

# UK/EU Investment Management Update (June 2025)

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*June 3, 2025*

In this Sidley Update we cover, on the UK side, the Financial Conduct Authority's (FCA) final policy statement on its "name and shame" proposals, enforcement actions against various firms and individuals for improper or criminal conduct, the FCA review into small asset management firms, publication of final rules on investment research payments optionality for fund managers, consultation papers on improving the complaints reporting process for regulated firms and the UK cryptoassets regime, details on the UK's new private stock market, and a consultation from His Majesty's Revenue & Customs (HMRC) on the reform of UK international tax rules.

On the EU side, we cover a notable conviction in Luxembourg for money laundering offences, a Call for Evidence from the European Securities and Markets Authority (ESMA) regarding the EU retail investor journey, a Call for Evidence from the European Commission (Commission) regarding the future of the Sustainable Finance Disclosure Regulation (SFDR), simplification of the regulatory regime for small- and medium-size companies under the Omnibus IV legislative package, and the entry into force of amendments to the EU Benchmarks Regulation.

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### **1. UK — Enforcement**

#### ***“Name and shame” – final FCA policy statement***

On 3 June 2025, the FCA [published](#) its Policy Statement PS25/5, which finalises revisions to the FCA Enforcement Guide, including its amended investigation publicity policy.

PS25/5 confirms that the FCA will not apply its proposed “public interest framework” for identifying persons subject to investigations. There were broad objections from the public to that framework during the consultation process. The FCA will instead keep its existing “exceptional circumstances policy” as the principal test to decide if it should publicise an investigation into a regulated firm.

However, PS25/5 also confirms that there are three additional circumstances where the FCA may also make announcements about investigations.

- First, the FCA will be allowed to name a subject it is investigating for:
  - suspected unauthorised financial services, including communicating a financial promotion without appropriate approval; or
  - a suspected offence linked to unregulated activity,

if the FCA consider an announcement is desirable to warn or alert consumers or investors, or to help the investigation itself, for example by bringing forward witnesses.

- Secondly, the FCA will be allowed to publicly confirm that it is investigating a subject if they, an affiliated company or a regulatory body, government or public body in the UK or a partner jurisdiction has or have already made that fact public. The FCA may also confirm the nature of the investigation as far as that has already been made public.
- Thirdly, the FCA will be allowed to make public that it is investigating a particular matter on an anonymised basis without naming or identifying the subject of the investigation. The FCA may do this where it would be desirable to educate people generally about the types of conduct it is investigating or to encourage firms to comply with our rules or other requirements.

The above changes will only apply to investigations launched on or after 3 June 2025.

#### ***Individuals plead guilty to insider dealing offences following a prosecution brought by the FCA***

On 9 May 2025, the FCA [published](#) a press release stating that Matthew and Nikolas West, two

brothers working as professional day traders, pleaded guilty to insider dealing offences following a prosecution brought by the FCA. The total profits from the dealing amounted to nearly £43,000.

Between November 2016 and January 2020, Matthew West dealt in shares in four companies on the basis of confidential, inside information. Matthew West also disclosed inside information to his brother, Nikolas West, about a fifth company — which Nikolas used to deal in shares of the company. Matthew West obtained the information from brokers during legitimate communications. However, he then disclosed and traded on the basis of this inside information.

The individuals will be sentenced on 3 July 2025 at Southwark Crown Court.

### ***FCA imposes restrictions on wealth management firm***

On 22 May 2025, the FCA [announced](#) it had imposed restrictions on Strowz Ltd (Strowz), a wealth management firm. The restrictions were imposed on 2 April 2025 (through a [First Supervisory Notice](#)) and followed significant concerns that Strowz was not meeting the minimum requirements to carry on its permitted regulated activities.

Specifically, Strowz's failings include:

- not having adequate systems and controls to prevent the mixing of client money and the firm's own funds;
- allowing third parties access to money held by Strowz on behalf of clients; and
- acting outside its regulatory permissions in relation to its client asset arrangements.

The FCA also commented in the First Supervisory Notice that it had serious concerns about Strowz's ability to meet two Threshold Conditions applicable to FCA-authorised firms — the Suitability Threshold Condition and the Effective Supervision Threshold Condition.

The restrictions mean that Strowz cannot (i) undertake any regulated activity, (ii) accept any additional client money, or (iii) move (or facilitate the movement of) client assets or client money without the FCA's express permission.

### ***FCA imposes restrictions on trading firm***

On 2 May 2025, the FCA [announced](#) that it had imposed restrictions on Direct Trading Technologies (DTT), preventing it from carrying on any regulated activities and restricting access to its assets.

The FCA had identified that DTT is failing, or is likely to fail, to meet the standards required of an authorised firm. In particular, the FCA identified the following concerns:

- **Lack of systems and controls to prevent financial crime.** DTT's systems and controls were not adequate to detect or prevent a member of staff from allegedly falsifying documents for the firm's audit.
- **Poor governance and oversight.** DTT appears to have deficient processes to identify, manage, monitor, and report the risks it is or might be exposed to and does not have adequate internal control mechanisms, including sound administrative and accounting procedures.

- **Failure to cooperate.** DTT has not been open and cooperative with the FCA and has failed to ensure that information was appropriately disclosed. In addition, information provided to the firm's auditor appears to be inconsistent with information separately provided by the firm to the FCA.

As such, the FCA noted in its First Supervisory Notice that the DTT was likely to be in breach of two Threshold Conditions applicable to FCA-authorised firms — the Suitability Threshold Condition and the Effective Supervision Threshold Condition.

The restrictions mean that DTT cannot (i) undertake any regulated activity or (ii) reduce the value of any of its own assets or any funds it holds for its customers without the FCA's express permission. The restrictions were imposed to advance one or more of the FCA's operational objectives, which include securing an appropriate degree of protection for consumers and protecting and enhancing the integrity of the UK financial system.

## 2. UK — AIFMD/UCITS

### ***FCA publishes finalised rules on investment research payments optionality for fund managers***

On 9 May 2025, the FCA [published](#) its Policy Statement PS25/4, setting out the final rules giving fund managers greater freedom in paying for investment research. The new rules are intended to improve efficiency within UK markets and to improve competition by making it easier for fund managers to purchase research. PS25/4 builds on feedback from [Consultation Paper 24/21](#); for further information, please see our [December 2024 Update](#).

The final rules affect full-scope UK alternative investment fund managers (AIFMs), small authorised UK AIFMs, UK Undertakings for the Collective Investment in Transferable Securities (UCITS) management companies, and residual collective investment scheme operators.

The option for fund managers to pay for investment research using a joint payment option for research and execution services — subject to a set of guardrails — is based on the final rules introduced for Markets in Financial Instruments Directive (MiFID) investment firms under [Policy Statement PS24/9](#) and puts AIFMs, UCITS management companies, and MiFID investment firms on a level playing field; for further information on the rules applicable to MiFID investment firms, please see our [Sidley Update Implications of Final UK FCA Rules on Payment for Investment Research](#).

## 3. UK — FCA

### ***FCA conducts review of smaller asset management firms***

On 8 May 2025, the FCA [published](#) its findings from a review of smaller asset management firms and alternative business models, concluding that most are meeting regulatory expectations. The review is part of the FCA's 2022 Alternatives supervision strategy; for further information, please refer to our [September 2022 Update](#).

The review — covering 410 firms with less than £1 billion in assets under management — sought to identify higher-risk business models among such smaller firms (collectively managing approximately £220 billion in assets) and to help new entrants benchmark sound risk management practices. It focused on three areas:

- **High-risk investments (HRIs).** To ensure compliance with relevant marketing restrictions, the FCA considered the issue of effective product governance and its importance. It also considered, where applicable, financial promotion materials and firms' processes for client assessment and categorisation. Most firms demonstrated an ability to categorise their products; others did not have sufficient processes to ensure that HRIs were sold only to appropriate clients.
- **Conflicts of interest.** Many firms were found to have ineffective conflict management arrangements, although some firms did demonstrate good practices. In some cases, senior staff holding multiple roles often failed to recognise conflicts arising from their overlapping responsibilities and failed to document, review, and disclose such conflicts where they could not be prevented.
- **Consumer Duty.** A majority of firms were found to be making good progress in embedding the Consumer Duty where relevant. However, at the time of the review, some firms had not yet understood how the Consumer Duty applies to their business model and had not yet adjusted their processes.

The FCA is engaging with relevant firms to secure improvements and will continue to monitor conduct in these areas. This review provides a clear benchmark of regulatory expectations for smaller asset managers, underscoring the need for robust product governance, conflict management, and Consumer Duty compliance to avoid supervisory scrutiny.

### ***FCA publishes consultation paper on improving the complaints reporting process for regulated firms***

On 22 May 2025, the FCA [published](#) its Consultation Paper CP25/13, proposing significant enhancements to complaints reporting requirements for regulated firms. Aligning with its five-year strategic plan of becoming a “smarter regulator,” the FCA aims to consolidate five existing complaints returns into a single unified return, standardise reporting frequencies, and improve the quality and consistency of collected data.

Key proposals include:

- **Consolidation of reporting requirements.** Currently, 41.3% of firms complete multiple overlapping returns. The proposed single return would streamline data submission, easing the regulatory burden and reducing potential misreporting.
- **Removal of group reporting.** Firms will no longer report complaints data at the corporate group level, instead reporting at the individual firm level, which will help to identify consumer harm more accurately and promptly.
- **Standardisation of reporting frequency.** Reporting cycles would be aligned to a consistent half-yearly frequency (ending 30 June and 31 December), enabling better comparative analysis of market trends and quicker detection of consumer harm.
- **Enhanced categorisation and reporting.** Updating product categories and including specific fields for complaints from vulnerable customers aim to capture richer data aligned with evolving market practices and Consumer Duty outcomes.
- **Simplification of nil returns.** Firms that receive no complaints will benefit from a simplified

process, reducing unnecessary administrative tasks.

- **Retention and clarification of contextualisation data.** Firms will continue to report contextualisation data to help benchmark their complaints performance, with enhanced guidance provided by the FCA to ensure accuracy and consistency.

The FCA anticipates these changes will reduce unnecessary administrative burdens, facilitate improved data-driven supervision, and enable quicker identification of potential consumer harm. The consultation closes on 24 July 2025 and the FCA aims to issue a Policy Statement later in 2025.

#### **4. UK — Cryptoassets**

##### ***FCA publishes consultation paper on qualifying stablecoins and safeguarding qualifying cryptoassets***

On 28 May 2025, the FCA [published](#) its Consultation Paper CP25/14, seeking views from stakeholders on the FCA's proposed rules and guidance for the activities of issuing a qualifying stablecoin and safeguarding qualifying cryptoassets, including qualifying stablecoins.

As mentioned in our [May 2025 Update](#), issuing a qualifying stablecoin and safeguarding qualifying cryptoassets will be introduced as specified activities through amendments to the Regulated Activities Order. CP25/14 includes further detail on the proposed rules relating to these specified activities.

In particular, qualifying stablecoin issuers will be required to:

- back qualifying stablecoins with secure, liquid assets in a third-party custodied statutory trust for qualifying stablecoin holders;
- offer redemption of qualifying stablecoins in exchange for money to all holders; and
- clearly disclose their policy for redemption and the composition of backing assets to consumers.

In relation to the safeguarding of qualifying cryptoassets, custodians of qualifying cryptoassets will be required to:

- segregate client cryptoassets from their own;
- hold those qualifying cryptoassets on behalf of clients in a trust;
- have accurate books and records of clients' cryptoassets holdings; and
- have adequate controls and governance to protect clients' cryptoassets holdings.

The FCA's proposals aim to provide greater confidence to consumers and the market that qualifying stablecoins are 1:1 backed and that the issuer will be able to fulfil redemption requests. Further, the proposals aim to make it more likely that consumers have access to sufficient information to make decisions based on a clear understanding of their rights and the risks involved in using qualifying cryptoassets.

In terms of next steps, the FCA is inviting stakeholders to provide comments to the consultation by 31 July 2025. The FCA has noted that it will also be consulting on proposed cross-cutting conduct and firm standards requirements, as set out in its crypto roadmap, which will be relevant for stablecoin issuers

and cryptoasset custodians.

## 5. UK — Private Stock Market

### ***UK Government lays down legislation establishing the PISCES legal framework***

On 15 May 2025, the UK Government [introduced](#) legislation to establish the legal framework for the Private Intermittent Securities and Capital Exchange System (PISCES), a new regulatory framework designed to enable periodic trading of private company shares within a regulated secondary market. PISCES forms part of the FCA's five-year plan to support sustained economic growth and aims to enable investment by addressing longstanding challenges in private market liquidity.

Key features of PISCES include:

- **Improved secondary market liquidity.** PISCES will facilitate periodic, controlled trading opportunities, significantly improving the liquidity profile of private company shares. The structured secondary market will enable more predictable and efficient exit paths, without dependence on traditional exit routes, which are particularly beneficial for institutional investors and private equity firms.
- **Tax advantages.** Transactions conducted through PISCES will benefit from exemptions on Stamp Duty and Stamp Duty Reserve Tax, reducing transaction-related costs.
- **Tailored regulatory environment.** The FCA is developing a tailored disclosure regime specific for PISCES. The UK Government has decided not to impose the full requirements of the existing UK Market Abuse Regulation (MAR), instead opting for a proportionate, disclosure-based regime. This aims to maintain investor protection while reducing regulatory complexity for private companies.
- **Participant company control.** Companies trading shares on PISCES platforms will retain control over critical trading parameters, including setting price limits and defining participant eligibility. This will allow companies to protect commercially sensitive information and strategically manage their shareholder base.

The FCA is expected to release detailed operational rules shortly, with initial trading anticipated in autumn 2025.

### ***FCA publishes details on PISCES platforms and regulatory sandbox***

On 27 May 2025, the FCA published initial details regarding the [platforms](#) and [testing environment](#) for PISCES (the Sandbox). The Sandbox will run until June 2030 and is intended to allow entities hosting a PISCES platform (operators) to test out various business models, live in the market with real companies and investors and within a proportionate and flexible regulatory framework.

The FCA and the Treasury will monitor the outcomes and decide whether to transfer PISCES into permanent legislation or other next steps.

## 6. UK — Tax

### ***HMRC Consultation on the Reform of the UK's International Tax Rules***



As part of the 2024 Autumn Budget, the UK Government published a Corporate Tax Roadmap that included a commitment to consult on reforms to the UK's rules on transfer pricing (TP), permanent establishments (PE) and Diverted Profits Tax (DPT). In the Roadmap, the Government seeks to “*introduce changes which will benefit taxpayers through improved certainty and better alignment with tax treaties, while protecting the UK tax base.*” His Majesty's Revenue & Customs (HMRC) has now [published](#) a consultation seeking feedback on draft legislation reforming these rules (the Technical Consultation).

The Technical Consultation follows an initial policy consultation on the UK's TP, PE, and DPT rules in June 2023 and a review of responses from interested parties to that consultation (a summary of which was published in January 2024).

For the asset management industry, the changes proposed in the draft legislation relating to the PE and DPT rules will be of particular interest. The key changes include:

- expanding the UK's definition of a “dependent agent” PE to better align with the definition contained in the 2017 Organisation for Economic Co-operation and Development (OECD) Model Tax Convention;
- amending the UK Investment Management Exemption (IME);
- removing the residual charge to income tax on non-resident companies that trade in the UK (regardless of whether they have a UK PE); and
- repealing the DPT and creating a new charging provision for “unassessed transfer pricing profits” within the corporate tax regime.

### *Dependent Agent PE*

Non-resident companies are generally subject to UK corporation tax only on (non-property-related) income and gains if they are trading in the UK through a UK PE. Accordingly, a key consideration for non-UK funds with UK-based investment managers is whether the manager's activities create a UK PE for the fund vehicle. Broadly, a non-UK fund is considered to have a UK PE if it has either

1. a fixed place of business in the UK through which it carries on its business (e.g., the *fund* has a UK office) or
2. an agent acting on its behalf *who has and habitually exercises authority to do business on behalf* of the non-UK fund that is not an agent of independent status acting in the ordinary course of its business (Dependent Agent PE).

If a UK-based investment manager creates a UK PE for the non-UK fund vehicle it manages, the fund (or, in certain cases, its investors) may be subject to UK tax filing obligations and tax liabilities on income and gains arising to the fund that are attributable to the UK PE.

The draft legislation is designed to align limb (b) above more closely to the 2017 OECD Model Tax Convention by expanding the definition of a Dependent Agent PE to include a person who *habitually concludes contracts or habitually plays the principal role leading to the conclusion of contracts*. While HMRC takes the view in its consultation that this definition is no broader than the current definition under UK law, there is a concern that individuals who act in an advisory capacity to non-UK funds may now fall



within the scope of the Dependent Agent PE definition as playing a “principal role” in making investments (even though they do not have authority to make investment decisions on behalf of the offshore fund). The new definition is not fully compliant with the 2017 OECD Model Tax Convention as the draft legislation will also enable a PE to arise in the case of an undisclosed principal or agent.

The draft legislation also proposes to deny the availability of the domestic law “independent agent” exemption (bringing it in line with the OECD’s most recent criteria) where an agent is “closely related” to a non-UK company and acts almost exclusively on its behalf (or on behalf of other companies that are closely related to the agent). For these purposes, one person is closely related to another person if, based on all the relevant facts and circumstances, that person has control of the other or both are under the control of the same persons.

For UK-based investment managers acting on behalf of non-UK funds based in non-treaty jurisdictions (e.g., Cayman or Bermuda), these changes will be of particular importance, especially in light of the proposed changes to the IME (discussed further below). While the domestic definition changes may not have an immediate impact for non-UK funds based in treaty jurisdictions such as Ireland, Luxembourg, Guernsey, and Jersey (as the UK domestic PE definition will be overridden by the Dependent Agent PE definition in those treaties that are usually more favourable to asset management structures), the Government may seek to include this new definition in UK treaties in the future as part of any renegotiation exercise.

These changes will also be relevant to whether non-UK investment managers that use UK advisers have a UK PE.

#### *Changes to the Investment Manager Exemption*

The IME operates as a safe harbour by exempting a non-resident fund from income tax and corporation tax on in-scope transactions undertaken by a UK-based manager on its behalf. The current conditions for the IME include the following:

- The manager (and connected persons) must not be beneficially entitled to more than 20% of the fund’s income (commonly known as “the 20% test”).
- The manager must be engaging in “investment transactions” — currently limited to specific asset classes.
- The manager must act in an independent capacity. The HMRC Statement of Practice on the IME states that HMRC will (among other ways) regard this condition as met where the services provided to the fund (and persons connected to it) do not exceed 70% of the investment manager’s business (commonly known as “the 70% test”).

The consultation proposes that the 20% test be abolished, which will expand the scope of the IME to circumstances where fund executives have substantial economic interests in the fund. This is a welcome change given the practical difficulties faced in applying the 20% test.

The consultation also proposes broadening the definition of “investment transactions” to include any asset classes other than real estate and commodities; this is another positive change. However, the Government proposes to limit the availability of the IME to transactions by “investment funds,” in this context defined as an alternative investment fund (AIF) or a collective investment scheme (CIS), by

reference to UK regulatory rules. This is a new limitation: The IME is currently available to protect any non-UK vehicle that makes “investment transactions” (and satisfies the other conditions). This change would mean that the IME would not be expected to apply to transactions carried out by unregulated asset holding companies and may also not be available to funds of one (given that such fund vehicles are not AIFs and may not always qualify as CISs). Securitisation and collateralised loan obligation vehicles, which typically fall outside the AIF and CIS regulations, would also commonly be excluded from relying on the IME.

HMRC also proposes revising the Statement of Practice on the IME to reduce the 70% test to a 50% threshold, which may result in certain managers failing the independent capacity requirement. However, where the 50% test is not met, HMRC will continue to have regard to the overall circumstances of the relationship between the manager and the fund in determining whether the manager is acting in an independent capacity. Therefore, fund structures affected by this change will need to be assessed on a case-by-case basis.

### *Residual Income Tax Charge*

Under current UK law, non-resident companies that are trading in the UK fall within the UK income tax charge even if they do not have a PE, unless an exclusion, exemption, or relief applies (e.g., the IME or a double tax treaty). In practice, where it applies, this is usually a technical charge only as it is not possible for the UK to collect the tax unless the fund has a UK branch or agency. Helpfully, the draft legislation proposes excluding non-resident companies from the income tax charge that trade in the UK but do not have a UK PE for corporation tax purposes. This is a welcome simplification of the law.

### *DPT*

The DPT is a punitive tax (applying at a rate of 31%) that, broadly, targets avoided permanent establishments and transactions and entities lacking economic substance. The rules are very wide and can, on the face of the legislation, catch commercial transactions that are not contrived and do not seek to artificially divert profits. The DPT rules applying to entities/transactions lacking economic substance are proposed to be repealed in the draft legislation and replaced by new but similar rules for “unassessed transfer pricing profits” that will be introduced within the corporation tax code (although maintaining the punitive tax rate). Helpfully in a fund management context, the charge targeting avoided permanent establishments is slated to be repealed in full.

The government intends to introduce the changes in the next Finance Bill, and therefore we expect the final legislation, if implemented, to take effect no earlier than 1 January 2026. The consultation remains open for responses until 7 July 2025.

## **7. EU — Enforcement**

### ***Luxembourgish court finds Edmond de Rothschild (Europe) S.A. guilty of money laundering offences***

On 22 May 2025, the Luxembourg bank Edmond de Rothschild (Europe) S.A. (Rothschild Europe) became the first banking institution in Luxembourg's history to be convicted of money laundering and concealment offences, related to Rothschild Europe's involvement in Malaysia's 1MDB scandal (1MDB). The landmark ruling [published](#) by Luxembourg's 7th Criminal Chamber ordered the bank to pay a €25

million fine.

1MDB involved the misappropriation of at least US\$4.5 billion from a Malaysian sovereign wealth fund between 2009 and 2013, of which approximately US\$472.5 million passed through Rothschild Europe. The Luxembourg authorities concluded that the bank failed to conduct adequate checks on the origins of these deposits, which transited various complex international financial networks involving multiple jurisdictions and offshore entities.

This conviction follows an extensive judicial investigation initiated in 2016, involving international cooperation across France, Switzerland, Singapore, the Isle of Man, the U.S., the United Arab Emirates, and others. While the bank acknowledged the offences and agreed to a settlement earlier this year, separate investigations remain ongoing into the conduct of former directors, employees, clients, and affiliated companies. The Luxembourg financial regulator, the CSSF, previously fined Rothschild Europe nearly €9 million in 2017 for related procedural failings.

This ruling underscores heightened regulatory scrutiny of money-laundering controls across the EU and serves as a reminder for financial institutions, including investment managers, to reassess their anti-money-laundering frameworks on a periodic basis.

## 8. EU — MiFID

### ***ESMA publishes call for evidence on retail investor journeys***

On 21 May 2025, ESMA [published](#) a Call for Evidence on the retail investor journey. As part of its ongoing efforts to enhance investor protection, while ensuring market accessibility to all investors, ESMA is seeking stakeholder input on how the regulatory requirements under MiFID II affect retail investors when engaging with capital markets.

The Call for Evidence specifically addresses concerns that certain disclosure, suitability, and appropriateness requirements under MiFID II may unintentionally create barriers for retail investors, potentially deterring their participation in capital markets. The broader aim is to make recommendations to simplify and streamline regulations, aligning with broader EU efforts, including as part of the EU Savings and Investments Union, to enhance market integration and competitiveness.

The consultation focuses on specific themes, including:

- **Non-regulatory barriers.** ESMA wishes to identify market-driven and behavioural factors deterring retail investor participation, such as perceived complexity, high costs, lack of financial literacy, and limited trust in investment service providers.
- **Attraction to speculative investments.** ESMA aims to explore reasons why younger investors prefer riskier, more volatile assets (e.g., cryptocurrencies) over traditional investments, including influences from digital platforms, social media, and perceived barriers to entry.
- **Disclosure effectiveness.** ESMA plans to review whether existing regulatory disclosures effectively inform investor decision-making or inadvertently cause disengagement due to excessive complexity.
- **Suitability and appropriateness assessments.** ESMA will evaluate whether current processes for assessing investment suitability and appropriateness strike the right balance between robust

investor protection and simplicity/accessibility, particularly in digital environments.

- **Digital platforms and innovations.** ESMA plans to consider how technological innovations, such as mobile applications and digital trading platforms, shape retail investor experiences and decision-making processes.

Stakeholders are invited to submit feedback by 21 July 2025, following which ESMA will assess whether targeted regulatory adjustments or clarifications should be recommended to better balance investor protection with retail engagement in financial markets. ESMA expects to publish its initial findings and potential policy adjustments in Q3 2025.

## 9. EU — Omnibus IV Simplification Package

### ***Commission publishes fourth Omnibus simplification package aimed at small- and medium-size companies***

On 21 May 2025, the Commission [published](#) its fourth Omnibus package (Omnibus IV) as part of its ongoing commitment to simplify existing rules and reduce administrative burdens on EU businesses. Primarily, the Omnibus IV includes a proposal concerning the extension of rules available for small- and medium-size enterprises (SMEs) to a new category of small mid-cap enterprises (SMC), and related targeted amendments to various EU acts, including the EU Prospectus Regulation (Regulation (EU) 2017/1129) and MiFID II.

Key elements of the Omnibus IV include:

- **New SMC definition.** The Commission committed to propose a new company category in “A Competitiveness Compass for the EU,” its new growth roadmap, to ensure regulation is proportionate and adapted to companies’ size.

In brief, the new category of SMC is proposed to be defined as:

- an enterprise (i.e., any entity engaged in an economic activity, regardless of its legal form),
- that is not a SME in accordance with Recommendation 2003/361/EC (concerning the definition of micro, small, and medium-size enterprises),
- that employs fewer than 750 persons, and
- that has an annual turnover not exceeding €150 million or an annual balance sheet total not exceeding €129 million.

In creating this new definition, the Commission aims to extend less burdensome rules applicable to SMEs to a wider set of EU enterprises. Based on the above thresholds, the Commission expects companies up to three times the size of SMEs will benefit from a lower regulatory burden.

- **Changes to the EU Prospectus Regulation and MiFID II.** Amongst other amendments, the proposal suggests extending the exemption currently available to SMEs that are listed or to be listed on an EU-regulated market that they are entitled to issue a short-form and standardised prospectus (an EU Growth Prospectus) to SMCs. The Commission indicates that using a short-form prospectus will reduce SMC listing costs and potentially make SMCs more attractive

to investors, thus facilitating SMC access to funding.

- **Access to SME Growth Markets (GMs).** The Commission proposes that SMCs should be granted access to SME GMs, as contemplated under MiFID II.

## 10. EU — Listing Act

### *ESMA delivers technical advice on market abuse and SME GMs as part of the Listing Act*

On 7 May 2025, ESMA [published](#) its Final Report containing technical advice to the Commission, pursuant to the EU Listing Act. The Listing Act, which came into force on 4 December 2024, aims to simplify listing requirements, enhance market access for SMEs, and maintain market integrity.

ESMA's technical advice addresses key changes to EU MAR and MiFID II relating to SME GMs and facilitates the effective implementation of the Listing Act. ESMA's advice includes the following:

- **Protracted processes.** ESMA has provided clarification on the triggers for mandatory public disclosure of inside information in protracted processes. The technical advice specifies the timing and events triggering disclosure obligations, helping issuers manage transparency obligations effectively.
- **Delayed public disclosure.** ESMA has identified clear situations where delays in public disclosure of inside information will no longer be permissible, which may improve predictability and market integrity.
- **Cross-market order book mechanism.** ESMA has outlined methodologies for identifying trading venues with significant cross-border trading activity, with the aim of enhancing the detection and enforcement mechanisms against market abuse.
- **SME GMs and MiFID II.** ESMA has made recommendations on adjusting the requirements for multilateral trading facilities to qualify as SME GMs, which may foster easier access to capital markets for smaller issuers.

The Final Report was submitted to the Commission on 6 May 2025, and the Commission is expected to adopt the related delegated acts for which the technical advice was requested by July 2026.

## 11. EU — ESG

### *Commission publishes call for evidence on SFDR reporting*

On 2 May 2025, the Commission [published](#) a Call for Evidence on EU rules on sustainable finance disclosure with the objective of simplifying the framework, enhancing its usability, and preventing greenwashing, as part of its review of the SFDR.

The initiative looks to address significant challenges identified since the regime's implementation in 2021, including unclear legal concepts, irrelevant disclosure requirements, inconsistencies with other EU sustainable finance regulations and difficulties related to data availability, all of which have led to increased operational costs and potential greenwashing risks.

The Commission has indicated that it is considering two potential options in its review: (i) targeted amendments for clarity or (ii) more substantial changes, including the possibility of establishing a formal

product-labelling regime, similar to the UK approach under the FCA Sustainability Disclosure Requirements.

The Commission's review of the SFDR will explore measures including:

- **Simplification.** The Commission aims to simplify key concepts and sustainability criteria to improve legal clarity and ensure overall coherence of the rules.
- **Disclosure requirements.** Amendments to disclosure requirements aim to refocus the required disclosures only on essential information required by investors.
- **EU frameworks.** The Commission intends to better align the SFDR with broader EU frameworks, including with the anticipated changes to the Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy. These legislative acts are separately subject to formal amendments to streamline their scope and compliance burden, as part of the EU Sustainability Omnibus, which was announced on 26 February 2025.
- **Product categories.** The Commission wishes to explore introducing distinct product categories for financial products claiming sustainability characteristics to mitigate greenwashing risks, enhance investor understanding, and align with diverse sustainability objectives.

The Commission is seeking input from stakeholders by 30 May 2025 and plans to publish its revised SFDR legislative proposal by Q4 2025.

### ***ESMA consults on rules for ESG rating providers***

On 2 May 2025, ESMA [published](#) a Consultation Paper outlining draft Regulatory Technical Standards (RTS) under the Regulation on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities.

ESMA has proposed three separate draft RTS that cover the following:

- **Authorisation and recognition.** ESG rating providers operating in the EU or offering ESG ratings into the EU from third countries must apply for authorisation or recognition from ESMA. The application requirements are extensive, including disclosures on business models, ownership structures, methodologies, conflicts of interest, and senior management profiles indicating that ESMA will conduct rigorous diligence during the authorisation process.
- **Separation of activities.** The standards specify measures and safeguards ESG rating providers must implement to mitigate conflicts of interest, especially where these entities provide services beyond ESG ratings, such as investment services, benchmarks, or insurance activities. Firms will be required to demonstrate operational and organisational separation between ESG rating activities and other business lines.
- **Transparency and disclosures.** ESG rating providers must disclose clear and detailed information about their methodologies, assumptions, and ratings to the public, issuers, and users of ESG ratings. Enhanced transparency is intended to boost comparability, reliability, and overall market integrity.

ESMA's consultation period closes on 20 June 2025. The final RTS are expected to be published and

submitted to the Commission by 2 October 2025.

## CONTACTS

If you have any questions regarding this Sidley Update, please contact the Sidley lawyer with whom you usually work, or:

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