

UPDATES

UK/EU Investment Management Update (April 2025)

April 2, 2025

In this Sidley Update we cover, among other things, UK Financial Conduct Authority (FCA) recent enforcement actions and statements on publication of enforcement investigations; key takeaways from the FCA's planned strategy for 2025–30 and its action plan to review various rules and guidance in the FCA Handbook; updates to FCA plans to make diversity and inclusion reporting rules; and findings from FCA reviews of private market valuations and liquidity management at wholesale trading firms.

On the EU side, we cover, among other things, European Commission plans for the EU Savings and Investment Union; its report on non-bank financial intermediation and new guidance on the EU Taxonomy Regulation; changes to the European Securities and Markets Authority (ESMA) work program; and level 2 and 3 measures relating to Markets in Crypto-Assets Regulation (MiCA).

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1. UK — Enforcement

FCA fines and bans investment manager for lack of integrity

On 17 March 2025, the Financial Conduct Authority (FCA) published a [Decision Notice](#) concerning its enforcement action against Crispin Odey, founder of Odey Asset Management LLP (OAM), for a series of breaches related to his conduct and corporate governance failures. The FCA has fined Odey £1.8 million and has banned him from working in the UK financial services industry for a lack of integrity and obstruction of disciplinary processes.

The reasons provided by the FCA included the following:

- **Misconduct and lack of integrity.** The FCA found that Odey deliberately sought to frustrate OAM's disciplinary processes to protect his own interests. The FCA reported that Odey used his majority shareholding to remove and replace members of OAM's Executive Committee (ExCo) to avoid disciplinary hearings, holding that these actions demonstrated reckless disregard for OAM's governance and caused the firm to breach several regulatory requirements.
- **Regulatory breaches.** Odey's actions led to breaches of key regulatory requirements on investment firms, including the need for OAM to be managed by at least two persons of good repute and the separation of risk management from other operations.
- **Investigatory delay.** The FCA found that Odey decided to indefinitely postpone the disciplinary process into his alleged breaches of the Final Written Warning, claiming he was unable to conduct it with impartiality. This action prevented OAM from assessing his fitness and propriety, frustrating the FCA's Certification Regime requirements. In the course of doing so, it was disclosed that Odey falsely claimed a verbal agreement with the FCA to delay the disciplinary process, and repeatedly threatened to close the firm, litigate against ExCo members, and remove their insurance cover.
- **Dishonest disclosures.** The FCA found that Odey misled investors by falsely claiming that the dismissal of ExCo members was due to undue pressure from the FCA and necessary to protect the business, including launching a judicial review against the FCA, which never materialised. He also misrepresented the FCA's role, suggesting it was compelling actions that would wind down the business, and threatened to close OAM and return investors' funds if the disciplinary hearing proceeded or if he was dismissed.

Odey has stated he will challenge the decision in the Upper Tribunal.

<i>Sidley Comment</i>

Note that the FCA did not seek to pursue Odey in respect of allegations of sexual misconduct or other non-financial misconduct; rather, Odey was pursued under the existing FCA Individual Conduct Rules (in this case Individual Conduct Rule 1 (“You must act with integrity”)). This enforcement action is a reminder of the FCA’s willingness to take action based on governance failings and signals a broader regulatory focus on the overall conduct and management culture within financial services firms. Firms should review their corporate governance frameworks to ensure they are sufficiently resilient, and that senior managers’ responsibilities are suitably defined and implemented. See also item further below: “FCA eliminates plans to adopt diversity and inclusion rules and delays review regarding non-financial misconduct.”

FCA issues first ever enforcement action and fine against a Recognised Investment Exchange (RIE)

On 19 March 2025, the FCA published a [Final Notice](#) concerning its enforcement action and £9.25 million fine against the London Metal Exchange (LME). This follows the LME’s failure to ensure that its systems and controls were adequate to deal with severe market volatility — in the form of extreme price fluctuations in March 2022 of the three-month nickel futures contract. It is the first of any such action against an RIE and also the largest financial penalty issued by the FCA so far this year.

The penalty reflects the FCA’s findings that the LME breached its regulatory obligations regarding the maintenance of an orderly market. The LME’s policies, controls, and training programme had also not sufficiently catered for the risks to market orderliness presented by extreme volatility. Further, the FCA found that the LME had provided inaccurate information to the FCA on several occasions about the calibration and suspension of the price bands.

The FCA expects trading venues to monitor market conditions and volatility in real time, to escalate any signs of disorderliness to senior management, and to intervene promptly and proportionately to mitigate the potential exposure of investors and market users to risks arising from extreme volatility.

The LME agreed to resolve the matter and qualified for a 30% (stage 1) discount under the FCA’s executive settlement procedures. The fine would have totalled £13.2 million without such discount.

Sidley Comment

A hedge fund and another market participant had brought civil proceedings against the LME and LME Clear for losses suffered as a result of the LME suspending trading in the nickel market (to address the market volatility referred to in the case above). On 29 November 2023, the Divisional court ruled in favour of the LME and LME Clear. On 7 October 2024, the Court of Appeal dismissed the hedge fund’s appeal. On 29 January 2025, the Supreme Court refused the hedge fund permission to appeal the Court of Appeal judgment.

“Name and shame” — updates to FCA enforcement transparency proposals

On 12 March 2025, the FCA published a [statement](#) on its revised plans for increased enforcement transparency, which was accompanied by a [letter](#) to the UK Treasury Select Committee (the Letter). The Letter also confirmed that the FCA has decided to drop its proposal to make rules on diversity and inclusion in financial services firms; for further information, please see our update below.

In the statement and Letter, the FCA confirmed it has decided not to proceed with its “Public Interest” test for announcing investigations into regulated firms, opting instead to maintain the existing “Exceptional Circumstances” test. This decision follows extensive feedback from industry bodies and government officials, who expressed concerns about the potential negative impact on firms’ reputations and market stability.

Please see our [Sidley Update](#) of March 2024 for further information on the original proposal.

The FCA’s updated plans are summarised as follows:

- **Discontinuation of the “Public Interest” test and maintaining the “Exceptional Circumstances” test.**
 - The FCA no longer plans to implement a “Public Interest” test for announcing investigations into regulated firms and will instead retain the “Exceptional Circumstances” test (under which the FCA may only announce ongoing investigations in “exceptional circumstances” where such disclosure would maintain public confidence in the financial system or market, protect consumers or investors, prevent widespread malpractice, help the investigation by bringing forward witnesses, or maintain smooth market operation).
 - This decision was influenced by significant negative feedback from the financial sector and government officials, who argued that the new test could harm firms’ reputations and drive business abroad.
- **Reactive confirmation of investigations.** The FCA plans to introduce powers that will enable it to confirm investigations that are already in the public domain, such as following announcements by a partner regulator. This approach aims to enhance transparency without prematurely disclosing sensitive information that could harm firms’ reputations. Currently the FCA is not able to confirm or deny the existence of an investigation.
- **Public notifications for unregulated firms.** The FCA plans to introduce powers for it to make public notifications that focus on potentially unlawful activities of unregulated firms and regulated firms operating outside the regulatory perimeter. This measure is intended to protect consumers from harm, for example, from fraud or scams.
- **Publishing anonymised details of issues under investigation.** The FCA aims to make available more detailed information about issues under investigation on an anonymised basis. This could include regular bulletins such as an “Enforcement Watch.”

The FCA’s revised approach aims to balance increased transparency with potential risks to firms’ reputations and market stability. The FCA intends to publish its final policy statement on these proposals by 30 June 2025.

2. UK — FCA

FCA launches new five-year strategy for 2025–30

On 25 March 2025, the FCA [published](#) its strategic priorities for 2025–30 (the Strategy). The Strategy is important for investment firms as it reflects a long-term, purposeful shift from the FCA’s current

objectives.

The FCA has outlined its Strategy via four key priorities:

- **Becoming a smarter regulator, which is more efficient and effective.** As part of this, the FCA has committed to a focus on “rebalancing risk” across regulatory risk, market/firm risk, and consumer risk pillars, proposing that regulation be proportionate to “enable informed risk but not eliminate it entirely.”
- **Supporting growth.** Within this priority, the FCA plans to strip out redundant regulatory requirements and review the redress regime, widen retail access to investment opportunities and commercial access to capital, and support use of technology such as machine learning and artificial intelligence (AI).
- **Helping consumers navigate their financial lives.** The FCA proposes to review rules to foster increased product innovation and capital flow to businesses.
- **Fighting financial crime.** This has been a key theme throughout recent FCA publications and supervisory actions and remains a priority for 2025–30. Of note, the FCA states that in the past two years, it has charged more people with criminal offences than ever before, is concluding enforcement actions faster, and is using technology to better identify potentially abnormal trading. In particular, the FCA comments that one of its key measurements of success by 2030 will be improvements in market cleanliness and abnormal/anomalous trading statistics.

As part of the Strategy, the FCA also warns firms that heightened geopolitical instability and global competition may increasingly hinder global cooperation and regulatory harmonisation. To increase global coordination, the FCA plans to establish a permanent presence in the U.S. and Asia-Pacific.

Investment management firms should stay informed about these developments and adapt their practices to align with the FCA's strategic priorities.

FCA eliminates plans to adopt diversity and inclusion rules and delays review regarding non-financial misconduct

On 12 March 2025, as part of its Letter (see update above) the FCA confirmed that, together with the Prudential Regulation Authority (PRA), it has decided to drop plans to make rules on D&I reporting for financial services firms. The FCA [published](#) its initial Consultation Paper on diversity and inclusion (D&I) in the financial sector in September 2023, which proposed to require firms to report detailed data on the diversity of their staff. Please see our [Sidley Update](#) of October 2023 for further information on the original proposal.

The FCA's decision to abandon these proposals follows significant criticisms from politicians and businesses as well as government pressures to reduce regulatory burdens and support economic growth.

In addition to its decision to not proceed with plans for D&I reporting, the FCA also stated that it will:

- delay publishing its proposals to introduce rules on non-financial misconduct (such as sexual harassment and bullying in the workplace), and expects to set out next steps by 30 June 2025; and

- work with the PRA to review the impact of removing the bonus cap on gender pay and inequality, but this review is not expected to take place until the 2026–27 financial year.

These changes appear to reflect the UK government's desire to reduce regulatory burdens on financial firms to promote economic growth. Investment management firms should nevertheless monitor the developments on non-financial misconduct rules and industry best practice.

FCA multi-firm review of liquidity risk management at wholesale trading firms

On 10 March 2025, the FCA published a [paper](#) following its multi-firm review of liquidity risk management at a range of wholesale trading (sell-side firms), particularly brokers, in scope of the Investment Firms Prudential Regime (IFPR).

Information from the 26 firms included in the FCA's review was used to evaluate the effectiveness of each firm's framework, with a specific emphasis on business model, governance arrangements, risk identification and quantification, timing and escalation procedures, and operability of mitigating actions including contingency actions. Firms' liquid asset threshold requirement (LATR) calculations, liquidity stress testing, and operational arrangements were also assessed.

The FCA identified firms applying a range of approaches to managing their liquidity risk. In many cases the approach was appropriate and proportionate to the firm's business model; however, some firms had weaker approaches not commensurate with their size, complexity, and the instantaneous nature of their liquidity risks. In general, the FCA found that such firms:

- failed to identify the full range of liquidity risks they are exposed to, especially idiosyncratic risk requirements;
- underestimated the quantum of their liquidity risk exposures;
- relied too much on having immediate access to liquidity facilities to mitigate instantaneous liquidity requirements; and
- had inoperable contingency funding plans (CFPs), many of which lacked action triggers, or a range of contingency actions designed to mitigate liquidity stresses.

Compared with stronger peers, several firms had weaknesses in their approach to liquidity stress testing that left them vulnerable to severe market events and unprepared to cope with moderate idiosyncratic events. It was also found that the CFPs of these firms lacked a range of contingency actions to allow these firms to mitigate even commonly identified liquidity stress scenarios in a timely manner.

Following its review, the FCA provided feedback to each firm and is also requiring firms with weaknesses in liquidity frameworks (including underestimated LATR) to provide an attestation and assurance report to confirm remediation of the gaps identified by the FCA.

FCA publishes new guidance on how to apply for approval for senior management roles

On 12 March 2025, the FCA published [guidance](#) on the responsibilities and the application process for Senior Management Functions (SMFs) within firms. This guidance is relevant for firms in the investment management sector to ensure compliance with regulatory standards and maintain robust governance.

In the guidance, the FCA has provided [case studies](#) highlighting scenarios where firms may face concerns about a candidate's fitness and propriety. These include issues related to integrity, financial soundness, and capacity for multiple roles. Firms must conduct robust due diligence, provide evidence of a thorough recruitment process, and address any identified risks or issues in their applications.

FCA releases feedback statement on plans to review various FCA rules following introduction of the Consumer Duty

On 25 March 2025, the FCA released [Feedback Statement FS25/2](#), detailing its plan to streamline regulatory requirements following the introduction of the Consumer Duty and the UK government's renewed focus on growth and minimising regulatory burden, including in the financial services sector (see below). The Feedback Statement provides an overview of various targeted amendments that the FCA intends to make (subject to stakeholder feedback).

A number of the proposals within each so-called "action plan" may extend to those in the investment management sector:

- **"Reviewing the foundations"**
 - **International application of Conduct Rules.** The FCA will seek views on whether UK-based firms providing products or services to customers outside the UK should continue be subject to FCA rules when providing services to international clients. This review will start with the insurance sector and may later affect investment management firms with international clients.
 - **Definitions review.** The FCA intends to review core definitions, such as those for retail customers and small and medium-sized enterprises (SMEs), to simplify and make more consistent various definitions within the FCA Handbook.
- **"Streamlining requirements"**
 - **SYSC review.** The FCA plans to explore options to review the Senior Management Arrangements, Systems and Controls sourcebook (SYSC), which the FCA acknowledges has expanded significantly over time.
 - **Training and competence.** The FCA intends to explore options for reviewing the Training and Competence sourcebook and competence requirements in other sourcebooks.
 - **Guidance and communications review.** The FCA plans to retire outdated guidance and supervisory communications, consult on targeted clarifications of FCA Handbook materials, and improve the accessibility of its rule review feedback tool.
- **"Reducing the administrative burden"**
 - **Asset management.** The FCA plans to consult on changes to the requirement for in-scope asset managers to report annually on their value assessments.
 - **Client assets.** The FCA will consult on updating requirements in the Client Assets sourcebook relating to record-keeping and reconciliation.

The FCA plans to seek further input on its action plans, and a subsequent statement outlining the work programme and progress will be published in September 2025. Investment management firms should stay informed of these developments and consider participating in consultations to help shape the future regulatory landscape.

3. UK — Market Abuse

FCA publishes Primary Market Bulletin 54 containing commentary on market abuse

On 14 March 2025, the FCA published [Primary Market Bulletin 54](#) (the Bulletin), in which it discussed the implications of strategic leaks and unlawful disclosure about live merger and acquisition (M&A) transactions in the context of the UK Market Abuse Regulation (MAR).

In the Bulletin, the FCA stated that it has observed instances of strategic leaks (where inside information is deliberately given to the press by individuals at an issuer or its advisers) and inadvertent unlawful disclosure (where leaks hint at market sensitive information even if specific details are not mentioned), which have resulted in a significant effect on the share price of an offeree company and/or an offeror.

The FCA indicated that leaks have included details of discussions between the board of an offeree company and the potential offeror following an approach for a possible offer, or details of where an offeree board has rejected an approach but an increased offer is likely.

The FCA noted that it has made previous communications on unlawful disclosure in Primary Market Bulletins [42](#) and [52](#) but that there remains a concern that individuals directly involved in transactions are not adequately handling inside information and are failing to take sufficient action to prevent leaks. In particular, “a culture of accepting strategic leaks to the media during transactions” may have developed among market participants.

Sidley Comment

While the Bulletin is primarily aimed at issuers and other primary market participants, firms should take note that this communication suggests that the FCA continues to focus on common situations encountered by buy-side firms in which market abuse could occur.

FCA publishes findings from review of private market asset valuation processes

On 5 March 2025, the FCA published its [findings](#) from a multi-firm review of valuation processes for private market assets. The FCA previewed this report in a “Dear CEO” letter where it outlined its concerns following the rapid growth of private markets in recent years. Please see our [Sidley Update](#) of March 2025 for further information on the “Dear CEO” letter.

The FCA made several observations in its report:

- Firms generally demonstrated good practice in areas such as investor reporting, process documentation, and the use of third-party valuation advisers and were applying valuation methodologies consistently.
- However, areas of improvement include the need for better identification and documentation of potential conflicts of interest in the valuation process and increased independence within firms’

own valuation processes. Some firms also need to enhance processes for *ad hoc* valuations in times of market disruption.

The FCA noted that these improvements are particularly important in the context of growing retail investor exposure to private markets and that it will use its findings in its review of the Alternative Investment Fund Managers Directive (AIFMD) as it looks to update related rules in the FCA Handbook.

4. UK — HM Government

UK government publishes plans to ensure regulators support growth in the financial services sector

On 17 March 2025, the UK government [published](#) a policy paper setting out its ambitions to overhaul the UK's regulatory system to support economic growth and investment. This initiative is part of a broader strategy to enhance UK economic competitiveness and seeks to address regulatory complexity, reduce administrative burdens, and promote innovation. The paper includes specific plans relevant to regulation in the financial services sector.

Measures that affect the financial services industry include the following:

- **Tackling complexity and regulatory burden.** This includes the already announced consolidation of the Payment Systems Regulator and will see the FCA take on responsibility for ensuring the payments sector promotes innovation and competition, allowing a more coordinated and streamlined approach across the financial services industry as a whole.
- **Reducing uncertainty across the regulatory system.** HM Treasury will:
 - seek to review the number of the considerations to which the FCA and PRA must “have regards,” to identify opportunities to rationalise them and ensure a focus on their priorities;
 - examine the Financial Ombudsman Service to determine if it is delivering its stated role;
 - assist the UK government in establishing a concierge service to “enhance the attractiveness of the UK as a destination for global financial services, by making it easier for firms to navigate the UK regulatory landscape and barriers to entry;” and
 - seek to adopt a package of measures to enable the FCA to support early-stage innovative firms to start conducting regulated activities (see more below).
- **Challenging and shifting excessive risk aversion.** The government is strengthening its internal model of accountability, with the intention of better holding regulators to account for (i) their performance against their statutory duties and strategic steers from the government and (ii) reducing administrative costs.

The policy paper also sets out “pledges” by certain key UK regulators, including the FCA and PRA. Actions include the following:

- **Regulatory reporting requirements.** Both the FCA and PRA will work to reduce regulatory reporting requirements for firms, easing the compliance burden.

- **Capital requirement reviews.** The FCA will accelerate a review of capital requirements for specialised trading firms.
- **Pre-application support.** The FCA will extend pre-application support to all crypto firms and wholesale payments firms, helping them navigate the regulatory landscape more effectively.
- **Funding and approval processes.** The FCA will more frequently indicate that it is “minded to approve” start-ups to help them secure funding.
- **Dedicated support for firms.** The FCA will provide a dedicated case officer to every firm within its regulatory sandbox and will increase the number of dedicated supervisors for early and high-growth firms by 50%.

These measures are part of a broader effort to create a regulatory environment that supports growth, innovation, and investment while maintaining high standards of consumer protection and market integrity. Investment firms should monitor developments that may reduce administrative burdens and provide increased regulatory clarity.

5. UK — AI

FCA and ICO publish joint letter on AI deployment in financial services

On 10 March 2025, the FCA and Information Commissioner’s Office (ICO) jointly published a [letter](#) for the attention of trade association chairs and CEOs outlining their commitment to ensuring regulatory clarity and certainty around the growing use of, and opportunities for, AI deployment within financial services.

The letter highlights that respondents to an FCA and Bank of England [survey](#) from 21 November 2024 viewed both data protection and the Consumer Duty to be in the top three regulatory constraints to AI deployment in financial services. The regulators indicate that this demonstrates a lack of confidence amongst some firms to develop and adopt AI technology as well as potential uncertainty around the interactions between the regulatory regimes.

The letter concludes with details of an industry roundtable on 9 May, where invitees will discuss the following:

- The broad areas of regulatory uncertainty and challenge industry faces in respect of AI adoption and wider innovation.
- How the ICO and FCA can work together with industry to provide greater regulatory certainty and support growth.
- The specific areas of data protection and financial regulation in which industry need greater regulatory support to enhance its ability to innovate and adopt new technologies.

6. UK — Markets (T+1 Settlement)

T+1 Settlement to Take Effect in the UK on 11 October 2027

On 6 February 2025, the UK Accelerated Settlement Taskforce (AST) published the UK [T+1 implementation plan](#). Among other findings, the AST recommends in its report that the first day of UK

cash securities trading for settlement on a T+1 cycle should be 11 October 2027 and that this date should be set by the government by amending the relevant part of the UK Central Securities Depositories Regulation.

The plan also sets out recommended next steps for market participants, Financial Market Infrastructures and the AST for 2025–27, the transition weekend in 2027, and post-transition in 2027.

7. UK — Corporate/Funds

Changes to company size thresholds in UK corporate law

For financial years beginning on or after 6 April 2025, the Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024 will apply. The [legislation](#) aims to reduce the reporting burdens for micro, small, and medium-sized entities by increasing the turnover and balance sheet upper bands by approximately 50%. The average number of employees threshold will remain unchanged.

These changes may be relevant for asset managers who are structured as UK limited companies or UK limited liability partnerships (LLPs) and that change company/LLP category under the new thresholds.

The changes to the upper-band thresholds are as follows:

Category of company	Turnover		Balance sheet		Employees (unchanged)
	Current	New	Current	New	Current
Micro enterprises	£632k	£1 million	£316k	£500k	Fewer than 10 employees
Small companies	£10.2 million	£15 million	£5.1 million	£7.5 million	Fewer than 50 employees
Medium companies	£36 million	£54 million	£18 million	£27 million	Fewer than 250 employees
Large companies	More than £36 million	More than £54 million	More than £18 million	More than £27 million	250 or more employees

UK Unauthorised Co-ownership Alternative Investment Funds (Reserved Investor Fund) Regulations 2025 enters into force

On 19 March 2025, the Unauthorised Co-ownership Alternative Investment Funds (Reserved Investor Fund) Regulations 2025 [entered into force](#). Alongside the Co-ownership Contractual Schemes (Tax) Regulations 2025, these regulations underpin the introduction of the new UK Reserved Investor Fund (RIF), which is structured as an unauthorised co-ownership alternative investment fund (AIF) and is designed to permit investments from a broad range of investors in illiquid assets such as commercial property and housing while remaining sufficiently flexible for institutional investor allocations.

As defined in the Finance (No. 2) Act 2024, a RIF is a co-ownership scheme that

- is not an authorised co-ownership scheme (under the Financial Services and Markets Act 2000);
- is an AIF (under the Alternative Investment Fund Managers Regulations 2013); and

- allows units in the scheme to be issued only to a professional investor, a large investor, or a person who already holds units in the scheme.

The Regulations extend provisions in FSMA regarding rights and liabilities of participants in co-ownership schemes to investors in UK-based RIFs. Accordingly, investors in RIFs (rather than unauthorised contractual schemes more generally) will enjoy the benefit of these modified rights, with the aim of increasing RIFs' commercial viability.

8. EU — Cooperation with the UK / Savings and Investments Union

EU/UK financial services regulatory co-operation

On 12 February 2025, the EU and the UK held their third financial regulatory [dialogue](#) under the framework established by the memorandum of understanding on regulatory cooperation that was set up following the UK's withdrawal from the EU.

The meeting focused on several key areas relevant to the investment management sector, including policy and macroeconomic outlooks, banking regulation, digital and technology advancements, market reforms, and sustainable finance.

The key discussion points included the following:

- **Digital technology.** The dialogue highlighted the importance of developing a common understanding of the benefits and risks associated with AI in financial services. Both parties agreed to work together and with the international community to address these issues, considering financial stability and public trust. The UK announced plans to introduce legislation to create a UK regime for cryptoassets, aligning with the global implementation of the Financial Stability Board (FSB) regulatory framework for cryptoasset markets and activities.
- **Market reform.** T+1 securities settlement, the development of consolidated tapes for market data collection and consolidation, and benchmarks regulation were discussed as well as updates on new fund investment structures including the Long-Term Asset Fund (UK) and the European Long-Term Investment Fund (EU).
- **Sustainable finance.** The EU and the UK reiterated the importance of ensuring interoperability and promoting consistency in sustainable finance standards and recommendations. Emphasis was placed on minimising reporting costs for internationally active firms to facilitate smoother operations and compliance.
Investment managers should closely monitor these developments and consider their potential effects on compliance, investment strategies, and operational processes.

European Commission publishes its strategy for Savings and Investments Union

On 19 March 2025, the Commission [published](#) its updated strategy on the EU Savings and Investments Union (SIU). The Commission views the development of the SIU as a crucial priority to improve the way in which the EU financial system channels savings to productive investments — notably, in relation to sustainable businesses. This is part of a broader shift to improve the functioning and effectiveness of the EU single market, following the publication of the [Draghi report](#).

The strategy details the type of SIU the Commission is seeking to develop, including the principle that the SIU should encompass all of the EU financial system and be developed at both EU and national levels. The implementation of the SIU will require a range of policy measures, including some relevant to wholesale investment management, which the Commission segments by the following categories:

- **Citizens and Savings**

- Some policy measures will intend to encourage incentivise retail savers to hold a greater proportion of their savings in capital-market instruments. Linked to this is the Commission's intention to increase financial literacy across the EU to develop a retail investment culture.
- The Commission proposes to adopt measures in this area by Q3 2025 and notes that it is willing to withdraw the existing Retail Investment Strategy should negotiations fail to meet the intended objectives of the Strategy. For further details on the original Retail Investment Strategy proposal, please see our [Sidley Update](#) of June 2023.

- **Investments and Financing**

- As detailed in the [Competitiveness Compass report](#), the Commission believes the EU needs a larger pool of capital to support investments in the European economy and lower financing costs for European businesses. As part of these measures, the Commission is seeking to promote investment in equity and certain alternative asset classes. Focus is also given to exiting investments, taxation, and securitisation. Specifically relating to EU securitisations, the Commission is proposing to simplify the due diligence and transparency process and adjusting prudential requirements for banks and insurers.
- Among the Commission's plans: by Q2 2025, putting forward proposals to simplify and adjust EU securitisation rules (e.g., due diligence and prudential requirements); by Q4 2025, adopting measures to stimulate equity investments by institutional investors (e.g., banks and pension funds); and by Q3 2026, reviewing and upgrading the EuVECA Regulation through widening the scope of eligible investable assets and strategies and putting forward measures to support exits in private companies (such as multilateral intermittent trading of private company shares).

- **Integration and Scale**

- The Commission is trying to remove sources of fragmentation in EU capital markets — whether regulatory, supervisory, or political — to allow for the possibility of market-driven consolidation. As part of this objective, the Commission hopes to consolidate trading and post-trading infrastructures and further develop the asset management sector.
- Among the Commission's plans: in Q4 2025, adopting a wide-ranging legislative package to address barriers to more integrated, cross-border trading and post-trading infrastructures (including better quality of execution and price formation on EU trading venues, whilst reducing administrative burden and considering replacing Directives with Regulations); by Q4 2025, proposing legislation to remove remaining barriers to

the cross-border distribution of EU-authorised funds and cross-border operations of asset managers; and, by Q4 2026, assessing the ongoing need for the Shareholders Rights Directive.

- **Efficient Supervision in the Single Market**

- A key objective of the SIU is to implement harmonised supervision of all financial market operators irrespective of their location across the EU.
- To enable effective harmonised supervision, the Commission has called on the European Supervisory Authorities (ESAs) and national competent authorities “to make full use of currently available tools” and, in Q4 2025, the Commission plans to make proposals to achieve more unified supervision of capital markets by transferring certain tasks to the EU level.

A mid-term review of the implementation of the SIU is due by Q2 2027.

9. EU — Non-Bank Financial Intermediation

European Commission publishes summary feedback report on the adequacy of macroprudential policies for non-bank financial intermediation

On 14 March 2025, the Commission published a [report](#) summarising feedback from its targeted consultation on the adequacy of macroprudential policies for non-bank financial intermediation (NBFI). The consultation, which ran from May to November 2024, sought feedback evaluating the effectiveness of existing macroprudential tools, the repurposing of existing tools, and the potential introduction of new tools to address systemic risks in the NBFI sector.

The consultation identified several key sources of systemic risk within the NBFI sector, including liquidity mismatches in open-ended funds (OEFs) and money market funds (MMFs), the build-up of excessive leverage in certain hedge funds and real estate funds, and the interconnectedness between NBFI and banks as well as among different NBFI sectors.

Feedback was received from a variety of stakeholders including trade associations, stock exchanges, and asset managers. These stakeholders reported on the effectiveness of current macroprudential tools and suggested several enhancements:

- **Liquidity management tools (LMTs).** Feedback indicated support for the mandatory use of anti-dilution LMTs, such as swing pricing and redemption gates, to manage liquidity risks in OEFs.
- **Leverage limits.** Stakeholders recommended the introduction of leverage limits for certain NBFIs, similar to those under the AIFMD for AIFs.
- **Stress testing.** Responses proposed the enhancement of existing stress testing frameworks for MMFs and OEFs, including EU-wide stress tests, to better identify and mitigate liquidity risks.

The Commission’s report does not recommend any specific next steps, only stating that it will take stock of the feedback and the report will inform any future initiatives that the Commission may decide to adopt. Stakeholders are encouraged to stay informed on developments and consider the potential implications

for their operations and compliance strategies.

10. EU — ESMA

ESMA de-prioritises certain workstreams and outlines planned consultations for 2025

On 3 March 2025, the European Securities and Markets Authority (ESMA) published a [letter](#) to the Commission announcing the de-prioritisation and postponement of several deliverables for 2025 in order to divert resources towards delivering on the highest-priority workstreams for ESMA, including the implementation of European Market Infrastructure Regulation (EMIR) 3 and the Markets in Financial Instruments Directive/Regulation (MiFID II/MiFIR) review.

Among the delayed and de-prioritised deliverables are:

- **AIFMD Review.** ESMA has delayed the Regulatory Technical Standards (RTS) on open-ended loan originating AIFs by six months, from April 2025 to October 2025.
- **EMIR 2.** ESMA has delayed the RTS on public data by 12 months, from December 2025 to December 2026.
- **MiFID II.** ESMA has delayed the RTS on order execution policies by six months, from December 2024 to June 2025, and the RTS on consolidated tape provider incident statistics reporting by three months, from September 2025 to December 2025.
- **Undertakings for Collective Investment in Transferable Securities (UCITS) Eligible Assets Directive.** ESMA has delayed its publication of technical advice on eligible assets by three months, from April 2025 to July 2025.

In addition to the postponements, ESMA has outlined its planned consultation papers for 2025, which include a range of topics aimed at enhancing regulatory standards and guidelines. Upcoming consultations relevant to ESMA's deliverables include the following:

- **EMIR 3.** Multiple RTS including those on the list of documents and criteria for initial authorisation and extension of activities, client clearing fees, and cost of clearing at different central clearing counterparties (CCPs) (Q1-Q2 2025, published and upcoming).
- **Markets in Crypto-Assets (MiCA).** Guidelines on criteria for the assessment of knowledge and competence (Q1 2025, published; see update below).
- **AIFMD Review.** Integrated reporting under AIFMD/UCITS review (Q2 2025).

These planned consultations are part of ESMA's ongoing efforts to engage stakeholders and ensure robust regulatory frameworks across the financial sector.

11. EU — ESG

European Commission publishes guidance on Taxonomy technical screening criteria

On 5 March 2025, the Commission [published](#) a notice in the *Official Journal of the EU* on the interpretation and implementation of the EU Taxonomy Environmental Delegated Act, the Climate Delegated Act, and the Disclosures Delegated Act.

The notice provides clarifications in response to frequently asked questions (FAQs) on existing provisions of the legislation, including the following:

- **Technical screening criteria.** The responses provide further detail on the technical screening criteria set out in the Climate Delegated Act and the Environmental Delegated Act.
- **Disclosure obligations.** The responses provide guidance on disclosure obligations required the non-climate environmental objectives as amended in the Disclosures Delegated Act.

Note that the EU Taxonomy framework remains subject to potential changes as part of the Commission's broader Sustainability Omnibus proposal. For further detail on the Sustainability Omnibus, see our Sidley Update [EU Omnibus Package: Key Changes Proposed by the Commission on ESG Reporting and Due Diligence](#).

Investment managers should monitor these ongoing legislative changes as they reflect the evolving nature of the EU's sustainability framework.

12. EU — Cryptoassets

ESMA publishes guidelines relating to the regulation of cryptoassets under MiCA

In March 2025, ESMA published three key sets of guidelines relating to the classification and regulation of cryptoassets under MiCA:

1. Guidelines on the conditions and criteria for the qualification of cryptoassets as financial instruments under MiCA

On 19 March 2025, ESMA published the official translations for its [Guidelines](#) on the conditions and criteria for the qualification of cryptoassets as financial instruments under Article 2(5) of MiCA.

Among other statements, the Guidelines state that

- the technological format of cryptoassets should not be considered a determining factor when assessing that cryptoasset's qualification as a financial instrument and, accordingly, the process of tokenisation of financial instruments should not affect the classification of such assets; and
- cryptoassets should be classified as transferable securities and be subject to MiFID II rules if they confer to their holders equivalent rights to those granted by shares, bonds, other forms of non-equity securities or other transferable securities as referred to in MiFID II; and in such cases, cryptoassets should be subject to the exact same rules as traditional financial instruments, applying a "substance over form" approach.

The Guidelines apply from 18 May 2025.

2. Guidelines on the suitability requirements and periodic statements under MiCA

On 26 March 2025, ESMA published the official translations for its [Guidelines](#) on the suitability requirements and format of the periodic statement for portfolio management activities under Article 81(15) of MiCA.

The Guidelines set out:

- the information that cryptoasset service providers (CASPs) should obtain from their clients regarding their suitability for investing in cryptoassets (including their knowledge and experience in investing, investment objectives, financial situation, and understanding of risks involved in purchasing cryptoassets); and
- the format of the periodic statements to be used by CASPs and sent to clients when providing the service of portfolio management of cryptoassets.

The Guidelines apply from 25 May 2025.

3. ESAs publish guidelines on the standardised test for cryptoassets and templates for explanations and opinions under MiCA

On 10 March 2025, the European Supervisory Authorities (ESAs) [published](#) joint Guidelines on templates for explanations and opinions, and the standardised test for cryptoassets, under Article 97(1) of MiCA.

The Guidelines include explanations and opinions as to whether, or why, a cryptoasset or asset-referenced token (ART) should be considered an e-money token, a cryptoasset excluded from the scope of MiCA, or an ART.

While the Guidelines are most relevant to competent authorities that will be required to issue opinions, the Guidelines may be relevant to investment managers as they define the attributes that should be used on a case-by-case basis to determine the classification of a cryptoasset, and accordingly whether MiCA or other EU legislation should apply to it.

The Guidelines apply from 12 May 2025.

BaFin takes enforcement action against issuer of ART under MiCA

On 21 March 2025, the German Financial Supervisory Authority (BaFin) [announced](#) that it has taken enforcement action against a German issuer of an ART, for suspected serious shortcomings in its application for authorisation for the ART under MiCA, using BaFin's powers under Article 94 of MiCA.

BaFin has prohibited the issuer from continuing to offer the ART to the public and instructed the company to freeze the corresponding reserve of assets held by custodians. BaFin also announced that it believes it has sufficient grounds to suspect that the issuer is offering securities (in the form of another ART) to the public in Germany that are linked to the original ART without the required prospectus. The respective ARTs are linked such that that investors can obtain a one token in exchange for the other, along with an additional yield.

13. International — AI / Cryptoassets

IOSCO publishes consultation report on AI in capital markets

On 12 March 2025, the International Organization of Securities Commissions (IOSCO) published a [consultation report](#) on the use cases, risks, and challenges posed by AI in capital markets. IOSCO hopes the report will create a shared understanding amongst its members of the issues, risks, and challenges that emerging AI technologies used in financial products and services may pose to investor

protection, market integrity, and financial stability.

The report details five key findings:

- **Decision making.** AI is being used increasingly in decision-making processes in applications and functions including robo-advising, algorithmic trading, investment research, and sentiment analysis. AI is also enhancing anti-money laundering and counter-terrorist financing functions as well as surveillance and compliance functions more broadly.
- **Internal operations.** Firms are using AI to assist with internal task automation, communications enhancement, and risk management functions.
- **Common risks.** Commonly cited risks include malicious uses of AI; AI model and data considerations; and third-party dependency.
- **Evolution of industry practices.** Some financial institutions are incorporating AI into existing risk management and governance structures, while others are adopting more bespoke frameworks.
- **Evolution of regulator responses.** Some regulators are applying existing frameworks to AI activities, while others are developing new, specific regulatory frameworks to address the development of AI.

The findings of the report are based on a combination of feedback from IOSCO members and industry participants; feedback is now invited from the public — including financial market participants.

FSB launches peer review to assess implementation of global regulatory framework for cryptoasset activities

On 21 February 2025, the FSB launched a [thematic peer review](#) to assess the implementation of its global regulatory framework for cryptoasset activities. The framework consists of two high-level recommendations for the regulation, supervision, and oversight of cryptoasset activities and markets as well as arrangements for “global stablecoins.”

This review aims to gather feedback from stakeholders regarding the following:

- the impact of different jurisdictional regulatory frameworks on decisions of cryptoasset issuers and service providers to locate and structure their business;
- the experiences and challenges faced by cryptoasset market participants to meet the relevant regulatory and supervisory requirements;
- how the financial stability vulnerabilities of cryptoasset activities, including stablecoins, differ across jurisdictions (e.g., based on the scale and materiality of the adoption of services) and how vulnerabilities are evolving (e.g., in type or magnitude) as jurisdictions implement relevant regulatory and supervisory frameworks; and
- whether there are specific market practices and/or trends in certain geographies and/or segments that may pose a threat to financial stability.

The final report is expected in October 2025.

CONTACTS

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