ISSA

International Securities Services Association

Regulatory Developments in Securities Services – 2020

Update on ISSA's 2018 Regulatory Report

December 2020

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Neither ISSA nor the members of ISSA's Working Group warrant the accuracy or completeness of the information or analysis contained in this report.

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Abstract

Introduction
ISSA published its first post-crisis Regulatory Report, titled «Regulatory Trends and Initiatives Affecting Custodians, Clearers and (I)CSDs: Impacts and Implications» in 2012. The 2012 report was written in the relatively recent context of the 2008 financial crisis. ISSA issued a further, updated, report in 2018.

This new 2020 report provides a further update, taking into consideration recent regulatory developments as well as the current Covid-19 pandemic. The aim of the report is to provide the audience with an overview of the main changes in existing, as well as new, regulatory initiatives. The report, however, does not look to specifically address financial crime compliance.

Target Audience
This paper is addressed to market intermediaries, such as market infrastructure firms, custodian banks, clearers and broker dealers as well as to asset managers, issuers, industry associations and regulators.

Regulatory Impact Working Group
The Regulatory Impact Working Group Chairs and participants, contributing to this report include Haroun Boucheta, BNP Securities Services, Laurence Caron-Habib, BNP Securities Services and Henry Raschen, HSBC.

Acknowledgements
The ISSA Executive Board wishes to thank the Working Group participants for their contributions as well as their firms for having enabled their participation.

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1. Executive Summary

In June 2012, ISSA issued a comprehensive report reviewing the regulatory changes triggered by the 2008 financial crisis. The report covered the regulations in various geographic regions that affect the securities industry.

The report analysed the impact of the new regulatory initiatives upon custodians and financial market infrastructures, in terms of additional cost, changed risk responsibilities, and the creation of new opportunities. An update was issued in May 2018.

The aim of this updated report is to provide an overview of various securities services regulatory initiatives that were undertaken in the aftermath of the financial crisis as well as to look at the new regulatory trends that have shaped the securities industry since 2018. Given recent developments, this report also takes into consideration the impact of the Covid-19 pandemic.

Currently, the main focus of national governments continues to be to balance controlling the Covid-19 pandemic against the maintenance of economic activity. Looking beyond this, the regulatory focus in the securities services arena can now be seen as having shifted its area of scope into four key areas:

- New systemic risk mitigation developments
- Investor protection
- Environmental, Social and Governance (ESG)
- Interbank Offered Rate (IBOR) reform

This report is structured to cover the measures introduced in the world's major regions, including, for each of the specific regulations, to address the key areas outlined above. The Americas and Europe are dealt with at some length with regard to individual pieces of legislation issued by the USA and the European Union. Asia Pacific and the Middle East are addressed more briefly but thematically, with some reference to individual countries and legislative initiatives. Finally, the authors have summarized the key findings from this update as well as highlighted additional regulatory areas that need to be focussed on in the future.

2. International Regulatory Developments

In the years since the 2008 financial crisis, international bodies have produced standards and recommendations in the financial area at a sustained pace. For the purpose of this update, ISSA has reviewed progress achieved in the adoption of main regulatory initiatives launched in the aftermath of the financial crisis. As these developments in the securities services area were listed and detailed in the previous report, the focus here is on what has been achieved concretely, from an adoption and implementation perspective, and on what remains to be done.

2.1 Central Counterparty (CCP) Recovery & Resolution Planning

During the past year, there have been a number of comments internationally concerning CCP recovery & resolution planning. Since the 2009 G20 Pittsburgh communique, which required significantly higher levels of central clearing (at CCPs), there has been a general concern that the concentration risk in CCPs could cause danger to the economy in the event of a CCP's failure. A CCP operates on balance sheet (unlike an exchange or CSD which operate off balance sheet), so a CCP entity is at risk of failure in the event of operational insolvency or illiquidity. At least one regulator has described the impact of a CCP's failure as potentially leading to chaos.

CCPs and their regulators have planned carefully for CCP safety, using techniques including margining, capital, risk waterfall, being able to withstand failures of major counterparties and scenario practices. Nevertheless, further improvement is constantly being sought, as can be seen from the two links shown below.
https://www.fsb.org/wp-content/uploads/S270219.pdf
http://www.europarl.europa.eu/RegData/etudes/ATAG/2019/635585/EPRS_ATA(2019)635585_EN.pdf

2.2 International Financial Reporting Standard (IFRS) 9

The IFRS 9 (Financial Instruments), issued on 24 July 2014, was the International Accounting Standards Board's (IASB's) replacement of IAS 39. The Standard includes requirements for impairment, recognition and measurement, «de-recognition» and hedge accounting. IFRS 9 was endorsed by the European Financial Reporting Advisory Group in November 2016, with a mandatory effective date for accounting periods commencing on or after 1 January 2018.

Note: In March 2020, the IASB decided to defer the effective date for IFRS 17 (Insurance Contracts) by one year to accounting periods beginning on or after 1 January 2023. The IASB also chose to extend the temporary exemption to IFRS 9 for insurance entities. IFRS 9 becomes compulsory for insurance entities' accounting periods beginning on or after 1 January 2023.

2.3 Environmental, Social & Governance (ESG)

There continues to be significant focus and growth in the area of ESG. Key topics are sustainability, reporting of activity and positions as well as taxonomy (classification and hierarchy of what is allowed to be considered a «green» investment). The number of new active and passive ESG strategy funds, sustainability themed funds, impact funds and bond issuances coming to market is increasing, with managers and institutional owners recognising their importance. The focus is also evidenced by the number of new ESG indexes, ETFs and listed futures contracts, including Eurex STOXX, Nasdaq OMX and (from November 2019) ICE Futures MSCI ESG Leaders. Closely-coupled with this, continued

industry recruitment of ESG specialists and the definition of ESG roles in key firms can be seen.

At the same time, and most importantly, regulators are working hard to define the playing field for ESG, which is a challenge for many reasons including the rapid pace of market change. The developments are taking place against a backdrop of changes across the industry, advances in technology and geo-political challenges.

In Europe, regulators' use of standardisation should encourage ESG adoption throughout Europe, ensuring that capital movement, distribution and marketing can be achieved on a level playing field. Ways to achieve these aims include clear taxonomies, applications to existing rules and direction in terms of how new rules should be put in place throughout the region. Such direction should make it easier for the industry to manage the change and also ensure that the foundation is solid for future evolution of the markets and their associated rules. See also the ESG section under Europe, paragraph 3.5.1.

The European Commission released several proposals on key texts to incorporate sustainable requirements. These proposals dated 24 May 2018 are integrating sustainability into the suitability obligations arising from EU Directive 2014/65/EU (MiFID II) and EU Directive 2016/97 (IDD – Insurance Distribution Directive). To enable the most suitable products to be recommended to the client, investment firms providing investment advice and portfolio management should introduce questions in their suitability assessment to help identify the client's investment objectives, including Environmental, Social and Governance (ESG) preferences. The final recommendations to the client should reflect both the financial objectives and, where relevant, the ESG preferences of that client. Investment firms providing investment advice and portfolio management should consider each client's individual ESG preferences on a case-by-case basis. Moreover, investment firms should disclose, where relevant, information on the ESG preferences of each financial product offered to clients before providing investment services. Investment firms should also explain to clients how their ESG preferences for each financial instrument is taken into consideration in the selection process used by those firms to recommend financial products.

The industry is making the necessary investments to manage this growth across technology, data reporting and risk management. Functions such as audit and compliance will need to be updated to account for ESG monitoring, guidelines, oversight and measurement, and this will be a significant change. ESG has been here for some time, but its growth and level of importance has now put it at the top of most product and change agendas industry wide. Regulators view this as a good thing in that, being able to support ESG, should attract business.

However, the evolution of ESG presents challenges for the securities services industry. Standardisation can underpin success, but currently there are no full data sets covering all securities for ESG factors and no industry wide standards for reporting. ESG data, and its availability, is a key to achieving these goals and regulators very firmly see this. They continue to place importance on the source and quality of the ESG data.

The EU Regulation on sustainability-related disclosures in the financial services sector (SFDR) empowers the European Supervisory Authorities (ESAs) to develop Regulatory Technical Standards (RTS) on the content, methodology and presentation of ESG disclosures. The consultation paper contains proposals for a framework to facilitate sustainable investment (Taxonomy Regulation) on the «do not significantly harm (DNSH)» principle.
https://www.esma.europa.eu/press-news/esma-news/esas-consult-environmental-social-and-governance-disclosure-rules

The EU Taxonomy includes a Harmonised Reporting Template. The 50 data points, 32 of which are to be principal or mandatory, include multiple ESG criteria including:

- Environmental e.g. Carbon, Energy, Pollution, Biodiversity and Waste
- Social e.g. Human Rights, Bribery and Corruption, Health and safety, Gender pay and Labour rights

A public hearing took place on 2 July 2020. Consultation responses were due by 1 September 2020.
https://www.esma.europa.eu/sites/default/files/jc_2020_16_-_joint_consultation_paper_on_esg_disclosures.pdf

2.4 Inter Bank Offered Rate (IBOR) Reform

The forthcoming move away from the traditional Inter Bank Offered Rates (IBORs) to the new Alternative Reference Rates continues to pose challenges and questions. IBORs are intended to be phased out across the USA, UK and many other countries by the end of 2021. However, the complexity of some contracts and products has led at least one regulator to indicate that some reliance on an IBOR could be needed beyond that timescale.
https://www.fca.org.uk/news/statements/fca-consults-on-new-benchmark-powers

Debt contracts and derivatives extensively reference existing IBORs at present. Firms will need to manage carefully the transition and or update of these contracts to the new alternative reference interest rates. There is also regulatory uncertainty as to eventual destination rates and how term rates are to be determined in some cases. Given the impacts that will be felt in addition to contractual changes, there are technology changes, model changes, recalibration and operational process changes to be reviewed and assessed in a short window. Work is ongoing across industry forums to track and help manage the changes with consistency and clarity being keenly needed. The EU authorities and the UK FCA have issued extensive information and guidance to date. In respect of the change in Europe, this link is relevant:
https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1376
https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr.200723~cba7253463.en.html

3. Regulatory Developments by Region

Although some regulations have been developed and then adopted globally, many are still only implemented at either a regional or country level. This part of the report considers the key regulatory changes that have been developed, or are under consideration, in each of the key regions.

3.1 North America – General Regulations

3.1.1 Implementation of the G20 Agenda

Most of the G20's recommendations were implemented in the USA through the Dodd-Frank Act. In 2013, the Volcker Rule was implemented to prevent banks from using their own accounts to engage in proprietary trading activities or holding equity stakes in hedge funds and private capital funds. Since then, some of the constraints have been eased for smaller and mid-sized banks, but further relief is now being extended to larger financial institutions by the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC). While proprietary trading is still prohibited, the new rules grant more exemptions and simplify the compliance processes for banks when determining whether certain trades are permissible. The amendments also make it easier for banks to invest in hedge funds and private equity.

President Trump promised to advance a de-regulatory agenda and to «dismantle» Dodd-Frank. In an Executive Order,[1] President Trump laid out his principles for financial regulation and directed the Secretary of the Department of Treasury to review existing regulations and make recommendations about changes that should be made to ensure their consistency with his regulatory principles. President Trump, however, encountered difficulty in passing his intended financial reforms through Congress, limiting the amount of change able to occur. A key change however was Volcker 2.0 (effective January 2020 / compliance date January 2021), which makes changes in the following areas:

- Removes the CEO attestation requirement: Where US trading assets and liabilities are below specified levels, a CEO attestation will no longer be required
- Trading outside the United States (TOTUS) exemption: Permits certain trading with US counterparties, US financing and involvement of US personnel
- Market-making exemption: Presumption of compliance with the exemptions. Banks will now only need to keep records of limit breaches or increases and make them available upon request, not report them
- Short-Term Intent: Creates a presumption that financial instruments held for 60 days or longer are not for the trading account

3.1.2 Data Privacy-CCPA

Processes to comply with the new California Consumer Privacy Act and other US states' upcoming privacy laws were implemented on 1 July 2020. These included:

- Provisions to protect California residents covering:
  - Right to know what personal data is collected
  - Right to know whether personal data is sold, and to whom
  - Right to refuse that sale of their data
  - Right to access their data

[1] See Executive Order 13772, *Core Principles for Regulating the United States Financial System*, 3 February 2017; available at:
https://www.whitehouse.gov/the-press-office/2017/02/03/presidential-executive-order-core-principles-regulating-united-states

    - Right to be forgotten
    - No discrimination for exercising these rights
- Privacy policy/notice specifying:
    - The categories of information collected and purpose for which it was collected
    - The categories of data collected in the preceding twelve months and sold or disclosed for business purposes
- Businesses to make available two or more methods for consumers to request this information (toll-free telephone number and website address (if the business maintains a website))
- Appropriate policies and procedures to be adopted to reconcile the CCPA requirements with the need to preserve evidence in litigation
- Appropriate training in the CCPA's requirements should be provided to staff
- A number of 'checklists' for compliance with the California Consumer Privacy Act are available online

3.1.3 FINRA Rule 4210

The FINRA Rule, which becomes effective on 25 March 2021**,** requires US-registered broker-dealers to receive a minimum amount of margin from their counterparties – including buyside entities – with respect to «Covered Agency Transactions».

3.1.4 SEC Proposal for Microcap Market

A proposal is under review concerning the Microcap Market, after the open comment period ended on 30 December 2019. This includes the following:

- Proposed amendment to Rule 15c2-11
- Requires certain information about the issuer and the security be current and publicly available before a broker-dealer can publish a quote
- Limits eligibility for the «piggyback exception» which allows broker-dealers to publish quotations for a security in reliance on the quotations of another broker-dealer that initially performed the review of the issuer's information
- Limits the use of the existing unsolicited order exception for quotations on behalf of company insiders if information about the issuer is not current and publicly available
- Permit a regulated entity to conduct the information review that is currently only permitted to be conducted by broker-dealers that publish or submit quotations

3.1.5 Shortening the US Settlement Cycle

The USA, Canada and Mexico have used a T+2 (or shorter) securities settlement cycle since September 2017.

3.1.6 OCC ANPR on Fiduciary Regulations

On 29 April 2019, the USA Office of the Comptroller of the Currency (OCC) published an advance notice of proposed rulemaking (ANPR), inviting comment on possible revisions to specific OCC fiduciary regulations. Specifically, the ANPR requested comment on whether the OCC should update the regulatory definition of «fiduciary capacity» to make it more consistent with recent developments under state laws. The ANPR also requested comment on the potential addition of new provisions to OCC regulations to establish certain basic requirements for non-fiduciary custody activities of national banks, federal savings associations, and federal branches and agencies (collectively, banks), which are not currently addressed by specific OCC rules. The ANPR ended on 28 June 2019.

The rules contemplated by the OCC in this ANPR would apply to all OCC-supervised institutions, including community banks. The ANPR invited comment on two possible revisions to the OCC's regulations:

- Updating the definition of «fiduciary capacity» to include certain capacities that are based on the authority a bank has with respect to a trust, e.g. the power to make discretionary contributions, override the trustee or select a new trustee. This change could ◦remove ambiguity and confusion for banks because of differences between how OCC regulations and state laws define «fiduciary capacity»
- Providing for the uniform application of OCC regulations to trust activities that state laws describe with different terminology. Specific potential requirements include:
  - Due diligence in selection and ongoing oversight of sub-custodians
  - Disclosure in custodial contracts and agreements of the custodian's duties and responsibilities
  - Effective policies, procedures, and internal controls

3.1.7 Transparency and Governance

Scrutiny of proxy advisors in the USA by the Securities and Exchange Commission (SEC) has increased, amid concerns about their potential conflicts of interest (e.g. proxy advisors provide consultancy services to listed companies as well as advising shareholders on their voting). Critics of proxy advisers attest that proxy voting processes at shareholder meetings are becoming too expensive and have even deterred private companies from going public.

The proposals, however, have set the SEC against investors in some cases. The Council of Institutional Investors, whose membership control around USD40 trillion in assets, has opposed the SEC's position, and some asset managers warn the changes could make it harder for them to hold companies to account.

3.2 North America – Pandemic Specific Measures

3.2.1 Extended Filing Deadlines and Prospectus Delivery Deadlines

The SEC has extended due dates for several filing and other requirements affecting 1940 Act registered funds and registered advisers for situations where the fund or adviser is unable to meet the filing deadlines due to circumstances related to Covid-19. Notification must be made to the SEC staff via email of the intention to rely on any of the extensions to filing requirements and certain other disclosures must be made on the fund/adviser website.
https://www.sec.gov/rules/other/2020/ia-5469.pdf
https://www.sec.gov/rules/other/2020/ic-33824.pdf

3.2.2 IRS Tax Extension

The IRS issued Notice 2020-23 widens the federal tax filing and payment relief for certain tax form filings and payment obligations that are due.
https://www.irs.gov/pub/irs-drop/n-20-23.pdf

3.2.3 Relief from Certain In-Person Fund Board Voting Requirements

On 25 March 2020, the SEC issued an amended order under the 1940 Act which provides registered funds and business development companies (BDCs) and their investment advisers (Advisers) and principal underwriters, relief from 1940 Act requirements that agreements, plans, and arrangements be approved by the company's board of directors by an in-person vote if necessary due to circumstances related to Covid-19.
https://www.sec.gov/rules/other/2020/ic-33824.pdf

3.2.4 Affiliated Purchases of Debt Securities and Money Market Funds

The SEC has issued no-action relief under Section 17(a) of the 1940 Act to affiliates of open-end funds (other than ETFs and money market funds) to allow them to purchase debt securities from the funds. The relief is subject to conditions, including that the price must be the security's fair market value, provided that this price is not materially different from the value indicated by a reliable third-party pricing service, and that the fund must publicly disclose the purchase on its website and inform the SEC staff. In addition, if the purchaser thereafter sells the security for a higher price, it must promptly pay the difference to the fund, unless the purchaser is a bank or bank affiliate and this condition would conflict with Sections 23A and 23B of the Federal Reserve Act.
https://www.sec.gov/investment/investment-company-institute-032620-17a

In addition, the SEC (Division of Investment Management) issued a no-action letter to the Investment Company Institute (ICI) in light of Covid-19, which stated that, on a temporary basis, they would not recommend enforcement action to the SEC for «affiliated purchases» of money market fund securities.
https://www.sec.gov/investment/investment-company-institute-031920-17a

3.2.5 Interfund Lending Relief

The SEC has issued an order providing additional flexibility for open-end funds to engage in interfund lending even without their own interfund lending exemption order.
https://www.sec.gov/rules/other/2020/ic-33821.pdf

3.2.6 Fed Money Market Mutual Fund Liquidity Facility (MMLF)

To preserve liquidity for money market funds, the Federal Reserve Board has announced a Money Market Mutual Fund Liquidity Facility (MMLF) that is intended to assist money market funds in meeting demands for redemptions. Under this facility, the Federal Reserve Bank of Boston will lend to depository institutions and bank holding companies, taking as collateral assets purchased by the borrower from prime money market funds.

The fact sheet is here and press release here.

3.2.7 Fed TALF Programme

On 9 April 2020, the Federal Reserve further clarified and updated the terms for the new 2020 Term Asset-Backed Securities Loan Facility (TALF 2020), which will permit US companies to borrow using certain assets as collateral. The programme will be available until the end of 2020.

The revised term sheet here has materially updated the following provisions:

- the eligible borrower definition
- the eligible collateral
- pricing
- collateral valuation
- the conflict of interest provisions

3.2.8 Treasury Guarantee of Money Market Funds

The Coronavirus Aid, Relief and Economic Security Act (CARES Act), which was enacted into law on 27 March 2020, has authorized the Treasury to make temporary guarantees of money market funds until the end of 2020. This is similar to the guarantees used in 2008 under the Emergency Economic Stabilization Act of 2008.

3.2.9 Regulatory Relief Letter from SIFMA to the SEC

On 25 March 2020, SIFMA (an industry association) sent a letter to the SEC's Division of Trading and Markets requesting regulatory relief consideration for a list of issues raised by industry participants. The topics addressed are:

- Wet Signatures
- DTCC Processing of Physical Securities
- Regulation SHO (short sales)
- Quarterly Physical Box Count Requirements
- Medallion Processing
- Transfer Agent Exemptions

On 2 April 2020, the SEC issued a statement regarding paper filings, wet signatures and notarization. The conditions regarding electronic submissions of paper documents and signatures include:

- Contacting SEC staff to discuss appropriate process for submission (e.g. secure file transmissions)
- Signing the relevant documents electronically, if a signature is required, by using a typed signature within the electronic submission in the position of the manual signature
- Having the signatory retain a manually signed signature page or other document authenticating, acknowledging, or otherwise adopting his or her signature, which indicates the date and time of execution, and having the signatory provide such document, as promptly as practicable, upon request
- Establishing and maintaining policies and procedures governing this process

The statement is available here.

3.3 Latin America

Transparency and openness are dominant themes in some of the regulatory changes that are currently under development or implementation in Latin America.

3.3.1 Brazil

New Anti-Money Laundering (AML) laws, which will take effect in October 2021, will impact financial institutions in Brazil, especially those activities carried out by financial security teams, with a reduction of the time for handling alerts (from 90 days to 45 days). There is to be a prohibition on the outsourcing of alert analysis activities and certain forms of trade execution in Brazil. In addition, there will be the need to follow various new policies and procedures, the preparation of new mandatory reports and an increase in the retention time of files from 5 to 11 years.

On 25 March 2020, the Comissão de Valores Mobiliários (CVM) of Brazil published Resolution No. 848, suspending the enforceability of certain obligations and allowing companies to receive a 3-month extension period to regulatory deliveries during the pandemic. This resolution follows the line of other communications made by CVM in 2020, to mitigate the economic and business-related impacts of the Covid-19 pandemic and the restrictive measures adopted to prevent and reduce its spread.

The Central Bank of Brazil (BACEN) has published Resolution No.4,797 implementing transitory measures for financial entities and other regulated entities in order to maintain their financial strength and foster the financial stability in the country. Accordingly, the entities covered by the resolution are not allowed to:

- Pay interest or dividends above the minimum required as per the entity's by-laws, or by law when applicable
- Repurchase their own shares (except if authorized by BACEN)
- Reduce their share capital
- Increase the salary, both fixed or variable, of directors or members of the government body or management staff

ANBIMA – (Association of Financial and Capital Market of Brazil – local self-regulatory body) and B3 – Brazil, Bolsa, Balcão (Brazilian Stock Exchange) have made changes to their regulatory qualifications, exam and certification programme to minimise the impacts of the pandemic on financial institutions. Also, the Regulator has adopted several measures to address potential issues with regulatory certification in the middle of the pandemic. The exams to renew a licence, or to get a new one, are suspended until further notice.

3.3.2 Colombia

Regulatory changes introduced by the Colombian Regulator regarding custody activity became effective during the first half of 2020. A draft decree was issued on 29 November 2019 by the URF (regulatory agency), introducing important changes to the custodial activity. The appointment of a local custodian will now be mandatory for pension funds and other portfolios managed by asset managers, as well as for insurance companies. Due to the pandemic the regulator informed the market that these changes would be evaluated in the latter part of 2020.

Also, as a result of the pandemic situation, some changes to local rules and procedures have been released by market entities:

- Central Bank measures to provide liquidity to the market and improve its functioning, allowing other type of entities to participate in those types of transactions with the Central Bank (auctions to buy securities and repos)
- Measures taken by the tax authority, which are related to extend the deadlines for filing tax returns. Also, the finance superintendence has allowed remote/virtual annual shareholders' meetings

3.3.3 Mexico

On 19 March 2020, the Regulator (National Banking and Exchange Commission) required additional daily data reporting. This requirement is related to the pandemic and has been put in place in order to provide to the Regulator daily information related to NAVs and other indicators. Mexico has also made a commitment to the establishment of a public beneficial ownership registry.

3.3.4 Argentina

Legal entities must now provide information on beneficial owners to the company registry in Buenos Aires.

3.3.5 Cayman Islands

The Cayman Islands has confirmed it will establish a public registry of beneficial ownership in 2023 to help the jurisdiction comply with internationally accepted standards and regional regulations such as the EU's fifth Anti-Money Laundering Directive. The Cayman Government has also proposed legislation to comply with Basel II Pillar 3 capital adequacy transparency requirements. The announcement is designed also to bring the Caribbean island into line with other British dependencies including Jersey, Guernsey and the Isle of Man in introducing public registries providing details about beneficial owners. However, on 18 February 2020, the EU Council added Cayman to its list of non-cooperative jurisdictions for tax purposes, viewing the tax avoidance measures to date as insufficient. Then, on 6

October 2020, the EU removed Cayman from its list of non-cooperative jurisdictions as a result of it improving its tax avoidance wording.

3.4 Asia Pacific

In the Asia Pacific region individual countries continue to develop and implement new regulations. Clearly there is no unifying legislature in Asia Pacific - as there is in the European Union - but alongside national rule-making, as described below, there are in Asia Pacific some cross-border cooperation initiatives.

3.4.1 China Financial Reforms

In September 2019, China's State Administration of Foreign Exchange (SAFE) abolished quotas for both QFIIs (Qualified Foreign Institutional Investor) and RQFIIs (Renminbi Qualified Foreign Institutional Investor). The China Securities Regulatory Commission (CSRC) is now expected to merge QFII with RQFII into a single unified scheme too, possibly late in 2020. The CSRC is also looking at widening the QFII/RQFII investment universe, allowing foreign investors to procure shares in companies listed on the National Equities Exchange and Quotations (NEEQ) OTC market and private securities investment funds.

3.4.2 Funds Distribution

Cross-border fund distribution channels in Asia have not yet accumulated large sums of assets. However, the schemes are still in the formative stages of their development. Currently, these schemes include:

- ASEAN CIS (which includes Malaysia, Singapore and Thailand)
- Asia Region Fund Passport (ARFP includes Australia, Japan, South Korea, New Zealand and Thailand)
- ETF (Exchange Traded Fund) Connect between China and Japan
- Mutual Recognition of Funds (MRF) programme covering Hong Kong and China

ARFP, which is the latest to launch, is now seeing the legislative developments for progress.

It should also be noted that the 2019 Shanghai / Japan agreement to establish an ETF connect mechanism allows funds to be listed in both locations, with the underlying investments being ETF products on the other exchange.

Interest among foreign asset managers in China's onshore WFOE (Wholly Foreign Owned Enterprise) fund structure is set to grow further as firms look to extend their distribution footprints on the mainland. There are more than 25 managers with WFOE PFM (Private Fund Manager) licences who are permitted to target institutional investors and high net worth individuals, but their numbers could swell following a series of liberalising measures. Under the latest provisions, WFOEs with PFM licences will be allowed to convert into public fund management companies giving them access to China's retail market. Regulators in China have also now announced the scrapping of many limits on the value of investment.

3.4.3 New Fund Structures

Authorised funds in Hong Kong and Singapore have historically been established as unit trusts. However, efforts are now being made by regulators in both jurisdictions to expand the number of available fund structures in order to win greater domiciliation share.

- The Hong Kong SFC, for example, launched an open-ended fund structure (OFC) back in 2018 which gave managers the option of setting up a local fund in the form of a company in addition to a unit trust. While the scheme is now live, SFC is looking to enhance the regime, and launched a consultation in December 2019.

The intention is to encourage the further onshoring in Hong Kong of investment funds domiciled elsewhere

- Singapore's Variable Capital Company (VCC) was announced on 15 January 2020 and this fund structure can be used by a wide range of traditional and alternative asset management strategies. The VCC, which is able to avail itself of US «check the box» election is expected to attract significant attention from asset managers globally
- Australia is also planning and consulting on its own Corporate Collective Investment Vehicle (CCIV), a structure roughly modelled on the UK's own Open-Ended Investment Company (OEIC). CCIV will be implemented as outlined in the following link:
https://asic.gov.au/regulatory-resources/funds-management/#cciv

3.4.4 Enhanced Corporate Governance

As in other regions, governance of investment funds is being strengthened throughout APAC, largely through better reporting to enable greater regulatory and investor transparency.

- In Hong Kong, the SFC issued the Fund Manager Code of Conduct outlining the responsibilities for asset managers, and subsequently revised elements of the Hong Kong Unit Trust Code, with effect in most cases from 1 January 2020. Key changes include increased minimum capital requirements for management companies of authorised funds, provisions around diversification, eased restrictions on investing in derivatives that are not futures, options or warrants coupled with enhanced disclosures and clarifications on the eligibility requirements for custodians and trustees
- In Australia, the Royal Commission report into banking misconduct in Australia (including recommendations to the industry for improvements to remuneration practices and governance) is likely to have struck a chord in the country's fund management circles

Other key priorities for regulators in 2020 and beyond include a deeper focus on liquidity and leverage issues (IOSCO has issued guidance papers on both over the last 6 months). The SFC in Hong Kong has also issued guidance on the licensing obligations of private equity (PE) firms and family offices which conduct business in Hong Kong and continues work on ETF connect between Hong Kong & Mainland China. Managers should also brace themselves for increased regulatory reporting as regulators seek more data to govern licensed entities more effectively. Both the Hong Kong & Singapore regulators are introducing / enhancing their reporting regimes.

3.4.5 Environmental, Social and Governance (ESG)

As in other regions, ESG and sustainability have become key focus area for regulators in APAC. Regulators have referred in some cases to global initiatives including the FSB's report of June 2017 on climate-related financial disclosures. National regulators are also conscious about developing appropriate frameworks to support the overall ESG agenda, with many APAC regulators taking multiple steps in this area. Codifying the correct and genuine features and taxonomy for sustainable investments has become essential.

- The SFC in Hong Kong issued a circular highlighting the issue of defining green investments, requiring managers to abide by established criteria. In addition, the SFC issued guidance urging investment funds running ESG strategies to be more transparent with their clients about how they incorporate and apply ESG into their businesses
- The Monetary Authority of Singapore (MAS) has published Environmental Risk Management guidelines for banks, insurers and asset managers from the first quarter of 2020

- The People's Bank of China (PBOC) is pushing through with its own green bond standards

As more regulators take note of climate change risks, so too must financial institutions.

3.5 Europe

Over recent years, Europe – and in particular the EU – has developed and implemented multiple new and updated regulations. This is particularly the case in multiple areas which impact the securities services industry.

3.5.1 Environmental, Social and Governance (ESG)

The EU is generally accepted to be a leader on ESG matters, having announced an Action Plan on Sustainable Finance in 2018.

During 2019, the EU made significant progress with its ESG agenda, such as the measures outlined below:

- SRD2 (Revised Shareholder Rights Directive 2), which encourages long-term shareholder engagement, was applied in 2 phases from 10 June 2019 and from 3 September 2020. Asset managers are required to engage with investment companies on topics such as long-term business strategy, board composition including gender diversity, sustainability and impact on the environment, executive remuneration, capital allocation, and other ESG issues
- On 9 December 2019, the EU published in the Official Journal its Regulation on sustainability-related disclosures in the financial services sector. The Regulation applies to financial market participants (insurance undertakings, pension product manufacturers, AIFMs, UCITS managers, PEPP providers and portfolio managers) and financial advisers. It obliges these organisations and persons to provide product and service disclosures and information on their websites and within pre-contractual disclosures on various sustainability factors including: (i) the integration of sustainability risks in their investment decision making process and (ii) information on the due diligence undertaken on the principal adverse impacts of their investment decisions on sustainability impact or, if these issues are not considered an explanation of why not and if they may be so considered in the future. The content and presentation of these disclosures will be determined by regulatory technical standards to be drafted by the European Securities and Markets Authority (ESMA) by 30 December 2020. The Regulation applies from 10 March 2021
- On 17 December 2019, the EU Council published the final compromise text of a Proposal for a Regulation on the establishment of a framework to facilitate sustainable investment. This forms a proposed taxonomy covering environmentally sustainable activities in what will help form the basis of future ESG reporting at institutional clients. The provisions will apply from 31 December 2021
- On 20 May 2020, the ECB issued a public consultation on its guide on climate-related and environmental risks. The response deadline was 25 September 2020. The ECB states that banks are expected to integrate climate and environmental risks in business strategy, governance, risk management and disclosure. The ECB's cover note includes: «The European Central Bank (ECB) today published a guide for consultation that explains how it expects banks to safely and prudently manage climate-related and environmental risks and disclose such risks transparently under the current prudential framework. The ECB wants banks to account for these risks given that they drive existing prudential risk categories and can substantially impact the real economy and banks. The guide specifies how ECB Banking Supervision expects banks to consider climate-related and environmental

risks in their governance and risk management frameworks and when formulating and implementing their business strategy. It also outlines how the ECB expects banks to become more transparent by enhancing their climate-related and environmental disclosures. The ECB acknowledges that banks face significant challenges as a consequence of the coronavirus (COVID-19) pandemic. While the ECB's immediate attention is on the pandemic, it remains committed to further advancing the management and disclosure of climate-related and environmental risks in the banking sector».
https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200520~0795c47d73.en.html

3.5.2 Central Securities Depositories Regulation (CSDR)

The EU Central Securities Depositories Regulation (CSDR) addresses central securities depositories (CSDs), custody accounts and settlement. In addition, CSDR allows EU corporate organisations to issue securities into any EU CSD, enabling full usage of T2S's capabilities. In the immediate aftermath of the 2008 financial crisis, the EU authorities gave priority to updating MiFID (dealing mainly with markets, exchanges and trading behaviour) and to EMIR (dealing with derivatives' clearing, reporting and margining). The publication of CSDR shortly afterwards showed, however, that the EU authorities also wanted to see settlement and safekeeping being properly structured and supervised, both at financial market infrastructures and their participant intermediaries. Whereas MiFID and EMIR derive largely from the G20 Pittsburgh meeting of September 2009, CSDR is a home-grown European creation.

CSDR came into force across the European Economic Area in September 2014 and applies or has applied from the dates below:

- 2014
  - Shorter settlement cycles: T+2 was implemented for most classes of securities across Europe in October 2014. As mentioned above, that the USA, Canada and Mexico moved to T+2 on 5 September2017
- Recent Changes
  - Authorisation of CSDs under CSDR by National Competent Authorities (NCAs - local regulators): Most EEA CSDs have now been authorised. The UK's CSD, Euroclear UK & Ireland, is expected to be authorised under CSDR by the Bank of England before the end of the Brexit transition period on 31 December 2020
  - Permitted activities of CSDs: Upon authorisation under CSDR, CSD groups can expand into banking activities subject to (a) approvals and adequate capital and (b) restrictions concerning a bank and CSD in the same entity (see next bullet). CSDs may now carry out more corporate action processing (for example), but conversely they may not wish to incur the associated operational risk currently borne by custodian banks. Moreover, issuing companies in the EU may issue securities into any CSD within the EU and are no longer restricted to their own domestic CSD
  - Separation of banking and CSD activity: Under CSDR, CSD activity and banking can no longer be conducted in the same legal entity, unless a derogation (or exception) has been obtained from the European Commission. The aim is to prevent the utility function of a CSD being dragged down by its banking arm in the event of a collapse. The main CSDs in Europe where the entity is also a bank are the Euroclear and Clearstream International CSDs (ICSDs), and the national CSDs of Germany, Austria and Hungary
  - Segregation of accounts at CSD level must be offered by CSD participants (custodians) to their clients: An immediate implication of a CSD's authorisation is the CSDR Art 38 requirement upon a participant of that CSD

to offer the choice of segregated or omnibus accounts at that CSD to its clients. In addition, CSD participants (a) must publicly disclose the risks and costs of omnibus and segregated accounts and (b) may charge for a change of the different holding structures

- Internalised settlement reporting: Submission of quarterly aggregated reports by settlement internalisers to their National Competent Authorities (NCAs) has been taking place on data collected since 1 April 2019. Internalised settlements occur when a buyer's and a seller's assets for the same quantity and security are held in the same omnibus account and the settlement is recorded purely within the omnibus account without reference to the CSD. Regulators wish to monitor levels, as there has been concern that settlement outside CSDs may not have adequate and demonstrable DvP and finality

- Future Changes
  - CSDR Settlement Discipline Regime (SDR): Fundamental changes in settlement discipline are to take place for all trades settled at EEA CSDs. There are new measures for (1) the prevention of settlement failures, (2) the fines regime being made uniform across all EEA CSDs and (3) mandatory buy-ins for transactions not settled by Intended Settlement Day + 4 (generally). Due to implementation difficulties, ESMA initially moved the application date for SDR from 14 September 2020 to 1 February 2021, but on 26 August 2020 ESMA issued its Final Report on CSDR Settlement Discipline Regulatory Technical Standards, with an SDR application date of 1 February 2022, subject to the usual EU non-objection period
  - Mandatory dematerialisation or immobilisation of securities: All EU traded securities must be dematerialised or immobilised by 2025. There are also intermediate steps such as no new issues in paper, in place since 2019. Some relevant regulatory texts are published on the ESMA website
  - CSDR Review Consultation: The EU Commission is expected to issue a CSDR Review consultation during November 2020, with a short turnaround for responses by market participants

3.5.3 EU Benchmarks Regulation (BMR)

EU Benchmarks Regulation (BMR) became effective in January 2018 and will apply fully from 1 January 2022. BMR applies to all published indices that are used to reference the price of a financial instrument or contract or measure the performance of an investment fund.

Regulators have identified the following central actors in BMR:

- Contributors (or submitters), who provide data that feeds through to the construction of a benchmark or index
- Administrators, who construct the benchmark based upon data that they receive from contributors
- Users, who use the benchmark as a reference for many purposes

From 1 January 2022, EEA-supervised entities will only be allowed to use third country benchmarks qualified for use under the Regulation. European buy-side organisations are likely to seek visibility earlier or search for alternatives. The Benchmarks Regulation provides three ways for existing non-European benchmarks to comply with its rules:

- Third country equivalency
- Recognition by an EEA regulator
- Endorsement by an EU administrator

Contributors and Administrators are closely supervised by regulators. The Users of benchmarks must ensure that those benchmarks are legitimate and registered with ESMA. The Benchmarks Regulation Q&A was updated in October 2018 confirming that all instruments described in reference data provided by an SI under Art 27 of MiFIR and all other instruments actually traded on an SI are in scope of Article 3(1) (16) of the Regulation.[2] Q5.12 has been amended and Q5.13 has been added on the methodology for a benchmark.

Information on approved EEA administrators can now be found on the ESMA website. However, it seems that there is no such information yet for non-EEA benchmarks and administrators. ESMA is not expected to publish information on any rejected benchmarks applications. The European Commission has published a list of critical benchmarks, being EURIBOR, EONIA, LIBOR and STIBOR.

On 9 April 2020, ESMA issued a public statement to promote coordinated action by National Competent Authorities (NCAs) regarding the timeliness of fulfilling external audit requirements for interest rate benchmark administrators and contributors to interest rate benchmarks. ESMA and NCAs are aware of the difficulties, due to the Covid-19 pandemic, encountered by interest rate benchmark administrators and contributors to interest rate benchmark in fulfilling the external audit requirements set out in the Benchmarks Regulation (BMR). ESMA therefore, in coordination with NCAs, expects NCAs not to prioritise supervisory actions against administrators and supervised contributors relating to the timeliness of fulfilling those audit requirements where the audits are carried out by 30 September 2020. In addition, ESMA encourages NCAs to generally apply a risk-based approach in the exercise of supervisory powers in their day-to-day enforcement of the BMR in a proportionate manner concerning the timeliness of fulfilling those audit requirements.

In July 2020 the UK's HM Treasury issued a proposal to extend the transitional period for third country benchmarks to 31 December 2025.

3.5.4 EU Shareholder Rights Directive 2

The EU's revisions to the Shareholder Rights Directive were published in the EU Official Journal as Shareholder Rights Directive 2 (SRD2) in 2017.

Phase 1, concerning inter alia the policies and governance between asset owners and their asset managers, applied from 10 June 2019. Phase 2 applied from 3 September 2020. Its key features include:

- The better identification of the shareholders of issuing companies able to trade on an EEA venue
- The faster transmission of information between the issuer, intermediaries and shareholders
- Enabling the exercise of shareholders' rights, including aspects of conduct of proxy administrators and advisors

Under SRD2, in-scope issuers have the right to identify their shareholders, and intermediaries such as custodians have an obligation to cooperate with this identification. Member States may decide that the request for identification only relates to shareholders who own more than a certain percentage of the shares or voting rights. SRD2 requires identification of shareholdings in excess of 0.5% of voting shares. Note that the Netherlands has transposed SRD2 into its domestic law such that holders of 0.2% and above of voting shares must be identified.

[2] https://www.esma.europa.eu/sites/default/files/library/esma70-145-114_qas_on_bmr.pdf

The right to identify shareholders is an issue in Europe. In the UK, there is Companies Act 2006 section 793 - which enables one to ask who is immediately behind a nominee holding - and this process can carry on down the chain of corporate holdings. Other European countries have a similar view that listed companies should be able to find out who owns their shares. The opposing view in other countries is that an individual's or organisation's wealth and assets are private, which means there should not be a mechanism to trace back from the register of a listed company into who owns that company. The SRD2 compromise is to identify only holders of more than 0.5% of the issued capital although, as noted, this percentage can be lowered by a member state for its own national law.

It is interesting to note the provision that «legal persons have the right of rectification of incomplete or inaccurate information regarding their shareholder identity», which is consistent with the EU General Data Protection Regulation introduced in May 2018.

Other features of SRD2 include:

- Transparency obligations for asset managers to implement investment strategies conducive to the medium- and long-term performance of the companies in which they invest
- More rapid communication from the issuing corporate, via intermediaries to end-investor
- Improvement of proxy advisors' recommendations
- Establishment by listed companies of a remuneration policy for senior directors
- Greater transparency and influence of shareholders in relation to related party transactions

3.5.5 G20 Derivatives Reform

Following the 2008 global financial crisis, the leaders of the Group of Twenty (G20) nations agreed in September 2009 to implement substantial reforms to practices in over the counter (OTC) derivative markets. The aim was to achieve the following objectives:

- Enhance the transparency of transaction information available to relevant authorities and the public
- Promote financial stability
- Support the detection and prevention of market abuse

Key G20 commitments to achieve the objectives of OTC derivatives market reform were:

- Reporting of all OTC derivatives transactions to trade repositories
- Clearing of all standardized OTC derivatives through central counterparties
- Execution of all standardized OTC derivatives on exchanges or electronic trading platforms, where appropriate
- Higher capital requirements and minimum margining requirements for non-centrally cleared (bilateral) contracts

Individual jurisdictions embraced the G20 commitments and have been implementing regulatory frameworks and regulations to fulfil them (e.g. USA implemented Dodd Frank Act, EMIR and MiFID 2 were implemented in EU). It should be noted that different jurisdictions are at different stages of implementation.

Since 1 September 2016, new initial margin (IM) and variation margin (VM) requirements for non-centrally cleared over the counter (OTC) derivatives have been introduced and applied to a number of jurisdictions globally. These margin rules originate from a global policy framework and timetable that was published by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (BCBS-IOSCO). This regulation applies to two types of margin that firms are required to exchange. The first is variation margin (VM), which covers current exposure and calculated using a mark-to-market position. The second is initial margin (IM), which covers potential future

exposure for the expected time between the last VM exchange and the liquidation of positions on the default of a counterparty.

- Variation Margin (VM): obligation to exchange margin Mark-to-Market (MTM) on a daily basis for all in-scope products. This does not need to be segregated and is usually settled in cash. The scope of the regulation means all financial counterparties must now exchange VM
- Initial Margin (IM): obligation to segregate collateral to cover 99%-percentile worst case 10-day move in valuation of a derivatives portfolio. It is required to be held at a 3rd party custodian and is usually covered by securities

The EMIR Refit entered into force on 17 June 2019, which extends the temporary exemption from the clearing obligation for certain pension scheme arrangements that enter into OTC derivative transactions that are for hedging purposes. The Refit also amends certain obligations of Financial and Non-Financial Counterparties, amongst other measures.

On 3 April 2020, in light of the significant challenges posed by Covid-19, the Basel Committee and IOSCO announced the deferral of final implementation phases of the margin requirements for non-centrally cleared derivatives, extending the deadline for completing the final two implementation phases of the margin requirements for non-centrally cleared derivatives by one year. This extension will provide additional operational capacity for firms to respond to the immediate impact of Covid-19 and at the same time, facilitate covered entities to act diligently to comply with the requirements by the revised deadline.

The updated deadlines (after BCBS-IOSCO extension on 3 April 2020) are:

- 1 September 2021: Initial margin requirement for derivatives swaps notional outstanding > €50bn
- 1 September 2022: Initial margin requirement for derivatives swaps notional outstanding > €8bn

3.5.6 Markets in Financial Instruments Directive II

The Markets in Financial Instruments Directive II (MiFID II), which came in to force on 3 January 2018, aimed to strengthen investor protection and improve the functioning of financial markets. MiFID II revises the requirements under MiFID I, with enhanced requirements to:

- Reduce systemic risk
- Strengthen financial stability by ensuring maximum transparency in markets
- Establish robust levels of investor protection

On 20 December 2018, the European Securities and Markets Authority (ESMA) provided an update on its assessment of third-country trading venues (TCTVs) for the purpose of post-trade transparency and position limits under MiFID II/MIFIR.

On 4 February 2020 ESMA published its «Consultation on MiFID II/ MiFIR review report on the transparency regime for equity and equity-like instruments, the double volume cap mechanism and the trading obligations for shares». The consultation response date was extended due to Covid-19 to mid-June 2020. ESMA’s reaction to the responses is awaited.

3.5.7 Packaged Retail and Insurance-Based Investment Products (PRIIPs)

The EU's regulation on key information documents for Packaged Retail and Insurance-based Investment Products («PRIIPs») introduces a key information document covering not only collective investment schemes but also other ’packaged’ investment products offered by banks or insurance companies.

The PRIIPs key information document is broadly based on the existing obligation of UCITS compliant fund ranges to produce Key Investor Information Documents («KIIDs»), however, it includes key differences in some areas such as the approach to performance calculations and the inclusion of transaction costs within the reduction in yield calculation.

The European Supervisory Authorities (ESAs) have proposed a detailed review of the PRIIPs regulation during 2019, with the intention of proposing new RTS by the end of 2019 which would result in amendments to the Delegated Regulation during 2020 (thereby being prior to the expected end of the current exemption for UCITS). The review will include a number of areas such as:

- Performance scenarios, methodologies and narrative explanations
- Costs methodologies and disclosures
- Multiple investment options (MOPs) interaction between the generic KID and specific information
- UCITS inclusion in scope

On 16 October 2019 the European Supervisory Authorities (ESAs) issued a consultation for response by 13 January 2020:
https://www.esma.europa.eu/press-news/esma-news/esas-consult-changes-key-information-document-priips

There remains particular focus in the consultation on transaction costs, implicit costs, explicit costs, slippage and cost disclosure. The UK Investment Association, and a number of other industry associations across Europe, are already heavily involved in analyzing the consultation and preparing their response. There is a recognised need particularly to address implicit costs for OTC and high value low volume securities transactions (including bonds) and to tie this in with best execution requirements (including MiFID in Europe)

On 22 January 2020, ESMA published the responses to a joint consultation paper on PRIIPs KID. Included within the consultation was an assessment of the cost transparency element of the regulation. The areas covered included:

- Compatibility with MiFID II disclosures such as how costs are shown within the Cost Tables (Reduction in Yield measure vs total costs over investments)
- Costs over time and in particular the basis of assessment for when an investor exits a product earlier than the recommended holding period
- Presentation changes to the Cost Tables such as whether total costs as a percentage of investments should be included and potential consolidation of performance fees/carried interest
- Potential revision to the approach to transaction costs calculation and disclosure
- Transaction costs are covered in detail and some alternative amendments are presented in the consultation

Whilst the slippage approach (arrival price) remains favoured by the ESAs, some recognition is given to the challenges associated with such an approach to OTC transactions. Other options under consideration could be:

- The introduction of a proportionality threshold, below which a simplified approach could be applied
- A potential amendment to the rules, such that negative transaction costs would not be disclosed but explicit transaction costs would be disclosed

An alternative option of a more principles-based approach has also been presented, but is not favoured by the ESAs as they believe it will result in inconsistency of application and reduce comparability. The timing and content of the ESAs' final policy changes remain unclear, and industry organisations continue to voice concerns on the current PRIIPs requirements pushing for reform.

UK HM Treasury said, on 23 June 2020 in anticipation of Brexit, that it would publish a UK PRIIPs policy statement:
https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2020-06-23/HCWS309/,

The UK PRIIPs policy statement was published on 30 July 2020:
https://www.gov.uk/government/publications/amendments-to-the-priips-regulation.

3.5.8 Securities Financing Transaction Regulation (SFTR)

SFTR is the EU regulation that will implement the Financial Stability Board's recommend-dations to address systemic risks identified with regards to Securities Financing transactions.

Securities financing transactions (SFTs) are, broadly speaking, any transaction where securities are used to borrow cash, or vice versa. Practically, this mostly includes repurchase agreements (repos), securities lending activities and sell/buy-back transactions. In each of these cases, ownership of the securities changes temporarily in return for cash. At the end of an SFT, the ownership reverts back to the original party and both counterparties are left with what they possessed originally - plus or minus a small fee depending on the purpose of the transaction. In this regard, they act like collateralised loans.

In 2016, firms engaging in SFTs were required to enter into written agreements with counterparties and to set out statements of risk. SFTR regulation aims to increase the transparency of Securities Financing Transactions markets, where not currently covered through other regulations. As such, SFTR will require firms to report their SFTs to an approved EU trade repository. The transaction reporting obligation was scheduled to begin on 13 April 2020.

On 6 January 2020, ESMA published guidelines on reporting under the Securities Financing Transactions Regulation. The guidelines address elements such as the provision of data access to authorities by trade repositories, the number of reportable transactions and the population of reporting fields for certain data. ESMA also published its final report on these guidelines, as well as amended SFTR validation rules, and a statement on the implementation of legal entity identifier (LEI) requirements under this reporting regime.

On 19 March 2020 and 26 March 2020, ESMA issued a Public Statement to ensure coordinated supervisory actions on the application of the Securities Finance Transactions Regulation (SFTR), particularly on the requirements regarding the reporting start date and the registration of Trade Repositories (TRs). This approach was needed in response to the effect of current adverse developments events as a result of the Covid-19 pandemic. ESMA stated that it expected competent authorities not to prioritise their supervisory actions towards entities subject to Securities Finance Transactions (SFT) reporting obligations until 13 July 2020, since when reporting has applied.

3.5.9 Target 2 Securities (T2S)

As is widely known, T2S is an IT system developed by the Eurosystem (European Central Bank plus the Eurozone National Central Banks) to carry out domestic and cross-border settlement of traded securities at a single price. T2S gives fund managers the opportunity to carry out settlement across the Eurozone through just one CSD, which can act as a conduit to all the other euro markets. T2S also helps to move collateral faster around Europe and is likely to bring extensive changes to European securities settlement.

T2S provides Delivery versus Payment (DvP) in Central Bank Money (CeBM) with finality. The main settlement currency will be Euro, but other European currencies are also

welcome to join if their respective central banks permit. The Danish Kroner joined T2S on 29 October 2018. However, the Bank of England is not putting GBP onto T2S.

Users such as custodians, brokers, issuers and registrars connect to T2S via their existing national Central Securities Depositories (CSDs). Existing CSD participants can in addition have direct technical connectivity to T2S as a Directly Connected Party (DCP). Corporate actions will still be processed by CSDs. All major CSDs in the Eurozone have signed up to T2S.

T2S is now looking at phase 2, including common access technology for cash, securities and collateral and a wider spread of markets and currencies. A number of change requests are being undertaken or discussed by the Eurosystem regarding T2S, including the eventual consolidation of Target 2 and T2S services. Other initiatives include Target Instant Payment Settlement (TIPS) and the Eurosystem Collateral Management System (ECMS). An ECB consultation on the European Distribution of Debt Instruments (EDDI) ran until 9 July 2019, and the ECB issued an accompanying presentation.

3.5.10 Money Market Funds Regulation (MMFR)

The Money Market Funds Regulation predominantly came in to force in July 2018. However, Article 37 of the MMF regulation applied only from the beginning of 2020.

Article 37 requires managers of MMFs to report specified information for each Money Market Fund they manage to the relevant local National Competent Authority. The frequency of reporting is at least quarterly for funds with assets under management (AuM) of over €100m or annually for MMFs with AuM of less than €100m euro. This reporting will contain information on the MMF, including the type and specifics of the fund, its portfolio indicators, results of stress testing and information on the assets and liabilities held within the portfolio. The NCAs will transmit this data on to ESMA, which will create a central database to hold this information.

On 31 March 2020, ESMA announced an update to reporting under the Money Market Funds Regulation, stating that the first reports by Money Market Funds (MMF) managers under the MMF Regulation (MMFR) should be submitted in September 2020. (Note: the original date for submissions was April 2020). This change in timeline came as there was to be an update to the XML schemas that should be used for the reporting and MMF managers would need additional time to comply with the reporting obligation.
https://www.esma.europa.eu/press-news/esma-news/esma-announces-update-reporting-under-money-market-funds-regulation
https://www.esma.europa.eu/press-news/esma-news/esma-sets-out-approach-sftr-implementation

3.5.11 EU Anti Money Laundering Directive 5 (AMLD5)

AMLD5 entered into force on 9 July 2018, with transposition into national law required by 10 January 2020. AMLD5 is designed to:

- Enhance the powers of EU Financial Intelligence Units
- Enhance transparency by establishing publicly available registers for companies, trusts and other legal arrangements, improving visibility of beneficial ownership
- Limit anonymity related to digital assets and processes such as virtual currencies, wallet providers and prepaid cards
- Broaden criteria for assessment of high-risk countries outside the EEA

3.5.12 UCITS / AIFMD Books and Records

Changes to UCITS Directives and AIFMD were issued by the EU on 12 July 2018. These included:

UCITS Delegated Regulation:
https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32018R1619
AIFMD Delegated Regulation:
https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32018R1618
The European Commission has adopted proposals to amend certain rules relating to the safekeeping duties of depositaries under the Alternative Investment Fund Managers Directive (AIFMD) and the UCITS Directive. The amendments set out further requirements where custody of UCITS and AIF clients' assets are delegated to a third party.

The proposed rule amendments address specific requirements, relating to:

- Asset Segregation: Custodians can hold assets of UCITS, AIF clients and other clients of one depositary in the same omnibus account, provided its own assets (proprietary assets of the depositary) and assets belonging to other clients of the third-party are held in segregated accounts
- Reconciliations & record keeping: The depositary must be able to identify all entities in the custody chain and secure access to all relevant information in the third party's possession to be able to verify assets and to perform reconciliations
- Due diligence: Proposed addition in the rules to prescribe minimum details that should feature in the contract between a depositary and a third party on delegation of custody of assets of the depositary's client

Further, the EU Official Journal of 30th October 2018 set out new provisions for UCITS and Alternative Investment Funds (AIFs) applying from 1 April 2020 in respect of delegation, reconciliations, use of a 3rd country depositary and asset segregation (including separate records for custodian and depositary).

Since then, a number of additional consultations, releases and public statements have been put out:

- On 12 July 2019, Regulation (EU) 2019/1156 was published in the Official Journal (on facilitating cross-border distribution of collective investment undertakings and Directive (EU) 2019/1160 amending the Alternative Investment Fund Managers Directive (AIFMD) and the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive with regard to Cross-border distribution of collective investment undertakings). It was applied on 1 August 2019
- On 16 July 2019, the Commission launched a consultation on draft guidelines for performance fees under the UCITS Directive, with the aim of harmonising how performance fees can be charged to the UCITS and its investors whilst ensuring common standards of disclosure. On 3 April 2020, ESMA published its final guidance on performance fees in investment funds – applicable to UCITS and certain types of AIFs. The guidelines provide comprehensive guidance to fund managers when designing performance fee models for the funds they manage, including the assessment of the consistency between the performance fee model and the fund's investment objective, policy and strategy, particularly when the fund is managed in reference to a benchmark
- On 30 January 2020, ESMA launched a common supervisory action, alongside national supervisory authorities, on the supervision of UCITS managers' liquidity risk management across the EU. NCAs will request data from numerous UCITS managers based in their respective Member States to develop a general overview of the supervisory risks. NCAs will then focus on a sample of this data to conduct in-depth analyses. Throughout 2020, NCAs will share information through ESMA to ensure supervisory convergence in supervision of liquidity risk management, where ESMA seeks to enhance investor protection
- On 27 March 2020, ESMA announced it was consulting on its draft guidance to address leverage risks in the Alternative Investment Fund sector. The consultation is part of the ESMA response to the ESRB's recommendations in April 2018 to address liquidity and leverage risk in investment funds. ESMA is seeking

stakeholders' feedback on the proposed principles to set leverage limits under Article 25 of Directive 2011/61/EU. It will consider the feedback it receives to this consultation by 1 September 2020 with a view to finalising the guidelines for publication

- On 31 March 2020, ESMA launched a consultation on the standard forms, templates, and procedures that National Competent Authorities (NCAs) should use to publish information on their websites to facilitate cross-border distribution of funds. In particular, the standard information should cover:
    - National laws, regulations and administrative provisions governing marketing requirements for AIFs and UCITS and the summaries thereof
    - Regulatory fees and charges they levy for carrying out their duties in relation to the cross-border activities of fund managers. ESMA is considering the feedback it received on this consultation by 30 June 2020, with a view to finalising the implementing technical standards for submission to the European Commission by 2 February 2021
- On 9 April 2020, ESMA issued a public statement directed at Fund Managers concerning their obligations to publish yearly and half-yearly reports. The entities concerned are the following:
    - UCITS management companies
    - Self-managed UCITS investment companies
    - Authorised AIFMs
    - Non-EU AIFMs marketing AIFs pursuant to Article 42 of the AIFMD
    - EuVECA managers
    - EuSEF managers

ESMA is aware that the confinement measures taken by Member States to prevent Covid-19 contagion present significant difficulties and challenges for Fund Managers and auditors in preparing their periodic reports for a publication within the regulatory deadlines. While recognising the importance of periodic reports for timely and transparent disclosure, ESMA is of the view that the burdens on Fund Managers associated with the Covid-19 pandemic should be taken into account by NCAs in a coordinated way. In the current situation, ESMA expects NCAs to adopt a risk-based approach and not prioritise supervisory actions against these market participants in respect of the upcoming reporting deadlines.

On 19 August 2020, the European Securities and Markets Authority (ESMA) issued a release that it had written the previous day to the EU Commission, highlighting areas to consider during the forthcoming review of the Alternative Investment Fund Managers Directive (AIFMD). ESMA notes that while AIFMD has provided a successful framework for alternative funds in Europe since 2011, ESMA and national competent authorities have identified areas that could be improved in the legislation to enhance the supervision of alternative fund managers in Europe. ESMA's letter to the EU Commission includes recommendations for changes in 19 areas including harmonising the AIFMD and UCITS regimes, delegation and substance, liquidity management tools, leverage, the AIFMD reporting regime and data use as well as the harmonisation of supervision of cross-border entities.

On 22 October 2020, the EU Commission issued its «Public consultation on the review of the alternative investment fund managers directive (AIFMD)», for response by 29 January 2021. The consultation can be found at:
https://ec.europa.eu/info/files/2020-aifmd-review-consultation-document_en

3.5.13 Capital Markets Union

Capital Markets Union (CMU) is a plan of the European Commission to mobilise capital cross-border within the EU, particularly in the wake of bank capital increases since 2008

making bank lending more restricted. CMU is intended to channel capital to EU companies (including SMEs and infrastructure projects) that need capital to expand and create jobs. The objectives of the CMU are as follows:

- Develop a more diversified financial system complementing bank financing with deep and developed capital markets
- Unlock the capital around Europe which is currently frozen and put it to work for the economy, giving savers more investment choices and offering businesses a greater choice of funding at lower costs
- Establish a genuine single capital market in the EU where investors are able to invest their funds without hindrance across borders and businesses can raise the required funds from a diverse range of sources, irrespective of their location

On 10 June 2020, the European Union's High-Level Forum (HLF) on the Capital Markets Union published its Final Report. The HLF (with the Commission providing secretariat services) brought together senior experts from professional and national backgrounds to create the report.

The report recommended measures that are intended to move the European Union closer to one single market for savings and investments, and for raising capital for firms so that they can grow in the EU. There are specific recommendations on what should be done in order to move the EU forward. There is focus in particular on digitalisation, sustainability and the EU new green deal, stronger financial infrastructure, fostering retail investment in capital markets and overcoming borders within the internal capital market. https://europa.eu/!gU33Hm

On 24 September 2020, the EU Commission issued its Capital Markets Union Action Plan, which can be found here:
https://ec.europa.eu/info/publications/200924-capital-markets-union-action-plan_en

3.5.14 Brexit (UK and EU)

Following a UK general election on 12 December 2019, at which Boris Johnson's Conservative Party won with an overall majority of 80 seats, the UK and EU negotiated a slightly revised agreement for the UK to leave the European Union. The agreement was subsequently ratified by the UK and EU parliaments. The United Kingdom ceased to be a member of the European Union at 23:00 (UK time) on Friday 31 January 2020.

The EU and UK are now in a transition period, until 31 December 2020, during which they are looking to negotiate new trade deals and other arrangements. The UK is also free to negotiate its own arrangements with countries outside the EU.

The UK is enacting numerous Statutory Instruments transposing EU Regulations into UK law, so that the UK and EU rule books are aligned at the end of the transition period. Thereafter, the two rule books may diverge. On 23 June 2020, the UK's HM Treasury issued a written statement on the future of the UK's financial services:
https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2020-06-23/HCWS309/

3.6 Middle East, North Africa and Turkey (MENA or MENAT)

In MENAT, a number of regulatory changes are taking place – particularly to be more consistent with international regulations.

3.6.1 Diversification of Industries and Inward Investment

In MENA, the major petrochemical-producing countries continue to seek to reduce their reliance on this predominant source of income and to diversify their economies further. In

addition to developing mining, retail, recreation, tourism and other industries, significant infrastructure building is planned in several countries.

In parallel with this, all countries in the region - to varying extents – are seeking to attract inward foreign direct investment. To enable countries' attraction of foreign investment, they are moving to change their post-trade infrastructures so as to be consistent, predictable and recognisable to international investors.

3.6.2 Infrastructure and Post-trade Developments

There is an increased move towards using IOSCO's Principles for Financial Market Infrastructures (PFMIs) and towards links between MENAT's national regulators and international regulatory organisations such as IOSCO.

Specific financial infrastructure developments include:

- The Kingdom of Saudi Arabia's (KSA's) launch (as a component of KSA's «Vision 2030») of the Tadawul's derivatives market alongside a new central counterparty (CCP) / clearing house on 30 August 2020. KSA also has underway its Post-Trade Transformation Project (PTTP) to overhaul infrastructure and back office processes, beginning to go live in 2021
- UAE's CCP development is underway for 2021. Also, the UAE regulator has simplified the IPO process, aiming to make market access easier for small and medium enterprises. Kuwait is working on creating a CCP so that investors can use derivatives to hedge risk in-country. Kuwait has also improved its processes for post-trade allocation, e-dividends and e-proxy voting
- Delivery versus payment and T+3 (or shorter) settlement cycles are also being worked towards where necessary. There continues to be common interest and liaison on these subjects amongst Gulf Cooperation Council (GCC) countries, although diplomatic difficulties between a number of Gulf countries and Qatar, and also the prevalence of Covid in 2020, have hindered some of these efforts

3.6.3 Diversifying the Product Pool

As MENA economies look to deepen their liquidity, local regulators are authorising new investment products and trading instruments. Kuwait plans to create a regulatory framework to enable shortselling, along with securities lending and securities borrowing. Kuwait also plans a trading platform supporting mutual funds including real estate investment trusts (REITs) and will make omnibus account structures and same National Identifier Number (NIN) trading available to foreign investors. Saudi Arabia's Tadawul launched the MSCI Tadawul 30 Index in January 2019, a tradeable index comprised of the 30 largest listed securities on the domestic exchange.

3.6.4 Legal, Insolvency and Corporate Governance Changes

Foreign institutions investing into MENA are likely to scrutinise the insolvency laws of the relevant countries to ensure their assets have a predictable chance of being recovered (at least in part) in the event of a corporate default. Historically, provisions around bankruptcy protection were fairly weak in the GCC, but the situation has rapidly improved.

- Bahrain has introduced bankruptcy laws based on the Chapter 11 process in the USA
- Kuwait has also strengthened its bankruptcy protections
- Saudi Arabia, who instituted a new insolvency law in 2018, which codifies a range of restructuring and liquidation procedures and is generally seen as being investor friendly

As in other regions, differences in the insolvency regimes tend to arise in areas including:

- Who acts as insolvency practitioner, be it e.g. a civil servant, lawyer or an accountant, and to whom are they accountable
- The order of rankings of distributions to creditors e.g. secured creditors, employees, the government and unsecured creditors

Other key legal areas are contracts, property, collateral and settlement finality. MENA markets are also working on corporate structure and governance reform. Saudi Arabia's CMA has identified corporate governance as a priority as it looks to strengthen the rights of shareholders and board members. The CMA is insisting companies provide greater disclosure about their commercial strategic planning, roles and responsibilities and oversight of corporate entities and third parties. Increasingly, progressive local companies are beginning to publish financial statements and audit reports bilingually (English and Arabic).

3.6.5 Environmental, Social and Governance (ESG)

MENAT countries are increasingly taking account of ESG factors. This move is driven in part by home-grown values, but also by foreign investors' demand for ESG investment compliance. For example, UAE regulators have published their Guiding Principles on Sustainable Finance. The analysis of investments for their ESG credentials must in some cases be undertaken alongside a similarly forensic approach in assessing compliance with Sharia Law, but there may potentially be efficiencies in considering the approaches together. Transparency and reporting to regulators and investors seem to be a likely way forward as in other regions, coupled with the development of in-region indices and other metrics. The general approach on ESG in MENA is recommendation rather than compulsion at present, with some countries emphasising social and governance aspects in particular.

3.6.6 Data Protection

Further to the implementation of the General Data Protection Regulation (GDPR) in the EU in 2018, MENAT countries have been developing their own data protection laws. Countries, including the UAE, already have stringent provisions in place preventing digital payment service providers from storing user data outside the country and other markets, including Saudi Arabia and Turkey, are also making changes in this area. Saudi Arabia's e-commerce Law places a heavy emphasis on data retention, with restrictions on transferring personal data outside the country. Similarly, Turkey's new privacy rules demand that controllers prepare a data inventory and obtain explicit consent from subjects when processing their personal data.

4. Looking Forward

It seems likely that that the objectives of growth, safety and efficiency pursued by public sector financial authorities in recent years will continue. Alongside the control of Covid-19, financial stability, resilience of financial markets and monitoring of systemic risks will remain high on the agenda and will be strong drivers for adoption of new reforms.

Even if current discussions by the Basel Committee on the revision of the credit risk methodology are still outstanding, with uncertainty on when a final agreement will be reached, they will eventually be adopted with the emergence of a new paradigm for the determination of risk weighted assets and use of internal models. Similarly, the current framework for CCP supervision will keep evolving and further transparency may be requested on initial margin models and stress testing scenarios. More efforts will also be produced to improve the quality of data reporting and provide the public authorities with relevant information on assessment of both individual and aggregated data.

Public authorities have recently extended their scope of review by taking into consideration new emerging developments in the financial sphere. Certainly, there is a view that it is no longer possible to ignore some major geo-political events that will have an impact on the regulatory framework applicable to the financial markets, such as the ongoing pandemic, Brexit and of course the result of the US Election that was held on 3 November 2020.

The authorities have also started looking at some global developments which are not limited to the financial sector, but that will be key drivers in re-shaping the delivery of financial services in the near future. In this respect, the authors have selected two key developments that they see as most relevant in the context of this update - Fintechs and Sustainable Finance. For both of them, a new policy framework will have to be considered but some opportunities for securities services providers may also arise.

4.1 Geo-Political Events

Over the last few years, many developments experienced in the political sphere have been largely unexpected and have introduced significant uncertainty. The Covid-19 pandemic is the most recent issue to be added to the list of significant unexpected events. Before that, the UK's departure from the EU and the election of President Trump – and now Joe Biden - in the USA ran counter to many forecasts. One of the main consequences in all cases is the wide uncertainty resulting from such developments, in particular regarding how the regulatory framework for financial services could change in the future.

4.2 Brexit

In addition to its political and trade implications, Brexit is likely to have significant consequences on the financial sector. The UK is indeed the largest financial centre in the EU operating as a hub for other European countries and concentrating a large part of the wholesale financial services used by a majority of investors. It also provides today the most liquid and deepest currency, equity and derivatives markets in Europe.

The opportunities offered by the use of passporting across Europe, coupled with the citizens' right framework, have played a key role in reinforcing the world leading position acquired by the UK marketplace since the 19th century. They have allowed many financial service providers to concentrate their European activities in the UK while benefiting from access to the 28 EU Member States' financial markets.

With Brexit the UK is leaving the single market and becoming a so-called «third country» in the eyes of the EU, subject to any terms agreed between the EU and UK. Existing cross-border arrangements would potentially disappear under a hard post-Brexit scenario. This

change would affect the activities of UK markets but also those of all other 27 EU Member States due to the long-established interdependencies between both. Two major questions have arisen following the vote: On one hand, will it still be possible for UK-based entities to continue serving EU 27-based clients? On the other hand, will EU 27-based financial companies be allowed to maintain their activities in the UK in the same conditions, in particular through the use of branches established in the UK?

If the end of passporting rights occurs (subject to any Brexit agreement), great uncertainty still prevails on the outcome of trade talks between the UK and the EU 27 Member States. The introduction of a broad mutual recognition of the equivalence of EU and UK capital market regulations and supervisory cooperation are supported by many.

From a post-trade perspective, several issues need to be properly addressed to anticipate the implications of Brexit. As for any other activities, questions about maintenance of staff located in the UK and continuation of the branch model will be crucial. More specifically securities services will have to investigate the following aspects:

- Access to financial market infrastructures (for both UK-based and EU 27-domiciled entities)
- Licensing of activities which require local authorisation from competent authorities
- Clients' plans to re-domicile some activities to preserve their ability to distribute financial products across the EU 27 Member States
- Potential re-domiciliation of some Euro-denominated clearing activities due to their systemic dimension

The European Commission has restated on several occasions its strong will to continue the Capital Market Union project and this is continuing in pursuance of the High Level Forum's final report on CMU published on 10 June 2020, and the CMU Action Plan published on 24 September 2020. CMU will also have an influence on the current EU supervisory framework, especially regarding the way it applies to third country entities which provide financial services to EU investors, both in the EU and outside the EU.

4.3 US Presidential Election Result

The 3 November 2020 US election result brings some further uncertainty about the future of financial regulations in the USA, as well as extra-territorially. The US regulatory framework in the financial sector will of course continue to evolve, but the debate concerns the direction and extent. Another aspect is the way in which it will influence international regulation and the implications for non-US players, including any potential competitive disadvantage which could result.

4.4 Fintechs

The EU Commission published a consultation paper in December 2019, for responses within three months, covering the operation and risk of cryptoassets and associated issues. This included legal matters such as tokenisation and settlement finality. It is anticipated that the responses received will help the EU decide on a way forward for cryptoassets in order to control risk without stifling innovation and opportunity.

4.5 Sustainable Finance

Over 50 Central Banks and market regulators are now voluntary members of the Network for Greening the Financial System (NGFS). This group's primary objective is to share best practices around facilitating sustainability in financial services.

Increasingly, Central Banks are now advising financial institutions that they need to start accounting for the impacts of extreme weather and stranded asset risk into their business models. Others, including the Bank of England, have issued stern warnings stating that

climate change is a major threat to market stability. Invariably, these announcements have all been catalysts for a number of new climate-related regulations globally, and this can be expected to continue.

5. Conclusions

The main purpose of this report is to provide professionals in securities services, and other financial areas, with an overview of the main developments of post-trade regulations since 2018. This has necessarily required the inclusion of the impact of the Covid-19 pandemic.

It is clear that the pandemic has caused a shift in mindset amongst regulators, and the global financial industry, as they try to balance economic continuity with physical health. However, the concepts of systemic safety, efficiency and growth that emerged as priorities post-2008 are still very much part of the global regulatory intent.

This current update looks at the progress made in regulatory measures adopted in the aftermath of the financial crisis by financial institutions, offers insights into new regulations being brought into force over the last two years, as well as highlights changes that have occurred due to the current pandemic. The main conclusions taken from this analysis can be summarised as follows:

- The priorities of international bodies are still the same. They have continued their work to ensure financial stability and resilience of the financial system whilst encouraging growth, with a strong focus on prevention and monitoring of systemic risk, enhanced transparency and adequate safeguards to face extreme situations
- In parallel to the development of new recommendations, international institutions have conducted regular assessments of the previously adopted measures. These exercises have evidenced two main features:
  - The level of implementation is not the same in one region / jurisdiction to another
  - International standards are not necessarily sufficient, or detailed enough, to allow full consistency across jurisdictions. In some cases, new guidance has been issued to enable consistent implementation and reduce diverging interpretations
- In all regions, the G20 agenda has been the main driver for new regulatory measures, with amendments to mitigate the impact of the pandemic where required. The main challenge now is the effective implementation of these new measures
- In addition to the G20 agenda, specific local initiatives have also been undertaken by regulators. In some cases, they have extra-territorial effects, which can significantly impact market participants all over the world. On other occasions, the consistency of these local specific initiatives, alongside international objectives, may be a challenge for regulators who need to achieve a balance between multiple objectives
- After a period of observation, public authorities have consulted on regulatory changes that could result from new technological developments and innovation. There are still open questions, however, on the most relevant approach to ensure the full benefits resulting from fintech while preserving the right level of security for end-users

Finally, regulators must ensure that they take into consideration major geo-political developments which constantly occur. From a securities industry perspective, it is essential that a genuine and constructive dialogue takes place between the public and the private sector on these new areas of developments. The authors of this report are in no doubt that, between regulation and commerce, innovative ways to assist clients and end-investors will continue to be provided by the international securities services industry as they move into the future.

List of Abbreviations (Annex)

A

ACSDA	Americas' Central Securities Depositories Association
ADR	American Depositary Receipt
AEOI	Automatic Exchange of Information
AIF	Alternative Investment Fund
AIFMD	Alternative Investment Fund Managers Directive
AML/CFT	Anti-Money Laundering/Counter-Terrorist Financing
APRA	Australian Prudential Regulation Authority
ARFP	Asia Region Fund Passport
ASEAN	Association of South East Asian Nations
ASEAN CIS	ASEAN Collective Investment Scheme
ASIC	Australian Securities and Investments Commission
AuC	Assets under Custody

B

B3	Brazilian Stock Exchange
BCBS	Basel Committee on Banking Supervision
BHC	Bank Holding Companies
BIS	Bank for International Settlements

C

CAA	Competent Authority Agreement
CAF	Corporation for Andean Development
CAT	Consolidated Audit Trail
CCP	Central Counterparty Clearing House
CDC	Caisse des Dépôts et Consignations
CDS	Credit Default Swaps
CFTC	USA Commodity Futures Trading Commission
CHOICE	The USA Financial CHOICE Act(Creating Hope and Opportunity for Investors, Consumers and Entrepreneurs)
CMU	Capital Markets Union
CNAV	Constant Net Asset Value
CPMI	Committee on Payments and Market Infrastructures (BIS)
CPSS	Committee on Payment and Settlement Systems (BIS)
CRA	Credit Rating Authority
CRS	Common Reporting Standard
CSD	Central Securities Depository
CSDR	Regulation on Settlement and Central Securities Depositories (EU 909/2014)

D

DCO	Derivatives Clearing Organisations
DFA	Dodd-Frank Act
DLT	Distributed Ledger Technology

E

EBA	European Banking Authority
EC	European Commission
EMIR	European Market Infrastructure Regulation (EU 648/2012)
EPTF	European Post-Trade Forum
ESAs	European Supervisory Authorities
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETFs	Exchange Traded Funds
EuSEF	European social entrepreneurship funds

EuVECA	European venture capital funds
F	
FATCA	Foreign Account Tax Compliance Act
FCA	Financial Conduct Authority
FDIC	Federal Deposit Insurance Corporation
FED	Federal Reserve System (USA)
FFIs	Foreign Financial Institutions
FHFA	Federal Housing Finance Agency
FIBO	Financial Instruments Business Operator
FMI	Financial Market Infrastructure
FOREX	Foreign Exchange Market
FRA	Forward Rate Agreement
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FSC	Financial Services Commission (KR)
FSOC	Financial Stability Oversight Council
G	
G20	Group of Twenty
G-SIBs	Global Systemically Important Banks
GAFI-FATF	Groupe d'Action Financière - Financial Action Task Force
GLEIF	Global Legal Entity Identifier Foundation
GLEIS	Global Legal Entity Identifier System
GMEI	Global Markets Entity Identifier
H	
HKEx	Hong Kong Exchanges and Clearing Limited
HKMA	Hong Kong Monetary Authority
HKTR	Hong Kong Trade Repository
HLEG	High-Level Expert Group on Sustainable Finance
I	
ICAAP	Internal Capital Adequacy Assessment Process
IDB	American Development Bank
IGA	Inter-Governmental Agreements
IM	Initial margin
IOSCO	Technical Committee of the International Organisation of Securities Commissions
IRS	Internal Revenue Service (USA)
IRS	Interest Rate Swap
ISDA	International Swap and Derivatives Association
ISO	International Organisation for Standardisation
ISSA	International Securities Services Association
J	
JFSA	Financial Services Agency of Japan
K	
KRX	Korea Exchange
KYC	Know Your Customer
L	
LCR	Liquidity Coverage Ratio
LEI	Legal Entity Identifier
LOU	Local Operating Units
LULD	Limit Up/Limit Down mechanism
M	
MAS	Monetary Authority of Singapore
MiFID	Markets in Financial Instruments Directive (2004/39/EC)
MiFID2	Revised Markets in Financial Instruments Directive (2014/65/EU)
MiFIR	Regulation on Markets in Financial Instruments (EU 600/2014)
MILA	Mercado Integrado Latinoamericano
MMF	Money Market Fund

MRF	Mutual Recognition of Funds
MTF	Multilateral Trading Facility
N	
NCA	National Competent Authority
NDF	Non-Deliverable Forward
NGFS	Network for Greening the Financial System
NMS	National Market System
NPPRs	National Private Placement Regimes
NSFR	Net Stable Funding Ratio
O	
OCC	The Options Clearing Corporation
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight Index Swap
OTC	Over-the-Counter
OTF	Organised trading facility
P	
PEPP	Pan-European Personal Pension Product
PFMIs	Principles for Financial Market Infrastructures (CPMI-IOSCO)
POCs	Proofs of Concepts
PSMS	Pre-Settlement Matching Service
Q	
QCCP	Qualifying Central Counterparty Clearing House
QDD	Qualified Derivatives Dealer
R	
Reg SCI	Regulation Systems Compliance and Integrity
Repo	Sale and Repurchase Agreement
RM	Regulated Market
ROC	Regulatory Oversight Committee
RTS	Regulatory Technical Standards
S	
SEC	USA Securities and Exchange Commission (move after SDR)
SBS	Superintendence of Banking, Insurance and PFAs (Peru)
SB Swaps	Security-based Swaps
SDR	Swap Data Repositories
SEF	Swap Execution Facility
SFT	Securities Financing Transactions
SFTR	Securities Financing Transactions Regulation (EU 2015/2365)
SGX	Singapore Exchange
SIFIs	Systemically Important Financial Institutions
SIFMUs	Systematically Important Financial Market Utilities
SMEs	Small and Medium Enterprises
SVS	Superintendence of Securities and Insurance (Peru)
T	
T2S	TARGET2-Securities
TCFD	Task Force on Climate-related Financial Disclosures
TLAC	Total Loss Absorbing Capacity
TR	Trade Repository
TTCAs	Title Transfer Collateral Agreements
U	
UCITS	Undertakings for Collective Investments in Transferable Securities
UPI	Unique Product Identifier
UTI	Unique Transaction Identifier
V	
VM	Variation margin