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

Happy New Year and welcome to the first edition of Bite-Sized for 2025.

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?

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ANDY: In the UK, the FCA have taken a further step in replacing the rules relating to the PRIIPs and UCITS KID disclosures, with its own Consumer Composite Investments regime for funds sold to UK retail investors.

In its consultation paper, the FCA says it wants to make significant changes to the rules for the way product information is presented, aiming to move from the current prescriptive disclosure regime to a more flexible, simpler approach.

MANDY: What else does the FCA say in its consultation paper?

ANDY: The FCA says the new regime looks to prioritise good consumer outcomes through empowering consumers to make effective, timely and properly informed decisions, and enables firms to tailor their communications to meet consumers' needs.

Through the CCI regime, the FCA wants consumers to:

Be presented with information that is accurate, understandable, and broadly comparable.

Engage with product information and use it in their decision-making process.

And be able to compare investments more effectively, and more easily find the best product for their needs.

MANDY: So which firms will be impacted?

The CCI regime will apply to any firm, including overseas firms, that manufactures or distributes a CCI, including UCITS and AIFs, to retail investors in the UK.

The consultation period closes on 20 March and the FCA says that it will publish a further consultation with draft rules for consequential amendments and transitional provisions, followed by a policy statement with the final rules, later in the year.

MATT: Mandy, what have we seen on the ESG front?

MANDY: On the 13th December, ESMA published Q&As with further details on specific aspects of the practical application of the Guidelines on fund names using ESG or sustainability-related terms.

ESMA says its objective in issuing the Q&As is to ensure a smooth application of the Guidelines through common understanding of key concepts.

MATT: So, what do the Q&As cover?

MANDY: With separate Q&As for both UCITS and AIFs, they include:

- **Green bonds,** explaining that investment restrictions related to the exclusion of companies do not apply to investments in European Green Bonds. For other green bonds, fund managers may use a look-through approach to assess whether the activities financed are relevant for the exclusions.
- "**Meaningfully investing in sustainable investments**", presenting a common understanding among NCA's that funds may not be "meaningfully investing in sustainable investments" if they contain less than 50% of sustainable investments; and
- **Controversial weapons,** specifying that the reference for the exclusion related to controversial weapons should be the one referred to in SFDR principal adverse impact indicator 14.

ESMA explains that it has decided to clarify the treatment of Green Bonds because of the imminent application of the European Green Bonds Regulation and the reference in the mandates in the AIFMD and UCITS Directive, noting that sectoral legislation takes precedence.

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ANDY: Staying in Europe, and with ESMA, what other updates have there been?

MATT: ESMA has also published a consultation paper on draft regulatory technical standards on open-ended loan originating AIFs under the revised A.I.F.M.D.

The draft RTS set out the requirements which loan-originating AIFs shall comply with to maintain an open-ended structure.

According to the revised directive, loan-originating AIFs shall be closed-ended unless their manager can demonstrate to its home national competent authority that their liquidity risk management system is compatible with their investment strategy and redemption policy.

The consultation closes on 12 March and ESMA says it intends to finalise the draft RTS by Q4 2025.

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MANDY: And in the Netherlands, large asset managers have had their policies and procedures regarding liquidity stress tests (LSTs) reviewed by the Dutch Authority for the Financial Markets (AFM) and the Dutch Central Bank. What did they find?

ANDY: In its accompanying press release, the AFM said that the findings show that the managers have adequate policies in place and that the liquidity stress tests are largely in line with the European guidelines. Also, the AFM noted that there are a few areas where the guidelines have not yet been fully implemented by all managers.

MANDY: And what were they?

ANDY: Some managers can improve in certain areas - For example, the AFM says that not all managers use both historical and hypothetical scenarios for their LSTs. If managers only use historical scenarios, the AFM says that they may underestimate future, more severe stress situations. In addition, not all managers consider risk factors such as the type of investor and investor concentration when applying scenarios on the liabilities side.

The AFM also says that the findings provide an overview of the sector and suggest potential areas of improvement. Both the AFM and DNB are now sharing the findings in a report that provides an overview of how various components of the LST policy have been implemented by asset managers in accordance with the ESMA guidelines.

The AFM and DNB expect all managers to apply the ESMA guidelines and to implement improvements to their LST policies where necessary.

MANDY: Turning to Hong Kong, the SFC published a circular highlighting its requirements and expectations for Managers of SFC-authorised money market funds (MMFs), including good practices for managing the liquidity risk of such funds.

What are the SFC's expectations?

MATT: They say Managers are required to maintain and implement effective liquidity risk management policies and procedures to monitor the liquidity risk of money market funds under their management, considering factors including the funds' investment strategy and objectives, investor base, liquidity profile, underlying obligations, and redemption policy.

MANDY: And what else does the SFC say to firms?

MATT: The SFC reminds Managers that funds are required to invest in high-quality money market instruments. They must consider both the credit quality and liquidity profile in determining the quality of a money market instrument.

Also, Managers are reminded to exercise due care, skill, and diligence in managing the liquidity of their funds at all times, taking into account prevailing market conditions (such as interest rate changes and their potential impact on funds), and to ensure fair treatment of investors in meeting redemption requests, including an effective framework to provide for reasonable liquidity costs, mitigate material dilution, and protect the interests of remaining investors upon others' redemption.

MANDY: Is there anything else worth a mention?

Finally, managers are advised that they should review their current policies and procedures to assess the adequacy of their action plans and availability of LMTs, including the ability to use anti-dilution tools, and implement necessary enhancements such as revisions of the funds' offering documents to ensure such tools are available for use when needed.

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.