2024 Global financial services regulatory outlook

Building a better working world

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Introduction

Political and economic issues are creating a more complex environment for financial services regulators in 2024. Geopolitical tensions have increased over the past few years, amid deteriorating diplomatic ties between the United States and China, war in Ukraine, conflict in the Middle East and tensions in Africa — a possible harbinger of greater financial segregation. Many countries are regulating data, technology and climate issues in ways that follow national agendas and add layers to this complexity.

Running a global organization has required the ability to tailor a generally consistent business model to the needs of individual markets. That tailoring is becoming increasingly important in terms of people, processes, data and technology. In some cases, the pressures may force organizations to become more focused and aligned to one set of markets.

At the same time, an uncertain economic outlook — characterized by rising energy costs and stubborn inflation in some jurisdictions, which could lead to higher customer indebtedness levels — is raising questions about asset quality in 2024. Several high-profile bank failures are also leading to increased scrutiny both of financial services firms and the regulatory bodies that oversee them. These challenges impact the regulatory outlook for 2024.

This year we highlight nine priority topics driven by a mix of events and longstanding regulatory interests.

- Regulatory and supervisory focused priorities have become heightened due to recent market events, including prudential, resolution and recovery, board and management oversight and supervisory effectiveness.
- Other priorities include consumer impact, environmental, social and governance (ESG), digital assets, digitalization of finance (payments and artificial intelligence or AI), financial crime and operational resilience.
- We highlight where firms should focus their attention in relation to the priorities identified for 2024.

New prudential developments

Following the banking volatility of 2023, authorities will be recalibrating both regulation and supervisory approaches. Recent events underline the threats to viability at firms with significant conduct and reputational challenges in times of stressed market sentiment, even if prudential requirements appear satisfied. Although global authorities do not show any intention to move toward a zero-failure regime, they may need to reassess the risk of contagion arising from the failure of non-systemic institutions, while at the same time managing the potential moral hazard accompanying government and taxpayer support.

Regulators globally will address how to respond to the accelerated pace of deposit outflows – due to technology and social media—at stressed banks. In hindsight, some liquidity regulation and most internal liquidity stress tests did not fully reflect changes in technology that impacted consumer behavior and increased the speed of digital runs across customers and products. In addition to continued reporting of liquidity and other metrics, we expect firms to see an uptick in more sophisticated and arguably thoughtful approaches to stress-test scenarios incorporating cultural and other non-financial risk considerations.

In addition, US regulators are reemphasizing their focus on liquidity risk management, through cash flow modeling and internal assumptions regarding deposit outflows, deposit segmentation, and asset monetization and testing.

Stress tests

More banks to be included in stress tests:

- EU: The 2023 European Banking Authority (EBA) stress test included 20 banks more than in the past,[1] and introduced top-down elements for net fees and commission income (NFC) and a detailed analysis on banks' sector exposure.
- UK: The Bank of England is considering testing more banks in 2024.[2] It will conduct a desk-based stress-test exercise rather than an annual cyclical scenario (ACS) test in 2024, but intends to return to the ACS format in 2025.[3]

Future stress tests to evolve or be enhanced to include additional themes, risks and players:

- EU: The EBA may introduce supplementary proportionality considerations for the 2025 stress tests. It will also develop and execute a (regular) climate stress test.[4]
- EU: A stress test for European banks to test their cyber resilience will be launched in 2024 by the European Central Bank (ECB).[5]
- UK: The Bank of England is launching its first system-wide stress test of the financial sector that will include not only banks but also non-bank financial institutions, such as insurers, central counterparties and a wide variety of funds. Findings are expected to be published in 2024.[6]
- Australia: Australian Prudential Regulatory Authority (APRA) announced it will develop a cross-industry stress testing framework.[7]
- US: While the US 2023 stress test was devised prior to the banking crisis, banks with large trading operations and exposure to the commercial real estate market were also a concern. In July 2023, the Federal Reserve called for stress tests to better capture risk and to test for a wider range of risks.[8]
- Global: The Financial Stability Board (FSB) announced it will develop and run a global bank stress test.[9]

Eventually, firms could see some targeted changes to outflow rates on uninsured deposits and the qualitative language around monetization; firms should understand this topic further, particularly in respect to potential vulnerabilities. But, actual changes to liquidity coverage ratios are likely to be small, with long time horizons. An area that firms will need to give more consideration to is specific stress scenarios. In addition, there are questions about the scope of application for smaller banks—for example, in the US, Basel-equivalent standards could be extended down to banks with US$100b in assets.

Where firms should focus their attention:

- Expect increased scrutiny from regulators on prudential issues, including exposures.
- Prepare for more stringent scenario- and stress-testing.
- Engage proactively with regulators on these issues. Engagement is always important, but, at a time of increased scrutiny, it can build credibility.

Resolution and recovery

Although predating the global financial crisis (GFC), the concept of banks that are "too big to fail" (TBTF) became widespread following the crisis. Regulators in major jurisdictions committed to solving the principal problem of TBTF, removing the expectation of government support and in turn protecting the public purse. Authorities developed an international framework for more effective resolution, which directly targeted the impact of the failure of systemically important financial institutions. Guided by the Financial Stability Board's (FSB's) Total Loss-Absorbing Capacity (TLAC) principles and term sheet, regulators of globally systemically important banks (G-SIBs) used the regulatory consensus after the GFC to put in place minimum requirements for loss absorbent resources in resolution in addition to resolution planning requirements. Alongside these resolution reforms, the Basel Committee on Banking Supervision strengthened the capital and liquidity standards for firms through the Basel III reforms.

More recent developments include the US, where regulators issued notices of proposed rulemakings[10] in August 2023 to enhance resolution planning, particularly for large and regional banking organizations. If finalized, these would result in enhanced resolution planning requirements and new long-term debt requirements for some institutions.

In the EU, regulators are focusing on liquidity as a key element in making sure a bank is resolvable. According to recent guidance[11] banks' internal frameworks, governance and management information systems are expected to be able to forecast the net liquidity position across time periods and at short notice. While most European banks will have adequate capabilities in place by 2024, this may require specific IT system improvements and identification and recruitment of staff with appropriate experience.

Looking ahead, it's possible that authorities will reassess the accepted resolution strategies for G-SIBs as well as non-systemic firms. In the UK, we have seen policymakers seek to bridge the gap between recovery planning and resolution for non-systemic firms with proposals currently under consultation for new "solvent exit analysis requirements." These proposals aim to increase confidence that small and mid-tier firms can exit with minimal disruption to the market and customers. This, in turn, should enable regulators to continue to authorize new entrants, promoting a well-functioning and competitive market.

Where firms should focus their attention:

- Prioritize recovery and resolution testing at executive and board levels. Crisis testing must become more challenging, with dynamic simulations targeting business vulnerabilities.
- Review the credibility of the approach to crisis management, in particular assumptions around the timeliness of decision-making based on indicators and communications.

Board and management oversight

Supervisory focus and scrutiny will increase on firms' board and management oversight. In some cases, the changes involve compensation for senior leadership teams, while in other cases, they address an overall culture of risk. Regulators increasingly recognize culture and compensation as two significant factors influencing firms' inappropriate decision-making. Firms will need to think more carefully about how their performance and incentive structures work and whether there is alignment between stakeholder goals and firms' fiduciary duties.

We have seen that in Asia-Pacific and in Australia, there are plans to align remuneration and risk, while also addressing remuneration design, deferral and claw backs. Australia is also revising a prudential standard saying—in essence—that firms need governance, processes and a board-level view on risk culture. In Hong Kong, a financial regulator can apply to the court to claw back remuneration for firms' senior management if their actions were intentional, reckless or negligent and caused or materially contributed to their institution ceasing to be viable.

In the UK as part of the Consumer Duty, boards are being scrutinized about their leadership and oversight of the changes required by the new principle and rules. In the US, some agencies have recently finalized board effectiveness guidance only two years ago. But recent events in the industry, are spurring regulators to focus more on board and management oversight effectiveness.

In addition to these changes, we anticipate greater regulatory scrutiny on firms that have long-standing, known issues, with an expectation from supervisors that boards take more explicit action to address these issues.

Where firms should focus their attention:

- Consider the issues of board and management oversight with a fresh eye, not just relying on established practices, and think about the consistency and evidence of oversight.
- Ask hard questions about oversight: In a fast-changing world, does the board understand the full range of regulations it must meet? Is management information effective and does it strike the right balance between simplicity and comprehensiveness? What culture is the board seeking to create? What training programs are in place? How does remuneration, reward and practice reinforce the culture?

Supervisory effectiveness

Several regulators issued post-mortem reports on the bank failures of 2023,[12] including comments about the speed at which regulators expect outstanding issues to be resolved–and how some banks have failed to do so in the past. A key trend looking ahead is the increased speed and agility of supervision, with a particular emphasis on self-identifying and addressing emerging risk-management issues and any weaknesses in oversight.[13]

In July 2023, the Basel Committee released proposed revisions to its core principles for effective banking supervision.[14] These are minimum standards of banking supervision and the revisions will focus, among others, on new risks, including climate-related financial risks and the digitalization of finance.

Regulators are also moving to data-driven supervision and are enhancing their role as data hubs by focusing on improved data, information accessibility, usability and interoperability, along with data harmonization and standardization. For example, the regulators in the EU and Canada have established data strategies,[15] while APRA and the Australian Securities and Investment Commission (ASIC, Australia's conduct regulator) have a statutory mandate to cooperate and share information.

All these measures are an indication that regulators will continue to strive to be more efficient and effective.

Where firms should focus their attention:

- Engage proactively with regulators and other roundtables to understand best practices and developments.
- Monitor areas of regulator self-criticism for future areas of regulatory pressures on firms.

Basel III status

Key

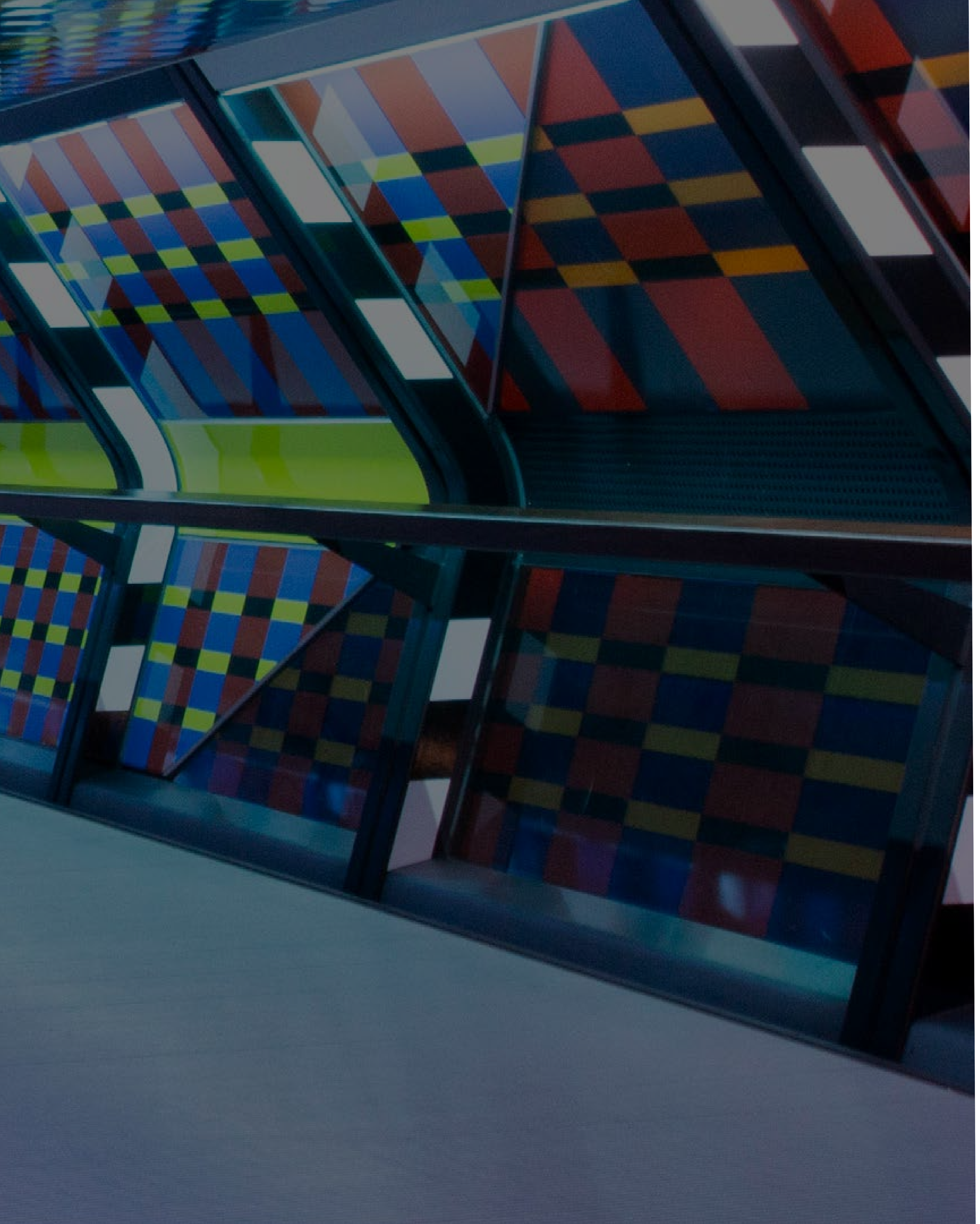
Draft regulation not published	Draft regulation published and adoption in progress	Final rules published (but not yet implemented by banks)	Final rules in force (published and implemented by banks)

Status of finalization of Basel III	Canada	USA	Australia	Hong Kong	Japan	Singapore	Switzerland	UK	Europe (EU)
	North America		Asia-Pacific				EMEIA		
Revised Standardized Approach (SA) for credit risk									
Revised Internal Ratings Based (IRB) approach for credit risk									
Revised Credit Valuation Adjustment (CVA) framework									
Fundamental Review of the Trading Book (FRTB)/market risk									
Output floor									
Revised operational risk framework									
Implementation from:	Q2 2023, *except market risk and CVA risk in early 2024*	1 July 2025 [TBC]	End of 2022, *except market and CVA risk*	1 July 2024	March 2024 *for internationally active banks*	1 July 2024, *except market risk and CVA risk in early 2024*	1 January 2025	1 July 2025 [TBC]	1 Jan 2025 [TBC]

International insurance prudential regulations

Insurance firms can expect some changes to prudential regulations in 2024.

- The global Insurance Capital Standard (ICS)[19] is under final consultation ahead of its adoption of a group Prescribed Capital Requirement (PCR) for Internationally Active Insurance Groups (IAIGs) at year-end 2024. This will include changes to its three components: valuation, capital requirements and capital resources.
- The International Association of Insurance Supervisors (IAIS) is launching public consultations on two Insurance Core Principles (ICPs).[20] ICP 14 establishes supervisory requirements for the valuation of assets and liabilities for solvency purposes. ICP 17 establishes requirements for regulatory capital resources and requirements.



Digitalization of finance and greater use of artificial intelligence

As digitalization becomes business-as-usual, some firms are struggling to update legacy systems, leading to greater regulatory scrutiny. The latest EY/IIF global risk management survey found that 94% of chief risk officers say they need "some" or "many" new skills and resources to meet the changing needs of the risk management function, with data science and cyber topping the list of most desirable skills.[46] In 2024, regulators will continue raising the standard of digital resilience and tackle increased operational reliance on IT systems, third-party service providers and innovative technologies, which increases complexity and interconnections within the financial system and is driven by digital transformation. Firms will be required to reduce deficiencies in IT outsourcing, IT security or cyber risks and data governance.

Where firms should focus their attention:

- Decide on an overarching strategy for digital assets.
- Review changes to business models and updates to operational infrastructure.
- Confirm the target outcome and experience for customers.
- Understand the expectations of regulators under existing rules—and actively monitor developments in technologies and regulatory guidance.

Payments

In June 2023, the EU published a revised Payment Services Directive (PSD3), a new payments regulation and a proposal for a new regulation on a Framework for Financial Data Access (FiDA).[47] The FiDA introduces "open finance," the next stage of the evolution of open banking. It expands data access and usage beyond payment and transaction data, while also including other areas of financial activity, such as insurance.

Several jurisdictions are developing open finance frameworks. Currently, the EU, UK, Australia, Hong-Kong, Indonesia, Philippines and Brazil have adopted a regulatory-driven approach for open finance. As such, a global standard approach may be required to avoid regulatory fragmentation. Open finance regulation will require firms to set up multi-year strategic, operational and technological transformation programs.

In Southeast Asia, a growing number of initiatives are underway to link domestic payment systems and enable frictionless cross-border payments. For example, Singapore's PayNow system is linked with India's UPI and Thailand's PromptPay. UPI is expected to become an important payment system in the region, as India seeks to monetize its platform by selling it to other countries to jumpstart adoption of digital payments.

In the US, digital payments are dominated by two sets of competitors: FinTechs (including big tech firms) and traditional banks. Both groups have developed new payment solutions and revamped the customer experience.

In several markets, digital payments systems are accompanied by a digital identity initiative, such as Aadhar in India, BankID in Sweden and Norway, MitID in Denmark, and Interac Digital ID in Canada. Digital IDs generally work best when backed by governments and delivered in a way that improves the user experience. Countries that do not have yet a digital ID program are considering one. In a recent report on account closures, the FCA encourages the UK government to speed up its consideration of a robust digital ID as a tool to fight crime and improve the experience for financial services customers.

Greater use of artificial intelligence

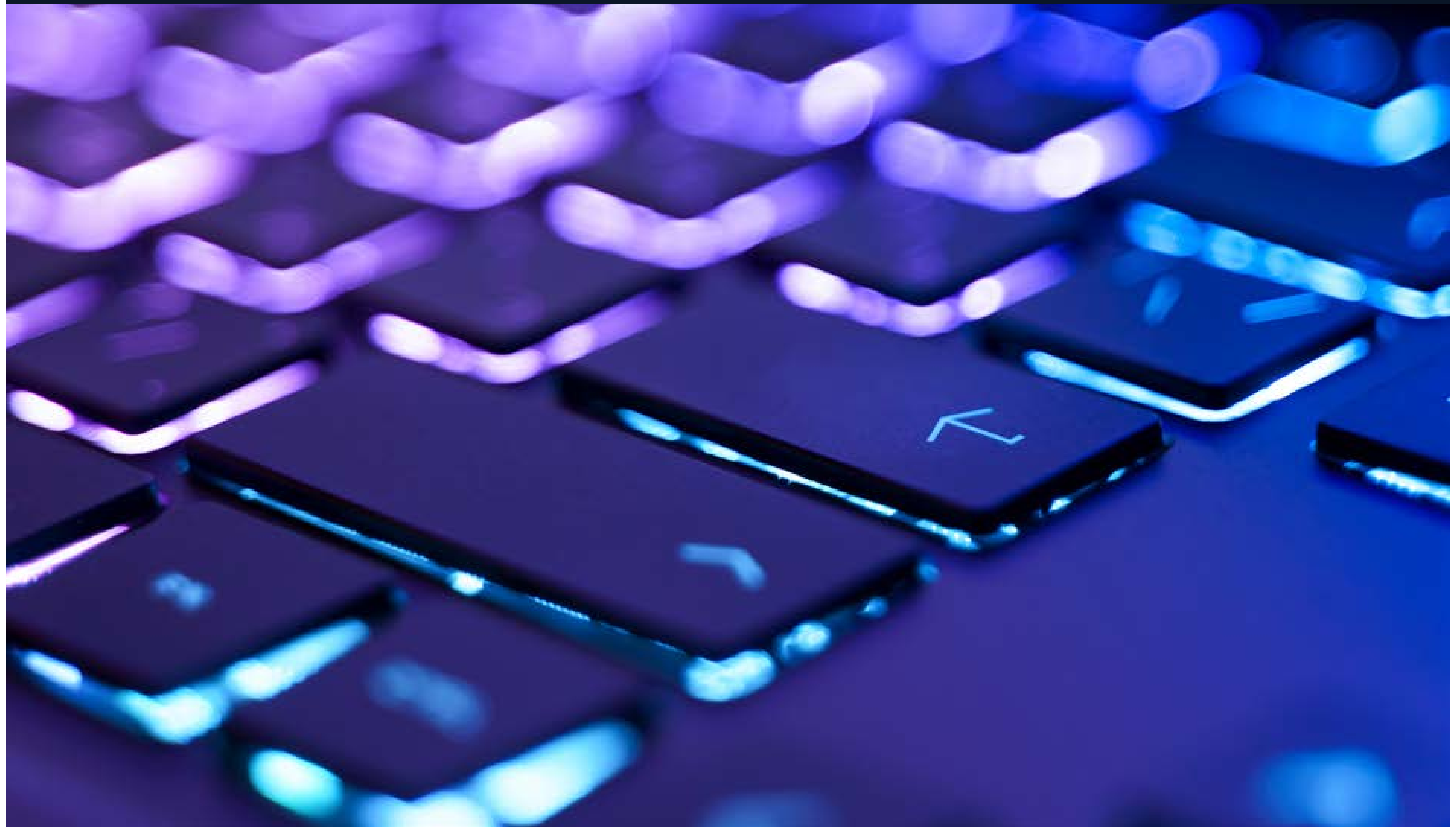
Regarding the regulation of AI, there is significant debate but little clarity. Globally, organizations like the OECD and United Nations are actively developing guidelines to support coordinated approaches to the responsible use of AI. Local governments are pushing ahead with new legislation. China included a draft AI law in their 2023 legislative work plan, though the process timeline is unclear. Canada also seeks to establish legislation through an AI and Data Act.[48] However, other countries are weighing how to future-proof intervention and avoid stifling innovation. The US, Japan, South Korea and Singapore are focused on voluntary guidelines. The UK is proposing a framework of responsible AI principles for specific regulators.[49]

Along with sector-agnostic regulation, financial regulators are considering the need for new rules to complement their existing powers. Many are clarifying how their existing rules apply. Regulators will continue to refine their approaches, and international organizations may play a more active role.

The EU AI act

The European Commission has introduced the AI Act, which is set to position the EU as a leading regulator of AI for the foreseeable future. The Act seeks to standardize regulations surrounding AI development, market placement, adoption and use, while addressing the social, ethical, and security challenges posed by the technology through a three-tier categorization system.

While the Act is still being finalized, it is expected to be completed by late 2023. Companies will have 18 to 24 months to comply with the new requirements following its implementation.



Where firms should focus their attention:

- Strengthen resilience with senior management accountability.
- Develop and implement an enhanced operational resilience framework to address operational disruptions and meet new requirements.
- Form cross-functional teams for AI projects to address risk and compliance.
- Establish a governance framework for digital or new technological adoption to maximize upside value and minimize risk.

Digital assets

The market for digital assets is maturing, with greater clarity about the different categories and options, but regulatory approaches vary by region. Although timelines remain unclear in some jurisdictions, the clear direction of travel is toward stronger regulatory frameworks.

Digital asset ecosystem

Fungible

Fungible tokens are identical to each other and, therefore, can be used and transacted interchangeably.

Cryptocurrency

Cryptocurrency assets are either the native asset of a blockchain or created as part of a platform that is built on an existing blockchain.

Native | governance | utility

bitcoin
Chainlink
Uniswap
Ether

Stablecoin

Stablecoin assets are crypto tokens that are designed to mirror the price of a fiat currency like the US dollar.

DAI
USDC
USDT

CBDC and digital fiat

Central Bank Digital Currency (CBDC) assets are on chain representations of a fiat currency.

Digital fiat assets are tokenized fiat (e.g., US dollars) legally recognized as cash and are backed 1:1 with fiat currency.

Digital Yuan
Sand dollar
e-krona

Security Token

Security tokens are on chain representation of traditional securities that exist off chain.

ARCoin

Non-fungible

Non-fungible tokens (NFTs) are unique and non-interchangeable assets stored and transmissible on a blockchain, and can represent digitally native items or physical items that exist in the real world (e.g., supply chain products).

Art
In-game items
Memorabilia
Metaverse land
Tickets

Stablecoins

Stablecoins are potentially the furthest along in terms of cross-jurisdictional alignment. The FSB issued high-level recommendations in July 2023 for the regulation, supervision and oversight of global stablecoin arrangements.[34] Several regulators, particularly in Europe and Asia, are considering the recommendations with the goal of implementing them by the end of 2025, creating a clear regulatory boundary around stablecoins, focusing on capital requirements, disclosures and the redemptions for stablecoins. For example, Japan's legal framework came into effect in early 2023. Singapore's regulator issued a stablecoin framework in August 2023,[35] including a requirement for disclosures. Hong Kong is also developing a stablecoin framework with a target implementation date of 2024.

Whereas in the US, there is little agreement across parties—or even within parties—on the basic tenets of stablecoin legislation, which is seen by many observers as a relatively straightforward first step on the path to more comprehensive crypto-asset legislation.

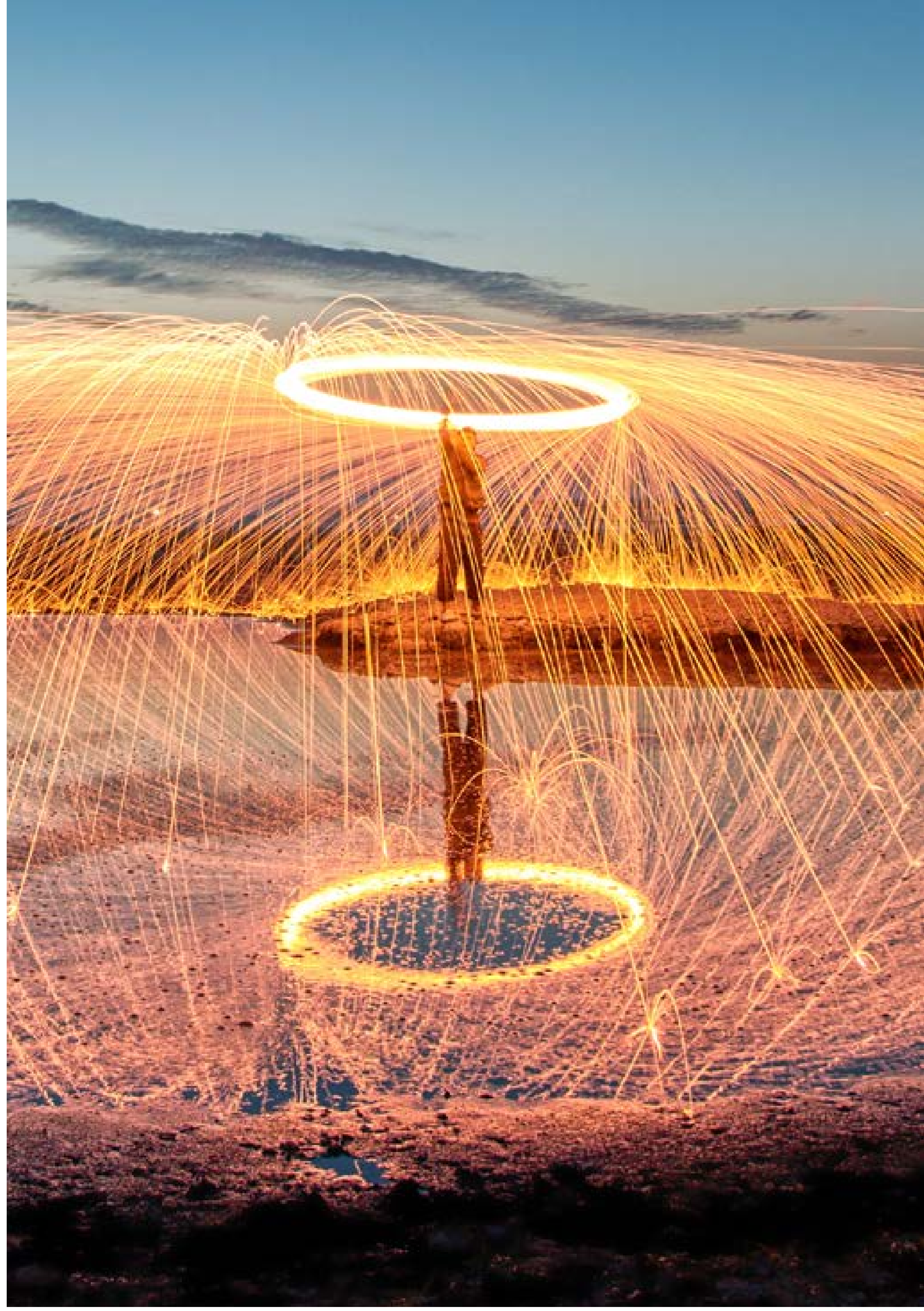
Crypto-assets

Regulators are issuing communications about the safety and marketing of pure crypto tokens to the public. Regulations will continue to expand to include AML/CFT risks, market conduct, resilience, cybersecurity and sales conduct.

The FSB's latest framework[36] follows the principle of "same activity, same risk, same regulation."' The framework seeks to bring crypto-asset activities and stablecoins under a regulatory umbrella that is proportionate to the risks they pose. In the US, there is still a debate about whether crypto-assets should be considered as commodities or securities, though there is greater clarity about how they should be taxed. The U.S. Department of the Treasury and the Internal Revenue Service (IRS) released proposed regulations in August 2023 on the sale and exchange of digital assets by brokers.[37] This is part of a broader effort at the Treasury to close the tax gap, address the tax evasion risks posed by digital assets and help ensure that everyone plays by the same set of rules.

We continue to see supervisory actions in the US for the marketing practices of crypto-assets. Other jurisdictions, such as the UK, have also begun to focus on this; the FCA issued rules regarding the marketing of crypto, which came into force in October 2023.[38] IOSCO, in a similar vein, also states that the marketing of crypto-assets should follow similar treatment as securities regulation.[39] In the EU, firms are getting ready for MiCA[40] to apply. While in Australia, ASIC has applied product design and distribution obligations to the marketing of margining of crypto assets.[41]

Traditional financial firms will have to decide soon on how they will engage in the crypto-asset markets and what areas they can engage in prudently in a manner consistent with existing risk management and compliance frameworks as well as regulatory requirements. Failure to make a decision could lead to losing a competitive advantage.



Central bank digital currencies (CBDCs)

Currently emerging markets are leading in the adoption of CBDCs—the Bahamas, Eastern Caribbean, Jamaica and Nigeria all have live retail CBDCs—but domestic acceptance is rather low. In developed markets, there is still a lack of clarity about which problems CBDCs can solve that faster modern payment systems haven't already solved—and which potential problems they might create. Many central banks are seeking to understand how CBDCs fit into existing legal frameworks and financial market infrastructure. The primary focus thus far has been on retail CBDCs, rather than wholesale, due to a shift in consumer payments away from cash and toward cards, digital payments and online marketplaces.

Recent CBDC developments:

- For economies where retail CBDCs are live (such as China and India), the focus is on increasing adoption by getting the private sector to integrate CBDC payments options. The People's Bank of China recently announced[42] that e-commerce platforms (like WeChat and Alipay) need to facilitate CBDC payment options for the digital yuan—a measure aimed at boosting adoption. The Reserve Bank of India's retail CBDC (Digital Rupee[43]) can now be accessed by one of India's fastest growing commercial banks (Yes Bank) via its integration into the country's Unified Payments Interface (UPI), which interoperates with the CBDC.
- The Reserve Bank of Australia (RBA) published a report with the key findings from its CBDC pilot program[44]. The key focus of the project was to engage with the industry to explore use cases for a retail or wholesale CBDC. Unlike other proofs of concept, the Australian pilot was a real legal claim on the RBA. Four key themes were: enabling smarter payments; supporting innovation in financial and other assets; promoting private digital money innovation; and enhancing resilience and inclusion in the digital economy.
- The Bank of Japan (BOJ) completed its PoC Phases 1 and 2 in March 2023 and entered into the pilot phase in April 2023.
- In the US, the Fed is researching CBDC system architectures, but has not made a decision about issuing a CBDC.
- The ECB announced[45] the digital euro has reached its preparation phase, which is expected to take about two years. The pace has slowed down and careful consideration will be taken before deciding to create the digital currency.

Environmental, social and governance

Globally there is a greater regulatory oversight on ESG-related reporting and climate-risk management.

Transition plans

Financial regulators worldwide are focusing on net-zero transition planning. This could be driven by authorities requiring firms to have transition plans in place to manage their exposure to financial risks or as a means to effect social change whereby finance institutions are leveraged to transition society to a lower carbon future. Key jurisdictional developments include the EU's proposed Corporate Due Diligence Directive (CS3D)[21] which if approved will start to apply from 2026, the HKMA's guidance on net-zero transition planning,[22] and the Transition Plan Taskforce's (TPT) disclosure framework,[23] a gold standard for private sector transition plans in the UK.

Carbon markets

There is also a growing supervisory focus on carbon markets. Enhancing supervisory oversight is expected to ensure that carbon markets function efficiently and transparently, boosting participation. The International Organization for Securities Commissions (IOSCO) has made recent recommendations on compliance with carbon markets,[24] and its upcoming final report on voluntary carbon markets will drive regulatory intervention by financial regulators and make these markets more consistent and credible, addressing factors that have limited firms' participation so far.

Biodiversity

Biodiversity loss is increasingly seen as a systemic risk to economies and financial systems. Although less established than climate, it will receive increased attention, with the International Sustainability Standards Board (ISSB) identifying it as an upcoming focus area in its draft work plan. Furthermore, if the recently published Task Force on Nature-related Financial Disclosures (TNFD) recommendations[25] follows the same path as the TCFD, it will likely become an element of mandatory reporting and disclosures.

Reporting and disclosures

From international to national levels, there are concerted efforts to improve sustainability reporting and disclosure standards. The ISSB's Sustainability Disclosure Standards will take effect in 2024 with the aim of becoming a universal standard.[26]

Summary of key differences

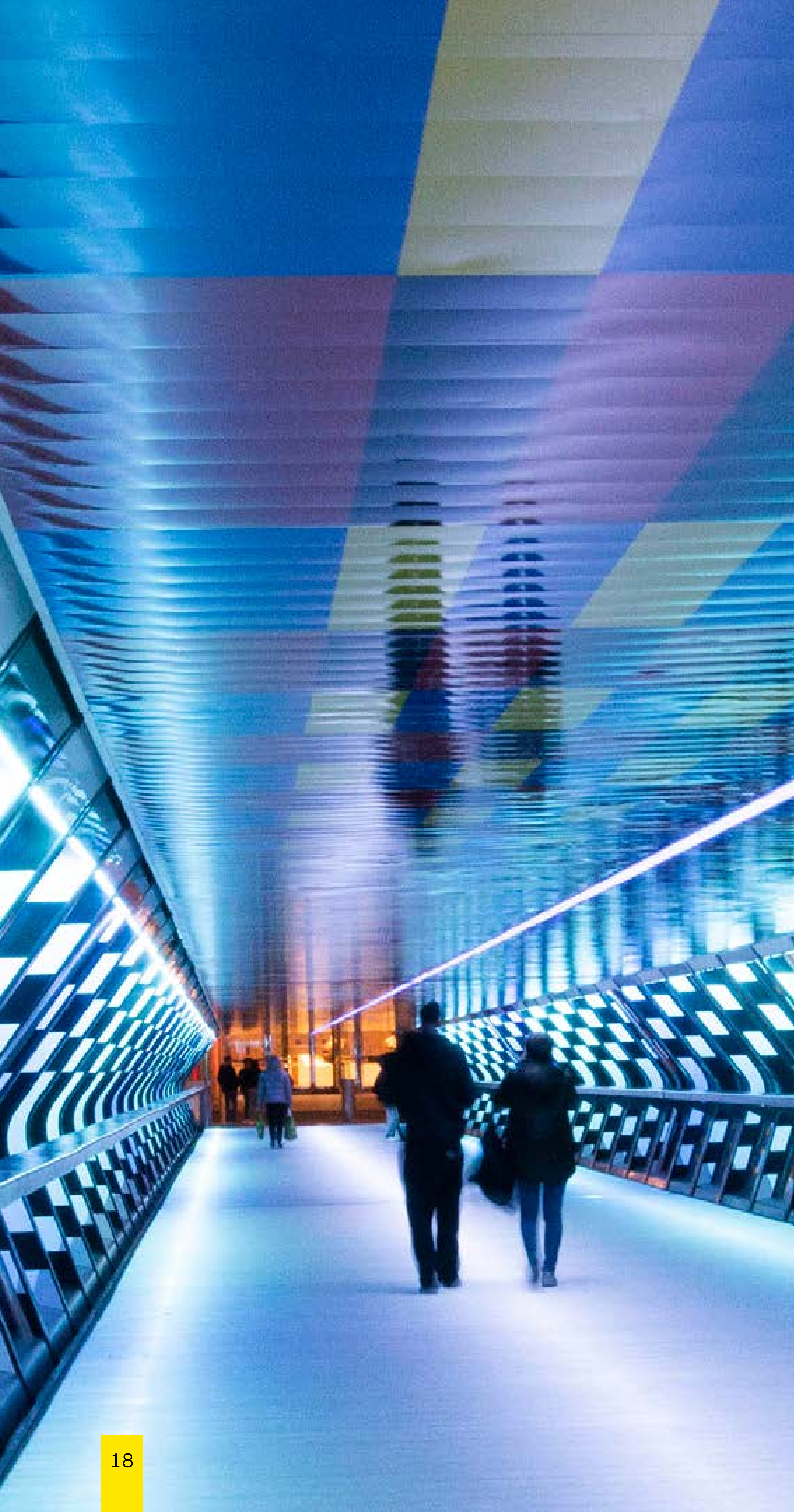
- ISSB, SEC and EU approaches to climate disclosure
- Definition of materiality (i.e., enterprise vs. societal)
- Alignment with international climate agreements (e.g., Paris)
- Mandatory disclosure of Scope 3 GHG or scenario analysis
- Industry-specific overlay
- Location of disclosures (i.e., financial statements, separate sustainability report, or both)

Key elements of the TCFD, ISSB, SEC and CSRD proposed approaches to climate disclosure

	TCFD	ISSB	SEC	CSRD
Current status of standards	Final	Final	Delayed	Final
Type	Voluntary	Voluntary	Mandatory	Mandatory
Primary audience	Investor	Investor	Investor	Multi-stakeholder
Materiality	Enterprise	Primary users of general purpose financial reports	Enterprise	Societal
Disclosure location	Annual Report	Annual Report	Mixed	Management re-port (within the Annual report)
Assurance	N/A	N/A	Mandatory	Mandatory
Governance, strategy, risk narrative	Required	Required	Required	Required
Scenario analysis	Required	Required	Conditional	Required
GHG Scope 1, 2	Required	Required	Required	Required
GHG Scope 3	Conditional	Required	Conditional	Required
2°C, or lower, alignment	Recommended	Required	Not required	Required
Industry-specific disclosure	Recommended	Required	Not required	Required

EY Source

Various jurisdictions have announced their intention to adopt the standards as mandatory disclosure requirements. The UK, Hong Kong, Australia and Singapore are already working toward implementing them domestically. However, firms operating across multiple jurisdictions face the challenge of reconciling different reporting frameworks. Currently, policy-setters are struggling to establish a minimum baseline for reporting, with uncertainty from the US SEC in setting its final climate disclosure rules adding to the delay in setting a common framework.



Climate as a financial risk

Regulators continue to perform deep dives and stress tests on financial institutions to assess their climate risk management. APRA requires entities to consider their business's governance and risk management implications in relation to climate change. The ECB Banking Supervision stresses that banks must meet their supervisory expectations for climate-related risks by year end 2024 or face potential penalties. In line with the NGFS, some regulators are exploring shorter-term, more actionable climate risk stress tests.

Greenwashing

Regulators are addressing greenwashing risks caused by the misalignment of ESG-related fund names and objectives. New regulations are likely to address sustainable investment labels, disclosure requirements and restrictions on the use of sustainability-related terms in product naming and marketing. The US SEC adopted amendments to the Investment Company Names Act , effective 10 December 2023 (the compliance date for the final amendments is 10 December 2025 for larger entities and 10 June 2026 for smaller entities).[27] The UK's FCA anti-greenwashing rule[28] is expected to be published in Q4 2024, while the European Supervisory Authority is reviewing greenwashing practices with final reports expected in May 2024.[29] In the Asia-Pacific region, the HKMA's anti-greenwashing circular[30] was issued in December 2022, with another consultation ongoing, while ASIC in Australia has expanded its surveillance and enforcement activities related to greenwashing.

The "S" in ESG

In keeping with the "S" element of ESG, policymakers are also focusing on specific areas to address human rights and global environmental impacts as captured by the EU's proposed CS3D. The proposal, which also covers third-country companies, could pose a significant business compliance challenge. Diversity, equity and inclusion (DEI) is a topic of current interest in Europe and could gain traction in the US. In the UK, new rules on diversity and inclusion[31] are likely to come into force by Q3/Q4 2025. The regulator plans to extend non-financial misconduct rules, introduce a new regulatory framework on diversity and inclusion and increase regulatory reporting on certain characteristics for larger firms. In the EU, the EBA is consulting on guidelines on the benchmarking of diversity practices. The guidelines will address the collection of data on diversity policies, diversity practices and the gender pay gap at the level of the management body, and apply to institutions and investment firms.[32] The U.S. Securities and Exchange Commission released its first Diversity, Equity, Inclusion, and Accessibility Strategic Plan in September, which could signal new regulations relating to DEI.[33]

Where firms should focus their attention:

- Set robust transition plans with clear targets, embedding biodiversity and climate-related risks.
- Manage climate and environmental risks through an institution-wide approach covering business strategy, governance, risk management, and clear targets and disclosures.
- Develop a data-sourcing strategy to support sustainability disclosures, including third-party providers, ESG rating providers, and other participants.
- Invest in function-specific ESG training targeted at key personnel.

Consumer impact

Regulators are expanding their focus beyond strict compliance with existing regulations to a broader and more proactive assessment of how firm's products affect different types of consumers. With a focus on securing consumers' best interests, regulators are considering the impact of pricing, clear product information, the vulnerability and financial literacy of consumers, and climate within the overall consumer impact remit. The introduction of the UK's Consumer Duty in July 2023 by the FCA is a prime example of this move toward more outcome-based regulation.

Central banks are also making changes to their consumer protection codes, with the Central Bank of Ireland focusing on products that secure the best interests of consumers,[16] the Monetary Authority of Singapore (MAS) consulting in December 2022 on its Fair Dealing Guidelines[17]. Similarly in the US, the Consumer Financial Protection Bureau (CFPB), Federal Reserve and the Office of the Comptroller of the Currency (OCC) are considering similar changes, though there is a question about whether such regulations would come to pass or withstand a challenge in the Supreme Court. Hong Kong has also long emphasized the importance of firms acting in the interests of customers, even though these principles have not been articulated into a set of rules.

Firms should also expect wider regulatory reach but arguably a more level playing field for those competing in the same spaces irrespective of direct licensing requirements. For example, buy-now-pay-later (BNPL) and embedded finance players will face the same level of scrutiny, as retail financial services players do. Australia already regulates BNPL in this manner, and the UK is in the final stages of a protracted consultation[18] on the issue. In the EU, the European Securities and Markets Authority (ESMA) is looking at alternative marketing channels, such as social media through the consumer-impact lens.

Where firms should focus their attention:

- Shift the mindset with top-down training and firm-wide commitment, in light of regulatory focus on culture.
- Ensure the full implications are considered before implementing new products and services.

Financial crime

Financial crime remains a priority, and global regulators consistently see areas for improvement—along with, in some cases, supervisory action and fines. Some firms faced supervisory scrutiny in 2023 over AML breaches, and regulators are maintaining their focus on economic sanctions and are revisiting the treatment of politically exposed persons. Technology complicates the regulatory picture as well. While it creates new types of threats, it also offers new tools in the fight against financial crime. Adoption of data and AI solutions for financial crime compliance will grow.

More recently, fraud has become a hot topic—with criminals looking to capitalize on economic instability. Australians lost a record sum of more than US$2b to scams in 2021, scams are made possible by a wide variety of technologies. Bank transfers accounted for the majority of scam payments. This is an area of much deeper management and concern for the financial system, especially at the retail level. Firms are preparing for a rise in fraud and investment scams as economic stress pushes customers toward risk-taking behavior.

Other key financial crime trends

- Instant payments will require instant monitoring and analysis.
- Focus on crypto crime prevention and regulatory scrutiny will surge. For example, some regulators are expanding current guidance to include new players, such as crypto asset providers.
- Even as technology creates new types of threats, it also offers new tools in the fight against financial crime. Adoption of data and AI solutions for financial crime compliance will grow.
- The regulatory focus on environmental crime is increasing.
- Financial crime compliance will include industries beyond financial services.

The EU AML package

The EU "single rulebook" regulation[50] provides guidelines for completing customer due diligence, disclosing the identities of beneficial owners, using anonymous instruments like crypto assets and introducing new entities, such as crowd funding platforms.

The sixth Anti-Money Laundering directive[51] includes national provisions on oversight, Financial Intelligence Units and information sharing requirements.

The regulation[52] establishing the European Anti-Money Laundering Authority (AMLA) with supervisory and investigative powers, to ensure compliance with AML/CFT requirements.

Amendment of the EU Transfer of Funds regulation[53] on the information accompanying the transfers of funds and certain crypto-assets, in order to make it possible to trace respective transfers.

Where firms should focus their attention:

- From a strategic point of view, dedicate resources to follow the proposals. This would mean; systems, controls, policies, procedures, people and technology can all be adapted or enhanced ahead of implementation.
- Consider the use of more sophisticated technology to support fraud detection, such as AI.

Operational resilience

Operational resilience remains a key regulatory focus area globally. Financial regulatory bodies across the globe have witnessed how interconnected global financial ecosystems are updating guidance to protect them.[54] The recent bank crisis highlighted gaps in banks' risk oversight and risk and resilience governance and controls. There is also a shift away from treating operational resilience as merely a compliance activity; regulators view it through a consumer harm lens, and firms should also treat it this way. In the US, for example, some firms now include a chief resilience officer among the C-suite.

In Australia, APRA has made operational resilience a heightened focus, finalizing prudential standards and guidance to strengthen recovery and resolution planning and the preparedness of the Australian financial services sector to respond to crises.[55] In Canada, most banks are still in the early stages of developing their operational resilience programs. A draft guideline from the Office of the Superintendent of Financial Institutions (OSFI), was published in October 2023, and clarifies the operational resilience requirements for Canadian banks.[56]

Looking ahead, regulators will improve cyber resilience across the financial sector—conducting cyber reviews on areas of weakness and remediation plans, pursuing breaches, sharing insights and issuing industry-wide guidance. In Australia, for example, as part of APRA's Cyber Strategy to uplift cyber resilience across the financial sector, APRA has commenced a major exercise involving independent cyber reviews. Through the receipt of the first series of information security assessments (required by Prudential Standard CPS 234 Information Security), APRA will assess individual gaps and provide holistic insights into the state of cyber resilience across the industry and pursue breaches of the standard. Firms will also need to comply with the EU's Digital Operational Resilience Act (DORA) from 1 January 2025; 2024 will be paramount for DORA readiness.

In addition to cyber resilience, regulators will strengthen third-and fourth-party risk management. There are global efforts to reduce regulatory fragmentation across jurisdictions and sectors and strengthen financial institutions' ability to manage third-party risks. FSB's final toolkit is expected by the end of 2023.

Where firms should focus their attention:

- Consider the risk appetite and which processes and procedures may pose resilience challenges. For instance, adapt change management, cybersecurity and data confidentiality procedures to remote working.
- Intensify scenario testing by considering a wider variety of scenarios and stretching their severity, such as a cyber outage during a pandemic.

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CSG No. 2310-4366442
EYG no. 011278-23Gbl
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