

# Regulatory Update

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## 1. FCA UPDATES & DEVELOPMENTS

### 1.1. FCA publishes speech on the Consumer Duty

On 1 November 2023, FCA published a [speech](#) delivered at Deloitte by Nisha Arora, Director of Cross Cutting Policy and Strategy on the Consumer Duty – Next Steps.

Highlights of the speech include:

- Three months on from the Duty coming into force, the good practices the FCA has already seen underlines the importance of this work. Continuing this momentum will realise more and more benefits to consumers, firms, and the UK as a whole.
- The Consumer Duty is not a once and done exercise. Firms must ensure they are learning and improving continuously and must be able to evidence this in their annual board report.
- Those with closed products and services should check they are on track to meet the 31 July 2024 implementation deadline.
- The Consumer Duty remains a top priority for the FCA. They will continue their work across all sectors to test firms' implementation and embedding and will share good practice to support the industry.

### 1.2. FCA publishes finalised non-handbook guidance on cryptoasset financial promotions

On 2 November 2023, the FCA [FG23/3 Finalised non-handbook guidance on Cryptoasset Financial Promotions](#).

The Guidance does not create new obligations for firms but relates to firms existing regulatory obligations. The Guidance need not be followed to achieve compliance with the relevant rule or requirement. However, if a person acts in accordance with this Guidance in circumstances contemplated by the Guidance, the FCA will treat that person as having complied with the rule or requirement to which that guidance relates.

This Guidance is relevant to:

- authorised persons who communicate or approve financial promotions relating to qualifying cryptoassets
- persons registered with the FCA under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (the 'MLRs') ('MLR registered persons') and who communicate financial promotions relating to qualifying cryptoassets relying on the exemption in Article 73ZA of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 ('FPO')
- other persons involved in the communication of financial promotions relating to qualifying cryptoassets, including cryptoasset firms who are not MLR registered persons, social media influencers and platforms.

The FCA knows the cryptoasset market is evolving rapidly and will keep this Guidance under review as market practice and regulation develops.

### 1.3. FCA publishes financial promotions quarterly data Q3 2023

On 3 November 2023, the FCA published [Financial promotions quarterly data 2023 Q3](#), which gives a summary of data generated between 1 July 2023 and 30 September 2023 from the FCA's actions against firms breaching financial promotion rules, and referrals and investigations into unregulated activity. Key messages include:

- the FCA's interventions in 2023 Q3 resulted in 5,310 promotions being amended or withdrawn by authorised firms
- the FCA issued 488 alerts on unauthorised firms and individuals, 11% of these were clone scams.
- on 8 October 2023, the FCA's [financial promotion rules for cryptoassets](#) went live -these rules require financial promotions to be clear, fair, and not misleading, to display clear risk warnings, to disclose the firm's regulated status and cease offering any form of incentive to invest
- the FCA proactively reviewed the marketing and promotions of Enterprise Investment Scheme (EIS) providers which resulted in them writing to 18 firms and 55 promotions being amended or withdrawn - common concerns included non-compliance of the high-risk warning or the risk summary.

### 1.4. FCA and Bank of England set out proposed approach to regulating stablecoins

On 6 November 2023, the FCA and Bank of England published discussion papers on their proposed approach to regulating stablecoins.

The FCA [Discussion Paper DP23:4: Regulating cryptoassets Phase 1: Stablecoins](#) is intended to help the FCA develop its approach to regulating fiat-backed stablecoins.

The government has announced plans to legislate for a future financial services regime for cryptoassets. It is taking a phased approach, focusing initially on fiat-backed stablecoins that may be used as a form of payment, followed by the wider cryptoasset regime.

Under these plans, the FCA will regulate the issuance and custody of fiat-backed stablecoins under the Financial Services and Markets Act 2000, and the use of these stablecoins as a means of payments under the [Payment Services Regulations](#) (PSRs).

The consultation ends on 6 February 2024.

### 1.5. HMT publishes consultation response to financial promotion exemptions for high-net-worth individuals and sophisticated investors

On 7 November 2023, HM Treasury (HMT) published its [response](#) to the consultation on the financial promotion exemptions for high net worth individuals and sophisticated investors. It provides a summary of the consultation responses received by HM Treasury, as well as providing a government response to the feedback on each policy proposal included in the consultation.

In response to the feedback received on the case for change and the objectives for reform, the government recognises the concerns that have been raised related to the inappropriate use of the exemptions. The

reforms that the government is taking forward are designed to address these risks. The changes being introduced are intended to reduce the risk that investors incorrectly self-certify and to increase understanding of the regulatory protections investors are giving up when receiving promotions subject to these exemptions. The changes will also update the thresholds to be eligible for the exemptions.

The government laid the Statutory Instrument (SI) making these changes on 6 November 2023. Subject to parliamentary time and process, it is the government's intention to bring the changes into force on 31 January 2024.

## **1.6. FCA publishes Dear CEO Letter on its expectations for wealth management and stockbroking firms**

On 8 November 2023, the FCA published a [Dear CEO Letter](#), detailing its expectations for wealth management and stockbroking firms, with a supervisory focus on financial crime and the consumer duty.

The FCA expects CEOs and their leadership team to fully understand the level of exposure their firm has to the risks and harms set out in the letter and invest significant time and energy (and if necessary, capital) to manage them. This also requires resolving the root cause of these harms. In the FCA's experience, they often arise from ineffective and/or conflicted leadership and governance, combined with ineffective systems and controls.

Financial Crime – the FCA expects firms to:

- not knowingly or otherwise engage or facilitate frauds, scams, or money laundering
- understand their financial crime risks by identifying who their clients are, including their expected transaction patterns and corporate structure
- not carry out tick box compliance exercises or outsource responsibility to third parties
- ensure they have robust and effective systems and controls to counter financial crime and money laundering in a proportionate and risk-based way
- ensure their SMF 16/17 holders have the required experience, skills, and independence
- share and report information about wrongdoing with the FCA or relevant law enforcement agencies immediately
- read and fully implement the FCA's Financial Crime Guide: A firm's guide to countering financial crime risks (FCG) and Financial Crime Thematic Reviews (FCTR), which outline the steps firms must take to defend against financial crime

Consumer Duty – The FCA expects firms to have fully implemented the Consumer Duty. It has seen failings in the following areas:

Products and services and consumer understanding – the FCA expects firms to:

- have a clear focus of the needs and objectives of their target market
- ensure their products and services remain aligned to their consumer's needs, risk profile and circumstances

- reassess the vulnerability status of their consumers based on the FCA's guidance, particularly the 49% of portfolio managers and 69% of stockbrokers from the wealth data survey who identified no vulnerable consumers, even though 50% of us will be classified as vulnerable over our lifetime
- ensure their consumers fully understand all aspects of their investment products and services, and that their firm does not exploit limited understanding
- not uprate consumers from retail to professional unless this is supported by robust systems and controls, given the loss of protections. 14% of firms uprated consumers in the last 12 months
- fully justify any complex and/or unregulated investments their firm offers, with a clear view of the suitability or appropriateness for the consumer
- ensure their consumers understand any limitations to the Financial Ombudsman/FSCS consumer protection status and associated risks of investments.

Price and Value – the FCA expects firms to:

- regularly assess the overall cost and value for money of their products and services
- make changes when poor value is identified.

The FCA reiterates that it expects firms to proactively tell if work carried out on the above points results in remedial action or identifies harm. It reminds firms of their ongoing obligations to notify the regulator of any issue that should be shared with it under Principle 11 immediately.

### **1.7. FCA publishes speech on building firm foundations for healthy cultures**

On 20 November 2023, the FCA published a [speech](#) by Sheree Howard, Executive Director of Risk and Compliance Oversight, on building firm foundations for healthy cultures. The speech was delivered at the XLOD Global London on 15 November. Highlights of the speech include:

- heightened financial pressures mean making careful judgements around risk but should not mean dropping standards
- a firm's 3 lines of defence should be separate but cohesive
- creating a culture of fearlessness, not fear, where employees can speak up and employers listen up is vital for healthy cultures
- an organisation with a lack of diversity, equity and inclusion is at much greater risk of not having a healthy culture.

### **1.8. FCA consults on regulatory fees and levies: policy proposals for 2024/25**

On 21 November 2023, the FCA published [Consultation Paper CP23/22: Regulatory fees and levies: policy proposals for 2024/25](#).

Comments are due by 16 January 2024.

## 1.9. FCA publishes speech on culture and conduct

On 23 November 2023, the FCA published a [speech](#) by Emily Shepperd, Chief Operating Officer and Executive Director of Authorisations, delivered at City and Financial's Culture and Conduct Forum. Highlights of the speech include:

- as firms look to raise the bar under the Consumer Duty, they need to consider how their own culture can help to drive better outcomes
- new, flexible proposals on D&I will help firms to drive changes that are ultimately beneficial, but it's important that the purpose of this is understood and that the right policies and procedures are in place to ensure an inclusive culture with the right incentives
- enabling people to contribute, challenge and add value means listening, looking at processes and making changes to ensure people can perform at their best.

## 1.10. UK Finance publishes report on the impact of AI in financial services: opportunities, risks and policy considerations

On 23 November 2023, UK Finance published a [report](#) on the impact of artificial intelligence in financial services, including opportunities, risks and policy considerations.

This report examines the state of play of AI in the financial sector: where it is being deployed, where it shows promise for the future and how to make the most of the opportunities on offer.

The report also looks at AI risks and mitigants. Lastly, it examines the policy landscape, including the state of regulation and options for resolving key policy questions that will need to be answered to ensure a regulatory approach that mitigates risks effectively, while enabling responsible innovation.

## 1.11. FCA and PRA issue consultations on prudential assessment of acquisitions and increases in control

On 23 November 2023, the FCA and the PRA issued consultation papers on prudential assessment of acquisitions and increases in control. The FCA [Consultation Paper CP23/25](#) is relevant for

- all PRA and FCA authorised firms and all persons to which Part XII of FSMA applies
- firms seeking to apply for PRA authorisation in identifying who their controllers are.

The consultation closes on 23 February 2024.

The PRA [Consultation Paper CP25/23](#) also closes on 23 February 2024.



## 1.12.FCA final report on the IFPR implementation observations

On 27 November 2023, the FCA published the [final report](#) on the IFPR implementation observations: quantifying threshold requirements and managing financial resources – concluding report. This multi-firm review will be of interest to:

- all MIFIDPRU investment firms (also referred to as ‘firms’ in this publication)
- the UK parent entities of investment firm groups, in scope of the IFPR.

Firms should refer to the FCA rules and guidance on assessing adequate financial resources under the [Prudential sourcebook for MiFID Investment Firms \(MIFIDPRU\)](#) and review these observations, to help them understand the FCA’s existing policy. They should consider whether to apply any of these observations to their own processes.

The report identifies the following areas for improvement:

- several firms applied insufficient consideration of cashflows and liquidity stresses, which led to an inadequate assessment of liquid asset requirements - these firms were at risk of running out of cash in stressed conditions, which could have resulted in firm failure
- for most firms, internal intervention points were not structured in a way that would ensure that actions would be triggered in a timely fashion to mitigate harm particularly from firm failure
- wind-down assessments applied inadequate consideration of the impact of membership in a group - individual firms within groups may not have adequately planned for potential failure
- in some firms, there were significant failings in the application of capital models for operational risk, giving little assurance that these firms have adequate resources to mitigate harm.

## 1.13.FCA IFPR Newsletter

On 28 November 2023, the FCA published its latest [IFPR newsletter](#), which covers the following topics.

- **IFPR Implementation Observations – concluding report.** See the article above for more detail.
- **Investment Firm Groups.** The FCA has noticed that some firms may not have been including all relevant financial undertakings within the scope of their investment firm group and would therefore remind all firms and UK parent entities subject to MIFIDPRU of the relevant rules in [MIFIDPRU 2.4](#) which set out how to determine the existence and content of an investment firm group.
- **Compliance with requirements for issuing CET1 capital instruments.** Where a firm is seeking to include a new issuance of a capital instrument as part of its common equity tier 1 capital (CET1), if not previously granted permission for that capital instrument, an application for permission under MIFIDPRU 3.3.3R (1) must be made using the form in [MIFIDPRU 3 Annex 2R](#). This must be approved prior to the capital instrument qualifying as regulatory capital.
- **Deductions from own funds.** Under MIFIDPRU 3.3.6R a MIFIDPRU firm must deduct various items from its common equity tier 1 capital, including intangible assets. These deductions are important –



they help preserve the quality and adequacy of a firm's capital, by ensuring that any reduction in the value of these assets (e.g. in stress) can be absorbed by a firm. Where firms have assets that could be characterised as deductibles such as "intangible assets" under accounting standards, but which may also be characterised in other ways, the FCA expects them to take an appropriate and prudent approach.

- **Matched principal restrictions for firms with permission to deal on own account.** The FCA has seen examples of firms with the matched principal broker (MPB) restriction potentially acting outside of their permissions due to a failure to comply with the criteria for what constitutes an MPB. The FCA reminds firms that all the conditions must be met for a firm to be compliant with the MPB restriction. Firms that carry this limitation may wish to conduct a holistic assessment to ascertain if their business model/activities meet the relevant conditions.
- **IFPR reporting:**
  - firms with permission to deal on own account - reporting of K-factors on Form MIF001
  - items to be entered into cell 6A in RegData on Form MIF002
  - general reporting guidance for Form MIF006.

#### 1.14.FCA consults on capital deduction for redress: personal investment firms

On 29 November 2023, the FCA published [Consultation Paper 23/24 Capital deduction for redress: personal investment firms.](#)

The proposals will apply to personal investment firms (PIFs), i.e. firms that mainly provide advice and arrange deals in retail investment and pensions products. These firms are often referred to in the market as investment advisers. The FCA is concerned that some PIFs are causing consumers harm. They are seeing significant redress liabilities falling to the Financial Services Compensation Scheme (FSCS).

This consultation sets out the FCA's plans to require PIFs to be more prudent and set aside capital for potential redress liabilities at an early stage. The intervention is specifically designed to be proportionate, build on existing obligations and target the firms that generate redress liabilities.

The FCA proposes to make several changes to IPRU–INV 13. In summary, these would:

- require PIFs to quantify an amount for their potential redress liabilities
- require PIFs to set aside capital resources for potential redress liabilities through a new capital deduction
- require PIFs with potential redress liabilities that fall below their capital requirements to comply with an asset retention requirement.

Comments are due by 20 March 2024. The FCA will consider the feedback and aim to publish a Policy Statement, including its response to feedback, in H2 2024. It expects rules to come into force in H1 2025.

#### 1.15.FCA publishes statement on communications in relation to PRIIPs and UCITS

On 30 November 2023, the FCA published a [statement](#) on communications in relation to PRIIPs and UCITS.

The statement relates to concerns raised about costs and charges disclosure in the PRIIPs Key Information Document (KID), the UCITS Key Investor Information Document (KIID) and MiFID II requirements. It sets out the FCA's interim measure, pending broader reform possible through legislative change, to provide for some disaggregation of costs and charges disclosure. These actions should give investment companies greater ability to explain their costs and charges to help consumers make better informed investment decisions.

Work on longer-term reforms is underway. Until that longer-term work has been finalised, where listed closed ended funds and funds that invest in them (or manufacturers of such funds) are concerned that the costs required to be disclosed in key information documents do not appropriately reflect the ongoing costs, they can provide additional factual information (as well as the aggregated figure) such as the breakdown of costs to put the aggregate number in context. For example, a listed closed ended fund may give a better explanation of costs that are clearly corporate costs. As a result, a fund of fund might seek to explain how its own aggregate figure is affected by the investment company's cost.

Listed closed ended funds and other funds that invest in them (or manufacturers and distributors of such funds) can also reflect such explanations in other consumer facing communications.

In considering the presentation of the information, firms should also consider their Consumer Duty obligations.

If entities provide further factual information such as a breakdown of the costs to put the aggregate number in context, or include this information in their wider communication documentation, the FCA confirms that it will not take enforcement action to the extent that the firm contravenes the restriction on adding further information to the UCITS KIID or the prescriptive requirements of the PRIIPs KID. This also extends to materials issued by MiFID firms that distribute PRIIPs or UCITS. Firms must continue to comply with other relevant rules and requirements. These include the Consumer Duty and, where this does not apply, Principle 7, which requires firms to ensure communications are fair, clear and not misleading, and the requirements in COBS 2.1.1R to act honestly, fairly and professionally in accordance with the best interests of clients.

## 2. REGULATORY REFORM

### 2.1. HMT publishes report on the Future of Payments Review

On 22 November 2023, HM Treasury published the [Future of Payments Review report](#), chaired by Joe Garner, on the steps needed to successfully deliver world leading retail payments in the UK.

The primary recommendation is that the Government develops a National Payments Vision and Strategy to bring clarity to its future desired outcomes for UK payments.

There are ten further recommendations split into the following themes:

- consumer experience and opportunities to improve
- open banking and opportunities to exploit more fully
- improving regulatory oversight and alignment would allow for more efficiency and innovation.

## 2.2. HMT publishes Policy Paper: UK Retail Disclosure Framework – Draft SI and Policy Note

On 22 November 2023, HM Treasury published a [near-final draft Statutory Instrument and accompanying Policy Note](#) on the UK Retail Disclosure Framework.

The government is publishing a near-final version of the statutory instrument to replace the EU Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation and create a new UK retail disclosure framework.

The Policy Note sets out the policy background for the UK's new retail disclosure framework for Consumer Composite Investments (CCIs), a summary of the policy intent and how the statutory instrument will achieve this, stakeholders likely to be impacted and how to comment on the SI.

The government welcomes any technical comments on the draft SI by 10 January 2024.

## 2.3. Draft SI published – the Securitisation Regulations 2023

On 28 November 2023, a draft statutory instrument (SI), [the Securitisation Regulations 2023](#), was published on legislation.gov.uk, along with [an explanatory memorandum](#).

The Financial Services and Markets Act 2023 (FSMA 2023) repeals retained EU law relating to financial services. This enables the government to deliver a Smarter Regulatory Framework for financial services. Retained EU law will be repealed and replaced with rules set by the independent and expert regulators, operating within a framework set by government and Parliament.

All providers of securitisations, including firms who are not authorised by the FCA or PRA, are currently subject to requirements in Regulation (EU) 2017/2402 of the European Parliament and of the Council (referred to as 'the Sec Reg'). This instrument maintains this scope and provide an appropriate framework to enable the financial services regulators to make rules in relation to securitisations. To give this effect, HM Treasury is using the designated activities power to enable the FCA to make rules in respect of certain activities, products, or conduct for facilitating securitisations. These apply to FCA-authorized, PRA-authorized (with respect to activities not specified in regulation 5 of the SI) and unauthorised firms. The PRA can use its general FSMA rule-making power in relation to rules for PRA-authorized firms.

As this SI sets the scope of the regime for regulating securitisations, it also provides the FCA with a specific rule-making power for small registered UK Alternative Investment Fund Managers (AIFMs), so that it can make due diligence requirements for these AIFMs, where they invest in securitisations as institutional investors. This specific rule-making power is required as the general rule-making power of the FCA does not extend to small registered AIFMs. The FCA also has powers to make rules for Securitisation Repositories (SRs).

## 2.4. Draft SI published – the Public Offers and Admissions to Trading Regulations 2023

On 28 November 2023, a draft statutory instrument (SI), [the Public Offers and Admissions to Trading Regulations 2023](#), was published along with an [explanatory memorandum](#).

This instrument replaces the Prospectus Regulation and creates a new framework for the offering of securities to the public and the admission of securities to trading in the UK. This instrument will come fully into force alongside the commencement of the repeal of retained EU law relating to prospectuses.

This instrument sets out the framework for the new UK Prospectus Regime. It:

- creates a general prohibition on public offers of securities, followed by a series of exceptions from this prohibition
- establishes a new regime for securities ‘admitted to trading’ on a regulated market or multilateral trading facility (MTF)
- creates a new regulated activity of operating an electronic system for public offers of certain securities.

## 3. FINANCIAL CRIME

### 3.1. FATF report on crowdfunding for terrorism financing

On 31 October 2023, the Financial Action Task Force published a [report](#) on crowdfunding for terrorism financing.

Crowdfunding is a very useful way to reach a large audience to raise money for a charitable cause, to fund a start-up, or finance a creative project. Crowdfunding is a growing and evolving sector, with a significant international market. In 2022, there were over 6 million crowdfunding campaigns around the world.

The vast majority of crowdfunding activity is legitimate, but events around the world have demonstrated that it can also be exploited for illegal purposes. This includes terrorists and terrorist groups who can exploit fundraising platforms and crowdfunding activities on social media to seek funding for their terrorist cause from a global audience.

The crowdfunding landscape is likely to evolve further, with the introduction of new payment technologies and the proliferation of online platforms supporting different types of crowdfunding activity. However, globally, there is insufficient understanding of the risks related to this sector, and because of this, regulation varies from country to country.

This FATF report analyses how terrorists misuse crowdfunding platforms. The report, which draws on experiences from the FATF Global Network, industry experts, academia and civil society examines the challenges faced in detecting and preventing terrorist financing through the crowdfunding ecosphere. Challenges include the complexity of crowdfunding operations, the use of anonymising techniques, and

lack of training and terrorist financing expertise within the crowdfunding industry to detect suspicious activity.

The report highlights good practices, starting with the inclusion of crowdfunding in national terrorist financing risk assessments, outreach to the crowdfunding sector, and strong domestic and international information sharing mechanisms.

### **3.2. FCA censures NMC Health Plc for market manipulation**

On 17 November 2023, the FCA announced it has [censured](#) NMC Health Plc (NMC), one of the leading private healthcare operators in the Arab States of the Gulf. On 2 April 2012, its shares were admitted to trading on the Premium Segment of the London Stock Exchange and in 2017 entered the FTSE 100. In its 2018 Annual Accounts it assured the market that: “it maintained proper accounting records, sufficient to show and explain its transactions and disclose with reasonable accuracy, at any time, its financial position.”

In practice, between at least 7 March 2019 (the commencement date for the purposes of this notice) and 27 February 2020 (the date the Company’s shares were suspended from trading) (“the Relevant Period”) NMC had been materially under-reporting to the market its levels of debt.

The Authority has found that NMC committed market abuse by publishing false or misleading information about its debt position within its March and August Statements and 2018 Annual Report and by failing to declare Related Party transactions therein, and by the false or misleading statements in its 18 and 19 December Announcements (“the Disseminated Information”), when it knew, or ought to have known, that the information was false or misleading, in breach of Article 15 of EU MAR.

The Authority considers that NMC’s conduct was serious because such market abuse undermines investor confidence in the integrity of the financial markets.

Given that NMC was placed into administration in April 2020, it being presently anticipated that no funds will be available after creditor claims have been met, the Authority is satisfied that it is preferable for NMC to meet these claims, rather than to impose a financial penalty which would reduce the funds available to creditors

## **4. ESG**

### **4.1. FCA publishes results of multi-firm review on embedding of Guiding Principles for ESG and sustainable investment funds**

On 16 November 2023, the FCA published the [results](#) of its multi-firm review, which tested how authorised fund managers are embedding the Guiding Principles, which are set out in a Dear Chair Letter in July 2021, for ESG and sustainable investment funds.

The review by the FCA has found that while most Authorised Fund Managers (AFMs) have made efforts to comply with the FCA’s expectations on the design, delivery, and disclosure of their ESG and sustainable funds, further improvement is needed.

While progress has been made, the FCA has found that many firms still have further to go to meet its expectations, particularly around the disclosure and clarity of information being given to retail investors and consumers. The FCA has found other examples of poor practice including:

- products were inconsistently aligned with their ESG and sustainability goals even if they referenced them in their name
- in some instances, fund holdings appeared inconsistent with a fund's ESG or sustainability objectives, and some AFMs weren't able to explain how these investments fit with their goals
- key ESG and sustainability information was often not explained, put into context or included in disclosures, meaning relevant information was not immediately or clearly accessible to investors
- the design of AFMs' stewardship approaches did not meet the FCA's expectations - it was often difficult to identify the exact aim of the stewardship activities, how the activities were aligned to fund objectives, and examples of the progress they made against those aims.

## 4.2. FCA confirms sustainability disclosure and labelling regime

On 28 November, the FCA confirmed a substantial package of measures to improve the trust and transparency of sustainable investment products and minimise greenwashing. It also published Policy Statement PS23/16: Sustainability Disclosure Requirements (SDR) and investment labels, which introduces the following measures:

- an anti-greenwashing rule for all FCA-authorized firms to reinforce that sustainability-related claims must be fair, clear and not misleading. The FCA is also consulting on supporting guidance
- naming and marketing rules for investment products, to ensure the use of sustainability-related terms is accurate
- four labels to help consumers navigate the investment product landscape and enhance consumer trust
- consumer-facing information to provide consumers with better, more accessible information to help them understand the key sustainability features of a product.
- detailed information targeted at institutional investors and consumers seeking more information in pre-contractual, ongoing product-level, and entity-level disclosures
- requirements for distributors to ensure that product-level information (including the labels) is made available to consumers.

The FCA has made the following changes in response to stakeholder feedback:

- Naming and marketing: the rules have been updated to allow for the use of most sustainability related terms if certain conditions are met.
- Blended strategies: a fourth label has been introduced, 'Sustainability Mixed Goals', for funds that invest across different sustainability objectives and strategies aligned with the other categories.
- Improvers category: the FCA has made some amendments and clarifications to acknowledge that stewardship comes in various forms, clarify that firms are not required to demonstrate a causal link

between stewardship and assets' improvements, and clarified the FCA's expectations for products that may qualify for this label.

- Focus category: clarification has been added that internal frameworks can be used and independent assessment can be carried out either by a third party or via a firm's internal processes.
- Impact category: the FCA encourages firms to use industry frameworks to the extent relevant for their products' sustainability objective. The FCA has clarified that, as long as other criteria are met, investments in public markets can qualify for use of the label, in line with industry practice and frameworks.
- Other feedback on labels: the names of the labels have been amended from 'sustainable' to 'sustainability', to reflect that some assets are on a journey to becoming sustainable, and to avoid consumers getting the impression that all labelled funds are invested in assets that are already sustainable.
- Disclosures: The FCA has retained the requirement for separate consumer-facing disclosures rather than for this information to be incorporated into existing disclosures. This is in line with consumer research findings. The FCA will only require disclosures for products with labels or using sustainability-related terms.
- Scope: The FCA will continue to work with HM Treasury on their approach to overseas funds and will consult on an alternative approach to applying the regime to all types of portfolio managers.
- Implementation times: The FCA has set out a new timeline for implementation, which takes account of the impact of change on all sizes of firm.

The FCA is also consulting on new guidance on its expectations for FCA-authorized firms making claims about the sustainability of a product or service in [GC23/3: Guidance on the anti-greenwashing rules](#).

Consumers are increasingly demanding more sustainable products and services. As a result, there has been a growing number of products and services which claim to meet that demand.

As this demand continues to grow, so does the risk of 'greenwashing' as there are concerns that some of these claims may be exaggerated and misleading.

All sustainability-related claims made by FCA-authorized firms about their products and services must be fair, clear and not misleading, as the anti-greenwashing rule sets out.

The proposed guidance is designed to help firms better understand the FCA's expectations under the anti-greenwashing rule and other existing, associated requirements.

The consultation closes on 26 January 2024.



## Waystone Compliance Solutions

Waystone Compliance Solutions offers a new and unique approach to compliance services at a corporate level.

Formed by merging four specialist compliance companies – we have the capabilities to help you manage regulatory risk right across your organisation and covering the UK, Middle East, United States and Asia.

We can provide key services from initial registration and licensing to compliance programme integration. Our compliance solutions span business strategies, market activities, operational and technology infrastructure not to mention sales and marketing procedures.

Our aim at Waystone is simple: to enable our clients to navigate the complex regulatory environment with confidence.

At Waystone, we have brought together the experience, the expertise, and the global reach to give you the certainty you need to address the ever-changing regulatory world. And by doing so, provide you with a secure route on the road to success.

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If you wish to discuss how Waystone can assist you with any of the issues raised in this regulatory update, please contact us the details below:

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This Regulatory Update provides information about the consultative documents and publications issued by various regulators which are still current, proposed changes to the Rules and Guidance set out in Handbooks, actual changes to Rules and Guidance that have occurred in the months leading up to the update and other matters of relevance to regulated firms. This Regulatory Update is intended to provide general summarised guidance only, and no action should be taken in reliance on it without specific reference to the regulators' document referred to therein.