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.

> All stakeholders need to navigate widespread uncertainty.

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.

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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