

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

Joining me today to provide an update on the latest regulatory highlights are my colleagues,

Andrew Newson and Matthew Cherrill.

This month we're diving into the following developments:

- **Around the globe, IOSCO has recently shared its recommendations on how to value collective investment schemes and separately issued an AI Supervisory toolkit.**
 - **While in Europe, ESMA presents the results of its Common Supervisory Action on MiFID II sustainability aspects.**
 - **Over in the U.S., the SEC has proposed rescinding Climate-Related Disclosure Rules.**
 - **And in the UK, the FCA and Bank of England have set out a shared vision for tokenisation in UK wholesale markets.**
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ANDY: Starting with a global update, the International Organization of Securities Commissions published on 1 June its 'Final Report on Valuing Collective Investment Schemes (CIS)', which sets out a comprehensive and updated set of recommendations to further enhance the reliability, consistency and transparency of valuation practices across global investment funds.

MANDY: And what's in the final report?

ANDY: IOSCO says that its latest publication updates and consolidates its earlier Principles on valuation for CIS and hedge funds respectively, and that it takes into consideration feedback from market participants and developments in financial markets such as the rise in funds investing in less liquid, harder-to-value assets, including private assets, and the increasing participation of retail investors in such funds.

MANDY: IOSCO has said that accurate valuation of fund assets is critical to investor protection and to maintaining confidence in financial markets. What recommendations does it set out?

ANDY: IOSCO explains that its report sets out a series of recommendations aimed at strengthening valuation practices across jurisdictions and market participants. These focus on:

- Robust governance and oversight arrangement, including under stressed market conditions;
- Management of conflicts of interest;
- Sound and consistently applied valuation methodologies;
- Appropriate use and oversight of third-party valuation providers; and
- Transparency, disclosure to investors and record-keeping.

Finally, IOSCO states that the recommendations are designed to be proportionate and adaptable across different types of funds and jurisdictions, while promoting a more harmonised and a more globally consistent framework for fund valuations.

MANDY: Matt, staying global and still with IOSCO, it has published a Supervisory Toolkit for AI Use in Capital Markets. What can you tell us?

MATT: IOSCO explains that its report provides regulators with a practical toolkit to support the supervision and oversight of AI based systems, used by regulated entities.

And that the report is part of a phased approach to supporting securities markets authorities in considering appropriate regulatory, and supervisory, responses to AI in capital markets, and the potential risks emerging from these technologies.

MANDY: From a supervisory perspective, what's the scope?

MATT: Building on previous work on AI, IOSCO says the toolkit covers the full lifecycle of AI systems, and applies across all system types, from traditional Machine Learning models, to Generative AI and emerging Agentic AI techniques.

As the use of these technologies expands across investment processes, risk management and operational functions, providing important benefits for firms and clients, IOSCO says that they may also introduce or amplify risks related to complexity, reduced transparency, third-party dependencies and governance challenges.

MANDY: How does the report suggest these areas are tackled?

MATT: IOSCO's report sets out three complementary layers to support supervisory oversight, through:

1. Potential risk areas in merit of supervisory consideration.
2. Tools for supervisory oversight of key areas: governance and risk management; third-party and outsourcing risk management; disclosure; and recordkeeping and reporting, and
3. Indicators for monitoring AI adoption and use, alongside engagement methods to gather relevant information.

The report is complemented by a standalone extract of the toolkit designed for direct use in supervisory activities, including on-site examinations and inspections.

Following its publication, IOSCO says it will turn its attention to emerging industry practices across governance, disclosure, and recordkeeping and reporting of AI systems in capital markets.

And to inform this review of industry practices, the report includes a survey, which is open until 26 June.

ANDY: Mandy, turning to ESG updates, in Europe, the European Securities and Markets Authority issued results of its guidance on how sustainability is being integrated into firms' suitability assessments.

MANDY: Yes, in May, ESMA issued a statement presenting the results of its Common Supervisory Action (CSA) on how sustainability is integrated into firms' suitability assessment, as well as into processes and procedures for product governance.

Overall, the assessment of the national reports indicates that firms have continued to make progress in integrating the MiFID II sustainability requirements into their suitability and product governance processes, but at the same time, the CSA also confirms that practices remain uneven across firms and jurisdictions, and that further improvements are needed in several areas such as:

- Information to clients about the purpose of the suitability assessment and its scope;
- Arrangements necessary to understand clients, investment products, and ensure the suitability of an investment;
- Adaptation of clients' sustainability preferences;
- Record keeping;
- Target market assessment for products with sustainability-related objectives; and finally
- Assessment of the 'negative' target market for products that do not consider sustainability factors.

ANDY: Are there any key messages that firms should be aware of?

MANDY: ESMA reaffirmed the importance of sustainability and encourages firms to continue implementing the MiFID II sustainability requirements, recognising that the CSA has been conducted at a time when the sustainable finance framework is undergoing significant revision.

ESMA also says that, in view of these developments, and reflecting its strategic priority of promoting simplification and reducing undue burden, it invites national competent authorities to adopt a proportionate supervisory approach, which will include fostering dialogue with firms during the transition period, rather than prioritising enforcement actions, without prejudice to cases involving clear breaches or mis-selling.

MATT: Staying on the ESG topic, Andy, at the end of May the U.S. Securities and Exchange Commission proposed rescinding its Climate-Related Disclosure Rules. What's behind the proposals?

ANDY: The SEC says that it has proposed the rescission of what it describes as overly burdensome and costly rules that require companies to provide certain climate-related information in their registration statements and annual reports.

The SEC adds that its proposal focuses on returning the agency to its core mandate – in line with its legal authority – and restoring a materiality-focused approach to securities regulation.

MATT: Amendments had previously been approved, and then subsequently stayed, by the SEC. So, what's in the latest proposals?

ANDY: The SEC says that it is now proposing to rescind the climate disclosure rules in their entirety because they exceed the scope of its statutory authority. The SEC goes on to say that even if it had authority to adopt such final rules, it believes there are independent, compelling policy reasons to rescind them entirely. The SEC states that they:

- Are unnecessary and inconsistent with a registrant-specific, materiality-based approach to disclosure that best serves the interests of registrants and investors.
- Stray well beyond the policy concerns of the federal securities laws.
- Impose substantial costs on public companies and their shareholders that are not justified by the informational benefits they may provide to some investors.
- And are at odds with the SEC's policy objectives of facilitating capital formation and promoting public company status.

Finally, the public comment period will remain open for 60 days following the publication of the proposing release in the Federal Register.

MANDY: Matt, last month we saw the FCA and Bank of England set out a shared vision for tokenisation in UK wholesale markets. What did they say?

MATT: The FCA and Bank of England have set out their approach to the regulation of tokenisation and distributed ledger technology, in key areas where firms want greater clarity, including prudential treatment, tokenised collateral, and settlement instruments.

They have also opened a discussion on key principles for regulation and infrastructure, that could facilitate the development of tokenisation in wholesale markets.

MANDY: And are they asking for feedback?

MATT: Yes. They are seeking industry views, via a Call for Input, on where existing rules and infrastructure support or constrain the safe use of this technology.

They state that feedback will help shape future work and inform the next steps of developing a joint roadmap for digital wholesale markets. The period for comments closes on **3 July**.

MANDY: And anything else worth mentioning?

MATT: The FCA says that it is committing to further work to support tokenisation in the UK, including considering how its approach to the application of client asset rules may evolve in light of industry feedback.

Also, the Bank of England has published a consultation on extending Real-Time Gross Settlement and CHAPS settlement hours, setting out next steps towards near 24/7 settlement.

And the PRA has published Dear CEO letters, setting out updated guidance on the prudential treatment of tokenised asset exposures, and on innovations in deposits, e-money and stablecoins.

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.