The CSRC had noted that some Mainland China investors had opened securities accounts in Hong Kong (SAR) and traded A shares through Stock Connect ("Northbound Trading"). Although the overall scale and trading volume of Northbound Trading by mainland investors was not significant, such investors had also opened securities accounts to trade A shares directly

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within Mainland China, which the CSRC believed "may give rise to concerns of violations if trading through two channels concurrently". The CSRC was also concerned that such "round tripping" may not be conducive to the stable operation and future development of Stock Connect. The amendments aimed to strengthen the regulation of cross-border securities trading, balance the needs for the opening-up and security of the financial sector, protect the legitimate rights and interests of mainland China investors, and maintain the stable operation of Stock Connect.

> "... jurisdictions are competing for market share"

Competing domiciles

Around the globe, jurisdictions are competing for market share as fund and asset management domiciles. Many initiatives involve the consideration of funds for professional or sophisticated investors. They include various tax-related provisions to enhance the attractiveness of these jurisdictions to establish businesses or funds, but also regulatory changes to both rules and supervisory approach.

China, Hong Kong (SAR) and **Singapore** are competing for market share as portfolio management centers in the Asia Pacific region. In **India**, a new working group is reviewing the role and eligibility of mutual fund sponsors to facilitate growth and innovation in the industry. It is considering whether an alternative set of eligibility requirements may be introduced to enable new players to act as sponsor. The aims are to foster competition, to facilitate consolidation through mergers and acquisitions (to reap economies of scale and scope, to facilitate fresh flow of capital and to foster innovation).

The **Malta** Financial Services Authority (MFSA) consulted until January 2022 on Malta's Asset Management Strategy, with the aim of strengthening the jurisdiction's position as an asset management domicile. A broad range of initiatives is proposed, from improvements to the current regulatory regimes to new ones. For example, the proposal for "notified" professional investment funds will complement existing regimes and aims to increase the jurisdiction's share of market growth with better time-to-market solutions.

The proposed strategy has four pillars:

- Supervisory lifecycle processes
- Revisiting current fund manager and collective investment scheme regulatory frameworks
- Innovation through regulation
- Regulatory outreach and collaboration efforts with industry stakeholders and internationally

The **UK** government has set out its responses to feedback on the UK funds regime and next steps. It will:

- Make the taxation of funds simpler and more efficient
- Expand the range of investment products available in the UK, including authorized fund structures that are permitted to distribute capital and a new unauthorized contractual scheme aimed at professional investors
- Explore opportunities to support the wider funds environment, including by providing additional information on the fund authorization process and by promoting the UK funds regime abroad.

Key questions for firms

- Are we utilizing the full range of emerging products and fund structures to deliver investment strategies to investors?
- If we plan to invest in alternative assets, do we understand the available regimes, existing requirements and proposed amendments?
- Where we provide similar products in different jurisdictions, are we tailoring our disclosures and distribution agreements?
- Do we fully understand regulators' expectations regarding the inclusion of crypto-assets in our portfolios and the distribution of such products?

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"Policymakers are responding to developments and reviewing regulatory approaches and priorities. All stakeholders need to navigate widespread uncertainty."

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EAMR abbreviations

AAI	Agentes Autonomos de Investimento (Brazil)
AFM	Autoriteit Financiële Markten (Netherlands)
AIF	Alternative Investment Fund (EU)
AIFMD	Alternative Investment Fund Managers Directive (EU)
AMF	Autorité des Marchés Financiers (France)
AML	Anti-money laundering
APRA	Australian Prudential Regulation Authority
ASEAN	Association of Southeast Asian Nations
ASIC	Australian Securities & Investments Commission
AUM	Assets under management
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (Germany)
BDR	Brazilian Depositary Receipts
BIS	Bank of International Settlements
BoE	Bank of England
CBDC	Central bank digital currency
CBI	Central Bank of Ireland
CCIV	Corporate Collective Investment Vehicle (Australia)
CCP	Central Counterparty
CFR	Client focused reforms (Canada)
CFT	Counter-terrorist financing
CNMV	Comisión Nacional del Mercado de Valores (Spain)
COFI	Conduct of Financial Institutions (South Africa)
COP26	The 26th UN Climate Change Conference of the Parties
CSA	Canadian Securities Administrators
CSRC	China Securities Regulatory Commission
CSRD	Corporate Sustainability Reporting Directive (EU)
CSSF	Commission de Surveillance du Secteur Financier (Luxembourg)
DeFi	Decentralised Finance
DDO	Design and distribution obligations (Australia)
DORA	Digital Operational Resilience Act (EU)
DLT	Distributed Ledger Technology
EAMR	Evolving Asset Management Regulation (KPMG)
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ELTIF	European Long-Term Investment Fund
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Authorities
ESG	Environmental, Social, and Governance
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-Traded Fund
FATF	Financial Action Task Force
FCA	Financial Conduct Authority (UK)
FTE	Full time equivalents
FINMA	Financial Market Supervisory Authority (Switzerland)
FSB	Financial Stability Board
FUM	Funds under management
GBS	Green Bond Standard (EU)
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
ISSB	International Sustainability Standards Board
JFSA	Japanese Financial Services Agency
L-QIF	Limited Qualified Investor Fund (Switzerland)
LMT	Liquidity management tool
LTAF	Long Term Asset Fund (UK)
MAS	Monetary Authority of Singapore
MFSA	Malta Financial Services Authority
MiCA	Markets in crypto-assets regulation (EU)
MiFID II	Markets in Financial Instruments Directive (EU)
MiFIR	Markets in Financial Instruments Regulation (EU)
MMF	Money Market Fund
NAV	Net asset value
NBFI	Non-Bank Financial Intermediation
OECD	Organization of Economic Co-operation and Development
OEF	Open-ended fund
OFR	Overseas Funds Regime (UK)
OTC	Over-the-counter
PAI	Principal adverse impact
PIR	Piani individiali di risparmio (Italy)
PRIIP	Packaged retail investment and insurance product (EU)
QDIE	Qualified Domestic Investment Enterprise (China)
QDLP	Qualified Domestic Limited Partnership (China)
QFII	Qualified Foreign Institutional Investor (China)
QFLP	Qualified Foreign Limited Partnership (China)
SCM	Securities Commission Malaysia
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission (US)
SFC	Securities and Futures Commission (Hong Kong, (SAR), China)
SDR	Sustainability Disclosure Requirements (UK)
SFDR	Sustainable Finance Disclosure Regulation (EU)
SRO	Self-regulatory organization (Canada)
SAFE	State Administration of Foreign Exchange (China)
TCFD	Task Force on Climate-Related Financial Disclosures
UCITS	Undertaking for Collective Investment in Transferable Securities (EU)

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