

Hello. I'm Amanda Hale from Citi's Global Trustee and Fiduciary Services

Regulatory team.

And joining me to provide an update on the latest regulatory highlights are my colleagues,

Andrew Newson and Matthew Cherrill.

So what do firms need to be aware of this month?

ANDY: In an update on fund liquidity developments, the Netherlands Central Bank and the Dutch financial regulator, the AFM, published a joint letter to managers of investment funds, providing feedback on the results of the AFM's 2022 survey on the availability and use of liquidity management tools, or LMTs, of investment funds domiciled in the Netherlands, together with guidance regarding the availability of LMTs and clarifying the notification procedure to the AFM on the activation of LMTs.

The regulators say that the survey results show that most funds have three or more LMTs at their disposal, which may assist them when facing market stress.

However, they say there are some findings from the survey that require attention from fund managers, including:

Certain funds only have a limited number of LMTs at their disposal and in some cases do not have the possibility to suspend redemptions.

Secondly, the AFM observed discrepancies between the survey response and AIFMD reporting.

Thirdly, some responses in the survey appear the result of an erroneous interpretation of the term activated LMT.

And lastly, the notification period for some funds – especially for illiquid funds – appears to be short.

The regulators state that the results of the survey require some actions, including a call by the AFM on fund managers to regularly review their liquidity management practices and, where necessary, make appropriate LMTs available by amending the prospectus.

MANDY: What about the US?

MATT: The SEC has adopted amendments to its “Names Rule”, which aims to address fund names that are likely to mislead investors about a fund’s investments and risks.

The SEC states that the amendments will better serve its mission of investor protection by:

Improving and broadening the scope of funds that must comply with the current requirement to adopt a policy to invest at least 80 percent of their assets in accordance with the investment focus the fund’s name suggests;

Providing enhanced disclosure and reporting requirements related to terms used in fund names; and

Establishing additional recordkeeping requirements.

Once the amendments become effective, fund groups with net assets of 1 billion US dollars or more will have 24 months to comply and fund groups with net assets of less than 1 billion dollars will have 30 months to comply.

ANDY: And Mandy, a standing agenda item for you. Anything on the ESG front?

Over the last month there were two papers that I feel should be highlighted.

Firstly, the European Commission published both a public and a targeted consultation on the EU SFDR.

The targeted consultation provides insight into the potential future of the SFDR regime.

Whereas the public consultation highlights that the Commission is considering the establishment of a new product categorization system in acknowledgment that the SFDR has, in practice, been used as a de-facto labelling regime by asset managers.

Other areas of interest for the Commission include gaining a better understanding of how the SFDR has been working in practice and in identifying issues that stakeholders have faced when implementing the regulation.

The Commission also explores whether there are inconsistencies or misalignments that exist between the SFDR and other sustainable finance legislation, such as the Taxonomy Regulation.

Secondly, the Taskforce on Nature-related Financial Disclosures (TNFD) published recommendations providing companies and financial institutions with a risk management and disclosure framework to identify, assess, manage and, where appropriate, disclose nature-related issues.

The fourteen recommended disclosures have, in the view of the TNFD, been designed to:

- Be consistent with the language, structure and approach of both the Task Force on Climate-related Financial Disclosures and the International Sustainability Standards Board;
- Accommodate different approaches to materiality;
- Align with global policy goals and targets; and
- Leverage the best available science.

Whilst voluntary in nature, as was the case for TCFD recommendations initially, the TNFD hope that the recommendations will be formally adopted by regulators in the longer-term.

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MATT: Andy, I believe we have a long overdue update from the UK?

ANDY. We do indeed. Following their joint discussion paper in July 2021, we've seen the UK's conduct and prudential regulators issue consultations that propose measures to boost diversity and inclusion in financial services.

The FCA have stated that the measures also aim to enhance the safety and soundness of firms and improve understanding of diverse consumer needs. Believing that

increased D&I in regulated financial services firms can deliver better internal governance, decision making and risk management.

The proposals include new guidance and rules to make clear that misconduct such as bullying and sexual harassment poses a risk to healthy firm culture.

Proposals set out for firms include requirements to:

- Develop a D&I strategy setting out how the firm will meet their objectives and goals;
- Collect, report and disclose data against certain characteristics; and
- Set targets to address underrepresentation.

Most of these requirements, including setting targets, regulatory reporting and disclosure, would apply only to the largest firms. Which the FCA proposes to set at firms with 251 employees or more.

Both consultations are open until 18 December. Final rules are expected next year.

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MANDY: If you would like to learn some more about the topics we discussed today, as well as other regulatory developments, you can follow the relevant links in our Bite-Sized publication.