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

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 the U.S. the SEC announced (effective the 17 June) the immediate withdrawal of 14 rule proposals, issued between March 2022 and November 2023, and stated that it does not intend to issue final rules with respect to these proposals.

MANDY: So, does that mean that the SEC will no longer be looking at these proposed rules at all?

ANDY: The SEC says that if it decides to pursue future regulatory action in any of the areas covered by the announcement, it will issue a new proposed rule.

MANDY: Were any of proposed rules of note for asset managers?

ANDY: The proposed rule 'Safeguarding Advisory Client Assets', which included amending the custody rule, would have directly affected asset managers' responsibilities and procedures for managing client funds.

Also, the 'Cybersecurity Risk Management for Investment Advisers, Registered Investment Companies, and Business Development Companies' proposal would have resulted in Asset Managers implementing new policies and procedures.

And finally, the 'Outsourcing by Investment Advisers' proposed rule, which aimed to regulate the outsourcing practices of investment advisers, potentially affected how asset managers delegate certain functions and would have required greater oversight of third-party service providers.

MANDY: Matt, one we've have been waiting for movement on in Europe is an update on proposed changes to the UCITS Eligible Assets Directive (or EAD as it is more commonly known). What's the latest?

MATT: On 26 June, ESMA published its Technical Advice to the European Commission on the review of the UCITS EAD.

ESMA says that the policy proposals it has put forward aim to overcome the currently divergent National Competent Authority and market practices on the UCITS eligibility of assets and therefore foster supervisory convergence and reduce the burden for UCITS management companies operating and/or marketing UCITS on a cross-border basis.

MANDY: And what would you say is the central message in the Technical Advice to the Commission?

MATT: ESMA says it sees merit in a look-through approach as a fundamental criterion for determining the eligibility of assets, as this ensures a high level of investor protection and transparency, and can protect the reputation and trust in the UCITS brand.

In addition, allowing a certain degree of flexibility, ESMA proposes that UCITS be permitted indirect exposure to alternative assets of up to 10% of the fund value (subject to regulatory safeguards on, for example, liquidity and valuation) with a view to improving risk diversification and generating returns from uncorrelated asset classes.

MANDY: And more generally, what is ESMA proposing?

MATT: The Technical Advice proposes clarifications of various key concepts and definitions included in the UCITS EAD and the UCITS Directive concerning the criteria for the UCITS eligibility of asset classes.

Then finally, it also includes considerations and proposals on the alignment with other EU pieces of legislation.

MANDY: So, what are the next steps:

MATT: ESMA says that it now expects the Commission to take its Technical Advice into account as it reviews the UCITS EAD.

ANDY: Mandy, what's the latest on the ESG front in the UK?

MANDY: On 25 June, the UK Government announced that it had published three consultations, forming part of the first phase of consultations to modernise the UK's sustainable finance framework.

ANDY: And what do the consultations cover?

MANDY: They cover:

- *Climate-related transition plan requirements* – seeking views on how the UK government can mandate UK-regulated financial institutions, including asset managers, pension funds and insurers, and FTSE 100 companies to develop and implement credible transition plans that align with the 1.5°C goal of the Paris Agreement, and

- *Exposure drafts: UK Sustainability Reporting Standards* – seeking views on exposure draft UK SRS, which are based on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. And finally
- *Assurance of sustainability reporting*.

ANDY: How long do firms have to respond to the consultations?

MANDY: The consultation period for all three papers closes on 17 September.

ANDY: And what was the response from the Financial Conduct Authority?

MANDY: The day after the government announcement, the FCA issued a statement welcoming the consultations, stating that it intends to consult later in 2025 on how listed companies will adopt these standards, promoting international alignment and the growth of the UK as a centre for sustainable finance.

The FCA adds that this will also include its proposed approach to the disclosure of transition plans.

MATT: Andy, turning back to ESMA, what else did it issue in June?

ANDY: ESMA launched a discussion paper to gather feedback and inputs on how to integrate funds reporting, aiming to reduce the burden for market participants.

ESMA says that funds reporting in the asset management sector is now subject to significant fragmentation due to the coexistence of several reporting regimes at national and European level, resulting in high compliance burdens.

MATT: So, what approach does ESMA take?

ANDY: In order to identify solutions, ESMA states that the discussion paper outlines options for improving different aspects of reporting, such as the scope of data, reporting processes and systems to ensure more efficient reporting and sharing of data between the authorities. Among the possibilities, there are proposals related to the integration of multiple reporting templates and the centralisation of reporting processes and infrastructures.

MATT: You said ESMA is aiming to reduce the burden for market participants. How does this paper help that?

ANDY: ESMA says that the discussion paper adds to its simplification and burden reduction initiative, launched earlier this year, and directly contributes to the debate on how to simplify, harmonise and eliminate barriers to produce an effective burden reduction in the financial sector, while preserving the main objectives of financial stability, orderly markets and investor protection.

MATT: What can we expect next?

ANDY: The closing date for comments is 21 September, with a final report expected in April 2026.

MANDY: Matt, on 26 June, we saw the Monetary Authority of Singapore issue a Circular on ‘Governance and Management of Variable Capital Companies (VCCs)’. What’s behind its publication?

MATT: MAS carried out a thematic review of VCCs and their managers in 2024, the Circular highlights MAS’s key observations from this review and sets out supervisory expectations and good practices for VCC managers in their governance and management of VCCs.

Also, MAS adds that while this Circular is premised on its observations of VCCs, the supervisory expectations are relevant to other types of fund structures where applicable.

MANDY: So, what are the observations?

MATT: In general, MAS says that it observed that a majority of VCCs and VCC managers met the key regulatory requirements. However, MAS goes on to say that the survey responses also suggested potential areas where certain VCCs and/or VCC managers may not be fully adhering to regulatory requirements.

These areas were:

- Custody Arrangements;
- Appointment of VCC Manager and Director;
- Substantive Fund Management Activity; and
- Anti-Money Laundering and Countering the Financing of Terrorism

MANDY: Does MAS outline any further actions based on its survey findings?

MATT: It does. MAS says that it is conducting supervisory reviews of specific managers and engaging these managers further to determine whether supervisory interventions or regulatory actions are warranted.

MAS states that it expects all VCC managers to review their management of VCCs against the observations set out in its Circular and take appropriate steps to address any gaps in compliance.

MAS also says that a VCC manager retains overall responsibility for the fund management duties of the VCCs under its management and should ensure that its duties as manager are effectively discharged.

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.