

# Regulatory Developments in Europe: 2022 Midyear Outlook



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Individuals, companies, and communities continue to feel the effects of COVID-19 two years on from the onset of the global pandemic. Policy makers responded to the volatile market conditions at the start of the pandemic by focusing on initiatives that contribute to the stability of the financial system; strengthen capital markets; support a green economic recovery, and help build the personal financial resilience of individuals. These priorities have been further underscored by the Russian invasion of Ukraine, and its subsequent impact on energy prices and the cost of living. Still, the full impact of these events is yet to be seen in the current regulatory agenda, given much of these policy developments stem from 2021 or earlier.

The Financial Stability Board (FSB) has led in bringing policy makers together to create recommendations to enhance financial stability, drawing on the lessons learned from March 2020 market volatility. This process will likely lead to recommendations regarding liquidity risk management tools and practices in open-ended funds. Further policy initiatives targeting the resilience of the broader non-bank financial ecosystem relate to Money Market Funds (MMF) and the margin practices of Central Clearing Counterparties (CCP). These came at a time when

European policy makers were already considering the resilience and capacity of CCPs in a post-Brexit context, and the completion of the transition away from the LIBOR benchmark.

Emerging from a period of policy focus on stemming the impact of the pandemic, policymakers are now turning their attention towards the post-COVID recovery agenda. In the European Union (EU), this includes several initiatives under the Capital Markets Union (CMU) policy umbrella, which seeks to build a single market for capital in Europe and empower retail investors. These include proposals to reform cornerstone fund and market infrastructure legislation following the scheduled reviews of the Alternative Investment Fund Managers Directive (AIFMD), the Markets in Financial Instruments Regulation (MiFIR), and the European Long-Term Investment Fund (ELTIF) that started in 2021. Meanwhile, the UK is also in the midst of determining how its own regulatory framework for capital markets will be adapted, following its departure from the EU, having conducted both a Wholesale Markets Review and Financial Services Future Regulatory Framework Review in 2021.

The opinions expressed are as of July 2022 and may change as subsequent conditions vary.

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The UK is continuing to position itself as a leader in green finance, highlighted by its role as the host of the 26th UN Climate Change Conference of the Parties (COP26) in November 2021. A Sustainable Finance Roadmap launched in late 2021 includes proposals for a UK Green Taxonomy, a Sustainability Disclosure Requirements regime for companies and increased expectations around the stewardship of pension assets. The EU will continue to progress the goals set out in the 2018 Action Plan on Financing Sustainable Growth, implementing amendments to the Taxonomy legislation, MiFID Suitability requirements, and the Sustainable Finance Disclosure Regulation (SFDR) and finalising some of the planned regulatory requirements. The renewed sustainable finance strategy, published in 2021, further builds on the 2018 Action Plan by providing a roadmap with new actions aiming to support the financing of the transition to a sustainable economy.

Helping individuals build personal financial resilience through their working lives and retirement has remained important globally. In the UK, efforts to build on the success of auto enrolment through increased access to private markets via reforms to the DC charge cap and introduction of a Long-term Assets Fund (LTAF). In the EU, the European Commission (EC) has recommended a variety of measures that Member States can leverage to support citizen's pension pots, including pensions dashboards, pension tracking tools, and auto enrolment models.

BlackRock advocates for public policies that we believe are in our clients' long-term economic interests. We support the development of regulatory regimes that increase financial market transparency, protect investors, and facilitate the responsible growth of capital markets. In this ViewPoint, we set out the developments in financial services policy impacting retail investors, institutional investors, and distributors across Europe.

# Financial Resilience

## Post-covid reforms

<b>THIS AFFECTS</b>	<b>Investors in money market funds and open-ended investment funds; derivative market participants</b>
<b>OCT 2021</b>	Financial Stability Board final policy proposals to enhance money market fund resilience published.
<b>OCT 2021 – JAN 2022</b>	BCBS-CPMI-IOSCO consultative review of margin transparency, predictability, and volatility.
<b>JUL 2022</b>	European Commission due to complete review of Money Market Funds Regulation.
<b>Mid-2022</b>	IOSCO & FSB report on liquidity risk management in open-ended funds due to be published.
<b>H2 2022</b>	FSB to examine and publish report on 'systemic vulnerabilities' in Non-Bank Financial Intermediation.

Financial market turbulence during March 2020 has prompted policymakers, led by the Financial Stability Board (FSB), to examine the demand and supply of liquidity for core financial markets.

The first phase of this work has focused on how specific market participants, products, and activities performed during the covid-related market turbulence. As a result, the FSB published recommendations to enhance the resilience of money market funds (MMFs) in October 2021. In the first half of 2022, attention has shifted to liquidity risk management in open-ended funds beyond MMFs, as well as the structure and resilience of core bond markets.

Both workstreams are due to publish their conclusions and recommendations by mid-2022. Margining practices were also a source of liquidity pressure during March 2020 – and at the time of writing, a policy approach for improving margin predictability, transparency, and volatility is under consideration by the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO).

In the second half of 2022, the FSB will focus on developing a 'systemic perspective' of dynamics in the non-bank section of financial markets. This is an important step. While there is scope for improvement in many of the areas currently being studied by the FSB and IOSCO, overall system resilience cannot be enhanced by focusing on its component parts, such as investment funds, in isolation. Policymaking must be guided by a holistic view of the ecosystem and connectivity among its various elements.

### Money market funds

MMFs have been the first area of focus for international policymakers seeking to address the lessons of March 2020. The FSB's recommendations<sup>1</sup> present a menu of policy options to improve the resilience of MMFs, which national authorities should implement as appropriate.

They also coincide with a scheduled review by the European Commission of the EU MMF Regulation (MMFR), which came into effect in 2019. Part of the Regulation's scope of review is whether or not the new fund structures created by the MMFR – the Public Debt CNAV (PDCNAV) and Low-Volatility NAV (LVNAV) MMFs – should be fundamentally changed, but reflections from the market events of March 2020 are also likely to shape the Commission's focal points for the review.

The European Securities and Markets Authority (ESMA) proposed their advice to the European Commission on the current regulatory framework in February 2022<sup>2</sup> following the European Systemic Risk Board's (ESRB)<sup>3</sup> and European Central Bank (ECB)<sup>4</sup> opinions from 2021. All three opinions recommend enhancing the liquidity buffers of all types of MMFs, with the ESRB and ECB recommending a minimum allocation to government debt as a key component of the buffers. The ESRB and ESMA opinions recommend the prohibition of LVNAV's use of a rounded NAV – effectively removing the key feature of the structure.

The Commission will issue a report on the functioning of the MMFR by summer 2022, and it is expected that a proposal to change the regulatory framework may follow in the second half of the year. While the Commission is not bound to follow the recommendations of any of the ESRB, ECB or ESMA opinions in any changes to the MMFR, they are a clear indicator that a focus on the calibration and functionality of the liquidity buffers, and further reflection on the suite of fund structures under the Regulation are likely to be a key area of focus.

## Implications for clients

BlackRock supports the efforts to ensure that the regulatory regime for MMFs is robust. MMFs play a critical role for many end-investors as a cash management tool.

We believe they must balance resilience with ensuring the utility of these products to end users. To that end, we believe that reforms should be based on observable vulnerabilities and calibrated to reflect the actual strains European MMFs faced in these market conditions.

Many reforms central to the European debate will indeed make MMFs more resilient, for example, the de-linking of redemption gate and fee procedures from weekly liquid asset levels, and enhancements to MMFs' liquidity risk management toolkit. While there is an important debate to be had about the calibration of liquidity buffers, we believe that minimum government debt buffers are not the best way to enhance resilience.

The most controversial elements of the discussion are likely to be around the recommendations from the ESRB and ESMA which would fundamentally transform LVNAV MMFs into Variable NAV (VNAV) MMFs. We believe this would effectively remove a very important fund structures for many MMF users (LVNAVs today are nearly 50% of the European MMF industry by AUM) without a clear policy rationale. Outflows from LVNAV MMFs and VNAV MMFs were similar in March 2020, and there is no clear evidence that the LVNAV structure accelerated redemptions with a supposed 'cliff edge' effect.<sup>6</sup>

We provide further analysis and set out recommendations for MMF reform in our 2020 ViewPoint, [Lessons from COVID-19: The experience of European MMFs in short-term markets](#).

## Open-ended funds

Open-ended investment funds saw heightened outflows through March 2020, as investors repositioned their portfolios against a changing economic outlook and built cash holdings. Most met all redemptions, with only a fraction needing to suspend dealing. Globally, suspensions in the year to June 2020 were just 0.11% of total assets under management (AUM), with 0.8% of UCITS corporate bond funds suspended during March 2020.

However, policymakers are considering whether less liquid asset holdings in daily-dealing open-ended funds generate a first-mover advantage, where one set of investors are incentivised to transact ahead of others to gain a better price, negatively impacting remaining investors. Some suggest these incentives led to a level of outflows from open-ended funds that placed undue pressure on financial markets during March 2020.<sup>7</sup>

Liquidity risk management for open-ended funds has been in focus since the 2008 Global Financial Crisis (GFC). In 2018, IOSCO specified the appropriate liquidity

## Why MMFs matter to investors

MMFs act as a valuable cash management tool for investors.

While bank deposits made by individuals are protected by government guarantee schemes, investors such as corporates, insurers, universities, and charities must find other ways to securely manage their cash flow.<sup>5</sup> For many of these investors, managing their short-term liabilities in-house is difficult or even impossible to execute.

MMFs provide a cost-effective and low-risk solution to this. These funds invest in assets that are highly liquid, low risk, and short term, such as sovereign debt.

management toolkit asset managers should have access to, in their [Recommendations and Best Practises for Liquidity Risk Management](#). Since then, take-up of these tools has increased notably; most recently the EC proposed revisions to the UCITS and AIFMD fund regimes, to promote access to and consistency of a full liquidity management toolkit across the EU.<sup>8</sup> March 2020 demonstrated the value of a complete toolkit, most notably 'swing pricing' mechanisms for OEFs,<sup>9</sup> which adjust fund prices to reflect transaction costs. Swing pricing is primarily a tool for protecting investors remaining in a fund from costs generated by the transactions of other investors and, properly implemented, removes the first-mover advantage from these funds.

Policymakers have identified regional variations in how swing pricing is applied across different managers and markets, such that its full potential is not being realised.<sup>10</sup> Our [Policy Spotlight: Swing Pricing – Raising the Bar](#) highlights the need for take-up across all jurisdictions. To address inconsistencies across the markets, policymakers should avoid prescriptive or centralised interventions, and instead promote global standards and best practises covering the principles and operations to underpin the setting of swing factors and thresholds, model management, operations, governance, and escalation procedures.

## Implications for clients

Policymakers are considering whether it is necessary to regulate liquidity management tools (LMTs) more prescriptively, or intervene in their use, to meet wider public policy objectives. LMTs are first and foremost investor protection tools, and primary responsibility for activating them should remain with fund managers. However, as we note in our [Policy Spotlight: A European perspective on managing liquidity risk in investment funds](#), policymakers should focus on improving the uptake of liquidity management tools by monitoring asset managers' operational preparedness to use LMTs, and by promoting best practises that engender high quality application.

## Central Clearing Counterparty (CCP) margins

THIS AFFECTS	Global financial stability; CCPs and Clearing Members (banks); all investors whose positions are centrally cleared.
MAR 2020	Market volatility results in extreme and pro-cyclical CCP margin calls.
OCT 2021	IOSCO, BCBS, and CPMI call for comments on margining practices during the March 2020 market turmoil.
Q3 2022	ESMA final report & RTS on CCP's anti-procyclicality measures.
H2 2022	Outline of further policy actions from IOSCO/BCBS/CPMI to mitigate impacts of margin calls in future periods of market stress.

The market volatility of March 2020 led to a broad and rapid surge in margin calls across the financial system, as asset prices were impacted by a flight to safety by many investors.

Collateral for US futures rose \$104 billion (49%) adding to the pressure in short term markets. Daily CCP variation margin (VM) calls were large, increasing from around \$25 billion in February 2020 to a peak of \$140 billion. The total initial margin (IM) requirement across CCPs increased by roughly \$300 billion over March 2020, and overall collateral pre-positioned at CCPs increased by \$415 billion (an approximately 40% increase relative to the average in February 2020), roughly half of which was held in cash.

Financial regulatory reform following the 2008 GFC centred on shifting bilateral Over the Counter (OTC) derivative trades to a centrally cleared model intermediated by a CCP. This shift has undoubtedly improved transparency and risk management for investors, but it has also embedded into the global financial system a shock amplification mechanism, given it relies on margin calls to protect the CCP and its Clearing Member banks in times of stress. October 2021, global standard setters invited comments on a consultative report on margin practices and potential further policy work.

### Key features

- Margin is collateral and funds collected to protect against future or current risk exposures resulting from market price changes (variation margin) or in the event of a counterparty default (initial margin).
- During the market stress of March 2020, several large margin calls were made by CCPs to protect the CCP and Clearing Member banks and to prevent severe financial stress.

- The pro-cyclical nature of making margin calls amplified stress in short term markets.
- Global regulators are now considering how to dampen the pro-cyclical effects of margin calls and how to meaningfully increase transparency of margin modelling to mitigate similar effects in future episodes of market volatility.

During March 2020, pro-cyclicality was more pronounced in the futures markets. We believe this is because IM models are not sufficiently conservative enough to begin with, and that it would be beneficial to market stability if, as a next step, global regulators scrutinized futures margin models at their core. Margin should be calibrated based on the inherent risk of a contract, not based simply on where a contract trades.

Increased conservatism of CCP risk models will likely increase the overall cost of clearing. In our view, the predictability and stability premium are worth paying.

### Implications for clients

Asset manager's risk management frameworks are designed to perform rigorous statistical analysis on fund assets, in order to predict potential performance and potential outflows, including both client redemptions and margin calls.

In times of market stress, transparent and well-structured margin models would help to ensure that these stresses are not further amplified. More predictable outcomes from increasingly resilient CCPs would better protect clients and underpin their confidence in the central clearing model.

BlackRock currently relies on the Public Quantitative Disclosures (PQDs) to analyse CCPs' risk models. After experiencing the market moves in 2020, we expected the PQDs to show erosion in margin performance. However, CCPs almost universally reported margin models meeting their 99th percentile performance targets. This is because they are only required to report performance at the account level, which obscures the movement of positions underneath. Higher standards of transparency providing more details, which are more consistently applied on a global basis, will be key to making progress for investors in this area.

## CCP Recovery and Resolution Regulation

THIS AFFECTS	Investors subject to clearing mandate; investors choosing to clear products voluntarily; market ecosystem – CCPs, clearing members
NOV 2016	European Commission initiated a legislative proposal on CCP recovery and resolution to put into EU law globally agreed PFMI standards.
FEB 2021	The EU’s Recovery and Resolution Regulation takes effect although much of the underlying detail of the framework is still to be decided.
MAY 2022	ESMA published Regulatory Technical Standards on compensation of clients in the event a CCP enters into recovery measures or requires resolution.

To address the challenges posed by the growing importance of CCPs, and the potential risks for financial stability were a CCP to fail, the European Commission initiated a legislative proposal on CCP recovery and resolution in November 2016, which entered into force in February 2021, with the majority of provisions applying from August 2022. The aim of the Regulation is to ensure that both CCPs and national authorities in the EU have the means to act decisively in a crisis scenario. The Regulation aims to preserve the critical functions of EU CCPs while maintaining financial stability and helping to protect taxpayers from the risk of a government bail-out. BlackRock has engaged to ensure the interests of end-investors are similarly protected.

Reforms implemented post-GFC to shift the OTC derivatives market to a centrally cleared structure proved effective during the testing market conditions of March 2020. While no CCP came close to failure during the COVID pandemic-related market stresses, CCPs can and occasionally do fail. Generally agreed principles and broadly adopted rules around the structure of and obligations created by the CCPs’ rulebooks, and the roles and responsibilities of public authorities charged with resolving CCPs, are therefore important.

### Key features

- BlackRock has called for regulatory action to make CCPs safer and to propose a step-change in how the market deals with CCP failure. We see this advocacy as a key part of our fiduciary duty towards clients who are required to clear by law or choose to clear through CCPs voluntarily.
- In the spirit of ensuring ongoing financial stability in times of market disruption or crisis, we have sought to better align incentives between CCPs and market participants and ensure that clearing member and end-user liabilities are limited and manageable.
- Our recommendations address key elements of the resilience of a CCP, with an emphasis on ensuring that CCPs are subject to appropriate risk management standards, including enhanced transparency and more conservative margin models. CCPs should also have sufficient financial resources in place to reduce the likelihood of ever needing to enter a recovery or a resolution process. Finally, CCPs capital structured to fully align risk management incentives.
- We also make recommendations on the recovery and resolution of CCPs, to ensure that they are optimally structured to make sure the market remains resilient in the unlikely event of a meaningful disruption.

### Implications for clients

The EU’s CCP recovery and resolution framework recently entered into force after several years of discussion and debate. The framework will be beneficial in terms of financial stability and investor protection, but there are several important outstanding technical details will require further work by ESMA throughout 2022.

One such element is to work out how end-investors would be protected were a CCP to fail, and calls made upon their variation margin to restore the CCP. Another area is to determine the scope of non-default losses for which the CCP ought to be responsible. This sits alongside very important technical specifications to ensure the European CCP recovery and resolution framework is operational and balances the interests of systemic stability and the users of CCPs, who are ultimately end-investors.

BlackRock will engage with policy makers towards to ensure the voice of the ultimate end-user of CCPs – end-investors – is represented and considered.

## Clearing location in a post-Brexit context

<b>THIS AFFECTS</b>	<b>Investors subject to clearing mandate; investors choosing to clear products voluntarily; market ecosystem – CCPs, clearing members</b>
<b>SEP 2020</b>	The European Commission adopted a time-limited equivalence decision for UK-based CCPs up until June 2022.
<b>NOV 2021</b>	Commissioner Mairead McGuinness announced her intention to seek an extension to equivalence to begin work on clearing capacity building in the EU.
<b>FEB 2022</b>	Latest equivalence determination published.
<b>Q3 2022</b>	EMIR targeted legislative proposal

The City of London has established itself as a leading global centre of trading and clearing of derivatives. Although UK-based CCPs continue to clear Euro derivative contracts in significant volume, UK-based CCPs now operate outside of the EU Single Market and the EU's regulatory framework governing financial services. To address related financial stability risks arising from this fragmentation, the European Commission has stated that the EU's own clearing capacity must be expanded to provide investors with a choice of where to clear.

The EC established a Working Group (together with the European Central Bank, the European Supervisory Authorities, and the European Systemic Risk Board) in 2021 to explore the opportunities and challenges involved in transferring derivatives from the UK to the EU. BlackRock participated in this work to represent the view of end-investors.

The EC learnt from this group that a combination of different measures – to improve the attractiveness of clearing, to encourage infrastructure development, and to reform supervisory arrangements – are needed to build a strong and attractive central clearing capacity in the EU in the years to come. The EC found that the timeframe of June 2022 was too short to achieve this and therefore extended the equivalence decision for UK CCPs. It has further consulted on how to increase clearing capacity within the EU, and on building and strengthening EU-level supervision.

## Key features

- From the very start of Brexit discussions, the central clearing of trades was identified as an activity where financial stability risk could be significant, in the event of an abrupt disruption of access of EU participants to UK-based CCPs.
- In September 2020, the EC adopted a time-limited equivalence decision for UK-based CCPs until 30 June 2022 to avoid such a cliff-edge scenario, which was further extended for another three years in late 2021.
- Before there are comparable clearing options in the EU to clear products and CCP equivalence can be safely unwound, measures to make the EU more attractive as a competitive and cost-efficient clearing hub will be needed to incentivise an expansion of central clearing activities in the EU.
- As part of this process, the European Commission will explore ways to enhance liquidity in EU CCPs and to expand the range of clearing solutions on offer from EU infrastructures.

This proposed way forward strikes a balance between safeguarding financial stability in the short and medium terms. An equivalence decision avoids an immediate cliff-edge for EU market participants and the longer-term strategic capacity building work is aimed at reducing over-reliance on a third country. While this is enough time for a legislative review, it is much more uncertain if it is enough time to achieve a reduction in UK CCP exposure.

## Implications for clients

BlackRock prefers to connect with multiple CCPs with robust, viable risk and operational models to provide the optimal clearing experience for our clients, Europe's asset owners. Whilst we reject any form of mandated location which constrains client choice, we are supportive of a market-led approach to improve the attractiveness and capacity of EU CCPs. This should be complemented by measures to increase the scope of clearing-eligible contracts in a secure and cost-efficient manner, to create genuine choice for Europe's end-investors.

Our expectation is that clients will have greater choice of where and what to clear in the medium to long term. More products will eventually be scoped into the European clearing mandate and we expect that more institutions, such as pension funds, will be eventually be required to clear.

## LIBOR transition

THIS AFFECTS	Financial services industry at large; corporate issuers; retail and institutional investors
JUL 2017	FCA announced it will not compel panel bank submissions as of end-2021, effectively ending LIBOR.
JUL 2018	The first over-the-counter swaps linked to the new US secured overnight financing rate (SOFR) traded and cleared.
DEC 2021	LIBOR cessation (but USD LIBOR ceases end-June 2023)

Following the rate-fixing scandal that came to light in 2012, substantial improvements had been made to LIBOR, a benchmark used as a reference rate in a wide range of wholesale and retail financial products, the total notional outstanding value of which once exceeded USD 240 trillion. The dialogue evolved further over the course of several years from reform of pre-existing rates to replacement with Alternative Reference Rates (ARRs).<sup>11</sup>

The transition from LIBOR gathered pace with the Financial Conduct Authority (FCA) announcement of the formal end to most LIBOR rates by the end of 2021. All sterling, Euro, Swiss Franc and Japanese Yen denominations of LIBOR ended on 31 December 2021. Overnight 1-, 3-, 6-, and 12-month USD LIBOR will come to an end on 30 June 2023.

Regulators have consistently emphasised the need for active transition and, alongside national working groups, have issued guidance and have put in place measures to help with transition.

BlackRock is supportive of the transition from IBORs to identified risk-free reference rates across jurisdictions, where we believe the greatest liquidity will exist. We acknowledge that there is no one-size-fits all solution and modified versions of the recommended reference rates, as well as alternatives to them, may be appropriate in some cases.

However, we continue to caution against a highly fragmented market, which would result in increased costs for end-investors. Understanding the differences between IBORs and alternative reference rates will allow for appropriate, informed portfolio management decisions. BlackRock continues to shift processes to incorporate alternative reference rates (ARRs) as standard practice going forward and are supportive of industry initiatives that do the same.

## Key features

- A major concern has been the management of pre-existing positions referencing LIBOR (so called ‘tough legacy’ positions). In USD LIBOR alone, at least \$36 trillion in outstanding notional has not matured prior to 2022.
- The ARRs are not direct substitutes for LIBOR. The differences need to be considered as market participants decide whether and how to adopt them.
- The market will ultimately determine the pace of ARR adoption based on liquidity and the compatibility of ARRs with various asset classes.
- Financial transactions do not exist in isolation. The relationships between assets in a portfolio must be handled with care to avoid disruption.

## Implications for clients

BlackRock has engaged with clients on changes to performance benchmarks and discussed the appropriate replacement rates for each client portfolio during the transition.

Clients should continue to engage their investment advisors regarding finalising replacement benchmarks and the related documentation prior to relevant benchmark cessation.

## A Step Forward for Capital Markets in Europe

**“Innovators, large and small [...] need access to capital, they need encouragement, and they need certainty around finance for the future. And we believe that this package will deliver that.”**

Mairead McGuinness, November 2021, European Commissioner for Financial Stability, Financial Services and the Capital Markets Union

In 2014, Commission President Jean-Claude Juncker set out the long-term ambition to deepen and to better connect individual European capital markets into a true EU-wide Capital Markets Union (CMU). The primary aim of the initiative at the time, on the heels of the EU banking crisis, was to promote a diversity of funding sources for European companies: to enhance EU capital markets’ ability to provide a real complement to bank finance in Europe.



In recent years, against the backdrop of Brexit and a more complex geopolitical environment, the CMU has shifted from being a ‘nice to have’ initiative in the minds of many policymakers to become politically essential to help reduce dependence on non-EU capital markets, and to fund the EU’s COVID recovery and green and digital revolutions.

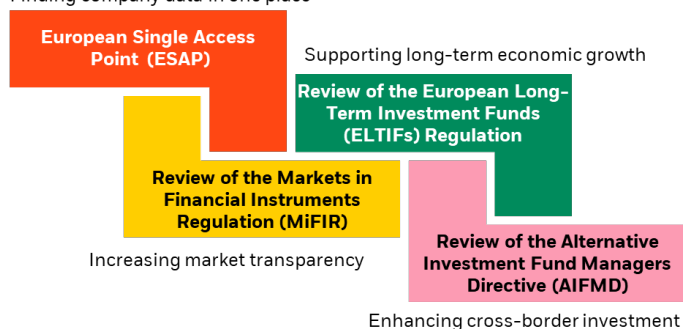
The project has always been an umbrella for a number of specific legislative and regulatory initiatives which are bound together by the broader political objective of promoting the growth of EU capital markets. Below, we outline some of the key initiatives currently under consideration by EU policymakers.

The current Commission took stock of progress made under the previous legislative term, and in 2020, set out a refreshed agenda to define additional areas of focus and further policy measures to achieve the aims of the project. Alongside legacy issues like insolvency law and tax harmonisation, further development of EU market infrastructure and updates of the regulatory framework for important investment vehicles like the European Long-Term Investment Fund (ELTIF), the current Commission has expanded the agenda to include ‘improving the plumbing’ of markets, as well as growing capital markets in two important ways:

- First, there is a clear focus on improving the pathway to public listing for EU companies, with a potential EU Listing Act seeking to make listing an attainable and attractive financing option for a wider range of companies, and;
- Secondly, the Commission has placed a greater emphasis on growing retail investor participation as a way to deepen capital markets and to ensure that the potential wealth-generative effects of more capital markets activity are spread across a wider segment of the population.

In September 2020, the Commission’s renewed Action Plan set out sixteen legislative and non-legislative actions to finalise the creation of the CMU. In November 2021, the Commission followed up with four legislative proposals to deliver on this, as reflected below.

Finding company data in one place



BlackRock supports the EU’s ambition to create a Capital Markets Union and has contributed to these efforts through a wide range of white papers; consultation responses; engagement with policymakers on individual legislative initiatives; and participation in the Commission’s High Level Forum advisory group in 2020. Our recommendations for policy initiatives to pursue the aims of the CMU can be found in our 2014 ViewPoint [The European Capital Markets Union: An investor perspective](#) and our 2019 ViewPoint [Putting the capital in the European Capital Markets Union](#).

## Retail investor engagement

THIS AFFECTS	Financial services industry at large; retail investors; financial advisors and distributors
JAN 2022	ESMA’s call for evidence on retail investor protection closes.
H1 2023	European Commission adopts its Retail Investment Strategy.
2023	European Commission may propose legislative reviews, including MiFID II.

**41%** of non-investors in Europe find information about investing difficult to understand.<sup>12</sup>

The European Commission is looking at ways to increase retail investor participation in European capital markets, acting upon the recommendations of the 2020 CMU High Level Forum. In particular, it is due to adopt this year a comprehensive Retail Investment Strategy aimed at increasing consumer protection and confidence in markets, as well as ensuring better investment outcomes for EU citizens.

In 2021, to look at the effect of EU legislation across the board, the Commission conducted a public consultation,<sup>13</sup> commissioned two external studies<sup>14</sup> and asked EU regulators for technical advice<sup>15</sup> on a wide-ranging set of retail investment issues such as inducements, product governance, disclosures, online brokerage, robo-advice and open finance. Following this intelligence gathering phase, it will publish an action plan that is expected to recommend several regulatory reviews, including of the Markets in Financial Instruments Directive (MiFID), the Packaged retail and insurance-based investment products Regulation (PRIIPs), the Insurance Distribution Directive (IDD) and possibly the Undertakings for the Collective Investment in Transferable Securities Directive (UCITS).

## Key features

- **Online brokerage** will be under the spotlight, with retail investors increasingly using new business models to directly access capital markets, amid concerns that practices such as Payment for Order Flow (PFOF) have led to speculative trading in so-called “meme-stocks” (see Zero-Commission Trading box opposite).
- **Open finance** and consumer data sharing will also be on the agenda, as the European Commission is keen to foster competition between providers, somewhat emulating the open banking paradigm introduced in 2018 for payments services.<sup>16</sup>
- **Disclosures** will be addressed, with policymakers looking beyond the ongoing implementation of PRIIPs to consider a more interactive digital approach to the EU’s Key Information Document (KID).
- **The payment of sales commission or inducements** is likely to continue to attract a lot of attention, with increasing calls by consumer bodies for an outright ban on commission-based financial advice.

We expect increased focus on how product manufacturers (such as insurance companies, asset managers), distributors and advisors put the interests of clients at the centre of their business processes and prove the value they provide. In parallel, we see an ever-increasing need for financial education and greater consumer choice. As we move towards a digital-first era, client interactions and disclosures will also need to be revamped to improve the ease of market access. Finally, the growth in innovative solutions and business models is crucial to engaging the next generation of retail investors, leading regulators to adapt supervisory practices to reflect new tools, trends and technologies and ensure continued trust in markets.

BlackRock strongly supports the Commission’s initiative to increase consumer participation in capital markets, and to ensure these consumers can do so with confidence and trust. Alongside the investor protection framework, we encourage the Commission to consider additional steps to empower consumers. As well as an increased focus on financial literacy, we strongly encourage the Commission to consider promoting financial capability to fill the gap between generic financial education and the product sales process with the aim of empowering consumers to assess holistically their financial position and to support a lifetime plan to develop their financial health and resilience.

## Zero-commission trading

- Online platforms, so-called neo-brokers, offering trading on a range of financial instruments on a minimal or no fee or commission basis have flourished in Europe in recent years. This reflects a deeper trend already observed in the US.
- Since the pandemic, millions of individuals have started using these services to access markets, trade single-stocks and/or buy shares of Exchange-Traded Funds (ETFs). Zero-commission brokers offer a real opportunity for retail investors to familiarise themselves with markets but some policy makers are concerned that the brokers’ underlying business models might not be fully aligned with the interests of end investors.
- The GameStop case of January 2021 highlighted potential issues: some US trading platforms reliant on Payment for Order Flow (PFOF) restricted retail traders’ ability to place buy orders of GameStop during the ‘short squeeze’. In response, a number of European regulators questioned the legitimacy of business models using PFOF and other practices due to the risk of potential conflicts of interests and reduced execution quality. This ultimately led the European Commission to propose a full ban on the practice in its November 2021 MiFIR review proposal.
- BlackRock believes neo-brokers can offer innovative market access solutions that empower new categories of investors to engage with markets. The models they use, however, may present potential conflicts of interests that should be managed through existing regulatory safeguards including rules on best execution, inducements, and transparency. We also recognise that some jurisdictions have made clear that they do not permit PFOF models.

## AIFMD Review

<b>THIS AFFECTS</b>	<b>Financial services industry at large; retail investors; financial advisors and distributors</b>
<b>OCT 2020</b>	European Commission publishes a public consultation on the review of the Alternative Investment Fund Managers Directive (AIFMD).
<b>NOV 2021</b>	Legislative proposal to amend existing legislation is published.
<b>End 2022 / Early 2023</b>	Negotiations between European Commission, European Parliament and Council on legislative text expected to conclude.

The Alternative Investment Fund Managers Directive (AIFMD), was introduced in 2011 with the goal of creating a single market for alternative investments with a common rulebook to ensure that

- investors were protected and had a single point of access, and that
- systemwide risks would be monitored in a more cohesive way

The AIFMD underwent a significant review in 2021, to test if it was still fit for purpose and to see how well it had addressed national regulatory inconsistencies, financial leverage in the financial system, and the appropriate protection of investors.

The AIFMD governs the management of a wide range of investment vehicles in Europe, other than undertakings for collective investment in transferable securities (UCITS). It focuses on regulating the fund managers rather than detailed rules on the products themselves. The Directive covers a number of areas including marketing, conduct requirements for alternative investment funds managers (AIFMs), depositary functions, reporting on leverage, liquidity and risk management, and capital requirements.

Following a multi-step review of the scope and application of the AIFMD (see Exhibit 1), the Commission published its legislative proposal in November 2021. It also includes changes to the UCITS directive in areas where the Commission had identified overlapping issues.

The proposal acknowledges that the AIFMD has been largely successful in creating a single market for alternative

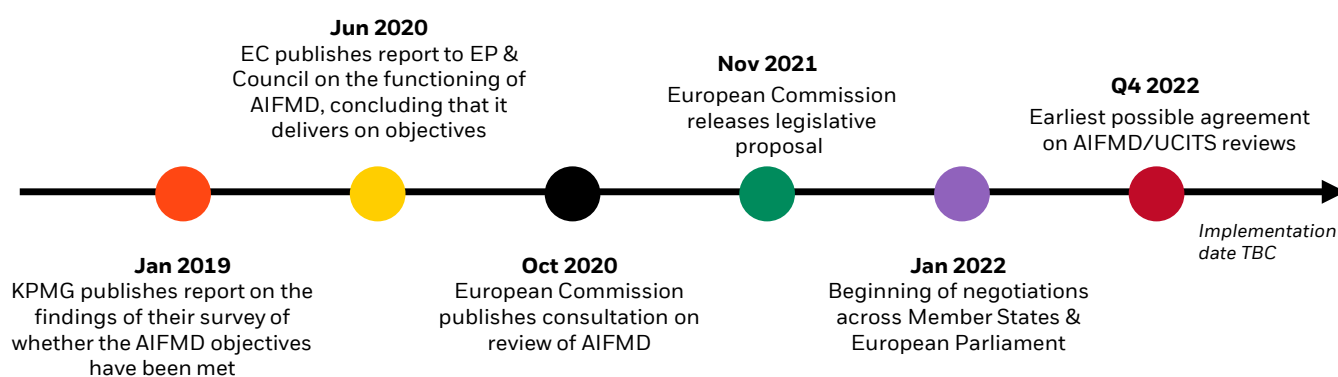
## What is the difference between an AIF and a UCITS fund?

Undertakings for collective investment in transferable securities (UCITS) refers to the regulatory framework through which funds can be sold to retail investors across Europe. These make up the majority of investment products in the EU, making up 75% of all collective investments by small investors in Europe.<sup>17</sup> This would include mutual funds, exchange traded funds (ETFs), and money market funds (MMFs). These funds are typically more liquid and are open ended.

Alternative investment funds (AIFs) refer to the remainder of collective investment products, which are designed for professional investors. They include a broad range of open and closed ended structures such as hedge funds, private equity funds, real estate funds, private credit funds and more. As these are targeted towards either institutional or more experienced individual investors, these funds are typically less liquid and are held for longer amounts of time. It also covers funds sold to retail investors set up individual national regimes outside UCITS.

investment funds, concluding that the focus should be on enhancements to the regime, rather than an overhaul. This shows how effective the framework has been when compared to the fragmented state of the alternatives market pre-AIFMD.

### Exhibit 1: Timeline of AIFMD Review process



## Key features

### Liquidity management tools (LMTs)

- The amended text requires Member States to make available a full range of LMTs, ranging from suspensions of redemptions and subscriptions, dealing gates to swing pricing as well as other targeted tools.<sup>18</sup> Managers of open-ended AIFs will be required to choose at least one LMT, in addition to the possibility to suspend redemptions, and will need to notify their NCA when these tools are used. BlackRock welcomes the proposal to harmonise the availability of LMTs across the EU, reflecting our longstanding call improve the ability of managers to manage liquidity risk in funds. We encourage policymakers to focus on enhancing and automating the data reporting from managers to NCAs, and regulatory cooperation between NCAs. We support reporting on the use of LMTs in extreme market conditions such as suspensions and gates rather than on the tools used by managers on a routine basis (e.g. swing pricing).

### Supervisory reporting

- The Commission has proposed to develop a standard notification process to national regulators to reduce duplicative reporting and harmonise national reporting templates.
- BlackRock supports the Commission's intention to enhance reporting efficiency and ensure the relevant collection of data. Efficient data collection is pivotal to helping regulators stay abreast of developing risks in the financial system, protecting market integrity and consumers. Increased coordination and partnership between NCAs will be a necessary support to this. We believe the proposals should also recognise the need to minimise duplicative reporting and reduce the burden of data reporting on industry, as set out in the European Commission's Supervisory Data Strategy in December 2021.

### Management substance and oversight of delegated activities

- The text recognises the benefits to investors of being able to access specific management skills sets across the world under the fund delegation regime, provided NCAs have meaningful dialogue and oversight with the fund's management company. The proposal includes a minimum substance requirement and that they must demonstrate that they have appropriate technical and human resources to supervise delegates. It also proposes ongoing reporting to ESMA of certain delegation arrangements and peer reviews to ensure consistency of supervisory action. BlackRock believes that effective supervision of management companies requires ongoing review and discussion between firm and its NCA on the quality of ongoing oversight and governance rather than applying a formulaic approach to delegated activities.

## Loan originating funds

- The amended legislative text includes new reference to the ability to originate loans across borders, signalling recognition of the value of loan originating funds as an alternative method of debt funding for companies, a key component of the CMU.
- Alongside this cross-border activity, the Commission has proposed increased due diligence requirements and restrictions on the recipients and retention requirements on loan originators to maintain a high standard in the quality of loans created and prevent interconnectedness between financial entities.

## Client implications

The proposed amendments to the AIFMD present an opportunity to bolster investor protection, while encouraging the competitiveness of the EU's alternative funds industry, an important component of achieving deep European capital markets.

Negotiations between the European Parliament, the Council and the European Commission are expected to continue over the course of 2022, and an agreement could potentially be reached late in the year.

## ELTIF Review

THIS AFFECTS	Retail and institutional investors; financial advisors and distributors
NOV 2021	European Commission proposes to revised the ELTIF framework
2022	Ongoing negotiations in European Parliament and Council.
June 2022	European Parliament adopts its position, opening the way for the finale phase of negotiations with the European Commission and Council.

The European Long Term Investment Fund (ELTIF) has the potential to become the vehicle of choice for investments into Alternatives by European investors. Ensuring a robust fund structure to support access to private markets is a key component of the CMU, offering a way for professional and retail investors to invest in long-term growth opportunities in the EU and further afield. BlackRock sees increasing demands from investors, advisors, and distributors to invest patient capital in long-term assets such as private equity, real estate and infrastructure, in ELTIF-type structures. The Commission's proposal to review the existing ELTIF framework therefore offers a unique chance to ensure the ELTIF delivers for European businesses and citizens alike. Building on the CMU High-Level Forum's recommendations, the Commission is proposing adjustments to ensure ELTIFs are sufficiently safe, flexible, and scalable to increase their uptake throughout Europe.

## Key features

The proposed changes are two-fold:

- 1) **Adding clarity and flexibility to investment rules** – broadening the scope of eligible assets, reviewing investment limits, allowing co-investments and the set-up of fund-of-funds for professional-only ELTIFs;
- 2) **Simplifying distribution** –replacing the cumbersome ELTIF entry-ticket rules by aligning distribution rules with those for other ‘complex’ products under MiFID and utilising existing European standards for the cross-border distribution of funds.

We are confident that these changes can contribute to unlocking the potential of ELTIFs.

In our view, a limited number of further reforms could go a long way to underpin the success of ELTIF, namely:

- **Allowing all ELTIFs to adopt fund-of-fund structures**, as the possibility to diversify and gain access to specific asset classes, sectors and geographies should be of benefit to all investors, not only to professionals
- **Offering more opportunities for investors to redeem** via ongoing liquidity windows, subject to appropriate liquidity management safeguards, and providing more flexibility as regards lock-in periods
- **Moving away from mandatory fixed-maturity structures**, to allow capital to be continuously invested, making ELTIF the ideal structure to fund companies along their entire life cycle
- **Recognising that a wider set of securitisation vehicles provide long-term funding**, as opposed to only considering STS-type securitisation as eligible assets

## Implications for clients

The ELTIF Review provides European policymakers a window of opportunity to significantly progress the CMU and empower investors with an investment vehicle to contribute to Europe’s digital and green transitions, infrastructure renewal and wider economic recovery.

## European Single Access Point (ESAP)

THIS AFFECTS	Listed and non-listed entities, retail and institutional investors; banks and broker dealers
NOV 2021	European Commission publishes level 1 legislative proposal for ESAP.
2022	Ongoing negotiations in European Parliament and Council.
DEC 2024	ESAP to be established by year end.

The European Single Access Point (ESAP) is a key deliverable in the European Commission’s plan to further develop the EU Capital Markets Union. Today, the financial and non-financial information reported by European companies is fragmented, with much of it available only directly from the companies themselves, or aggregated by third party private data vendors.

The ESAP proposal is an attempt to create a single data portal, maintained by ESMA, for investors and other users to be able to access the data of all European companies in a single place; in effect a European version of the US Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. To accomplish this, the ESAP proposal seeks to harmonise the way that companies report both financial and non-financial data, how national entities (e.g. supervisors or business registers) collect it, and to make it all accessible and searchable at a pan-EU level.

The Commission’s ESAP proposal was adopted in November 2021 and is expected to be discussed and adopted by the European Parliament and Council over the course of 2022. Under the proposal, the ESAP would be operational by the end of 2024.

## Key features

- The ESAP will provide public and timely access to financial and non-financial information that companies have to report under existing EU legislation, including the Taxonomy Regulation, the Short Selling Regulation, and the Market Abuse Regulation.
- It will apply to all entities (listed, non-listed, and SMEs), and they will have the ability to submit additional voluntary disclosures of financial, sustainability-related and other relevant information.
- It will be free of charge, except for ‘power-users’ who access the data very frequently or in high volumes.
- It is proposed to be operational by 31 December 2024 – providing information available from January 2021 onwards.

## Implications for clients

BlackRock is a strong supporter of the ESAP initiative and believes that it will be significantly additive to European capital markets. A successful ESAP will be of great benefit to asset owners and asset managers, who would be able to directly access a wide range of reported company information without charge, and to many companies, especially smaller companies or those from smaller markets who would be able to make themselves more visible to a wider cross-border investor base via the portal.

## Markets in Financial Instruments Regulation (MiFIR)

THIS AFFECTS	Retail and institutional investors; banks and broker dealers; stock exchanges
JAN 2018	MiFID II / MiFIR takes effect proposing several changes to European market structure including a consolidated tape for equities and equity-like products.
DEC 2019	As no consolidated tape has materialised, ESMA recommends the establishment of real-time consolidated tape in equities and ETFs in the EU. Meanwhile, the case builds to consider a consolidated tape in bonds.
NOV 2021	The European Commission proposes a real-time consolidated tape in equities, ETFs, bonds, and derivatives as part of the CMU package.

Under MiFID II and MiFIR, which took effect in 2018, a consolidated tape of European trading data was proposed to address the significant fragmentation of Europe's trading landscape, itself a by-product of increased competition among trading venues created by MiFID a decade earlier.

Regrettably, a provider for a consolidated tape still has not come forward, although a framework was established under MiFID II by which one could do so. As a result, investors in European assets – large and small – today remain disadvantaged compared to other developed markets such as the US, since it is still difficult to answer two simple questions in relation to European equity trading:

- What is the price of a stock?
- How many shares have been traded?

The situation is replicated in other securities and investment vehicles such as bonds and ETFs.

The proposal for the revised MiFIR framework, published in late 2021, seeks to address this gap in European market structure and de facto impediment to retail investing in Europe's capital markets.

### Key features

- The Markets in Financial Instruments Regulation (MiFIR) is one part of the wider MiFID legislative framework governing EU market structure.
- The adoption of a consolidated tape has been long debated but has still not materialised, principally due to ongoing issues with data costs and quality and a lack of commercial incentives for private operators to set up as data consolidators.
- Although the political conditions (CMU) and legislative opportunity (revision of MiFIR) now align to deliver the tape, the proposals to do so are controversial particularly

## Payment for order flow (PFOF) in MiFIR

The MiFIR proposal also proposes to restrict the use of Payment for Order Flow practices by digital platforms. While BlackRock does not comment on the business model of individual platforms/brokers we recommend a wider review of the increasing use of digital platform by retail investors around four principles of increasing market access, transparency (around costs of trading, any inducements paid and the quality of best execution delivered), supporting market innovation which benefits consumers and the ongoing need for financial education to consumers on trading and investment.

for stock exchanges and data vendors – political negotiations are likely to be protracted.

- In the meantime, the EU will remain one of the last globally significant capital markets without an aggregated view of trading in major asset classes, which we consider to be a structural disadvantage.
- A consolidated tape in equities, ETFs and bonds is a cornerstone initiative of the Capital Markets Union (CMU) package. A pre- and post-trade tape would provide several advantages to retail investors, European companies and for regulators and market operators. Retail investors should have timely and accurate information about the best trade prices and quotes which occurred in the market. This will create competitive pressures so that retail investors cannot remain structurally disadvantaged compared to wholesale players, as the use of online investment tools grows. A consolidated tape delivers this.
- The absence of a tape holds back investment in EU companies since liquidity providers find it harder to enter the markets and commit their risk capital in the absence of transparent and cost-effective data.
- The tape would also enable better supervision and regulatory oversight of European capital markets by providing real-time, up-to-date information on the state of financial market flows.

### Implications for clients

A pan-European pre- and post-trade consolidated tapes would benefit Europe's end-investors by providing retail and institutional investors alike with a single authoritative price at which stocks trade in Europe.

It would also potentially promote improve liquidity, and benefit European issuers by lowering the cost of capital and represent a meaningful step towards completing the Single Market in financial services.

## CSDR Review of Mandatory Buy-In

THIS AFFECTS	All investors; Market ecosystem; Market infrastructures
FEB 2021	European Commission concludes a public consultation to review certain aspects of the CSDR, including its approach to mandatory buy-in
JUL 2021	The Commission confirms that will conduct an impact assessment of the current MBI regime, with a view to making changes.
DEC 2021	ESMA confirms that the MBI provisions will be separated from the wider settlement discipline regime and will not enter into force, as had otherwise been the case, in February 2022

The Central Securities Depository Regulation (CSDR) aims to reduce trade settlement failure in Europe by improving and harmonising the settlement ecosystem (based around Central Securities Depositories, or CSDs) and encourages financial institutions to change settlement behaviour. The Regulation aims to achieve this via:

- **Penalty regime.** Daily cash penalties for failed settlement would be paid by failing participants to suffering participants via the CSD.
- **Mandatory buy-in (MBI).** If a trade does not settle within a specified timeframe, the buyer is mandated to source the security from a 3rd party buy-in agent.
- **Pre-settlement requirements.** Introduces processes to prevent trade settlement failure by improving and harmonising the CSD infrastructure in Europe.

Regulatory uncertainty regarding MBI has been a significant issue for the market throughout 2021. MBI is controversial because the implementation of the current rules would likely lead to reduced market liquidity, disproportionately increase costs for issuers and investors. The implementation would also be a considerable endeavour, requiring major technology and operational changes, as well as a large-scale global contractual repapering exercise, that would potentially need to be carried out twice, once before February 2022 and a second time after the review is completed. As well as increasing costs, this would have caused unnecessary disruption and legal uncertainty for both EU and non-EU investors.

## Key features

- Europe consists of multiple domestic depositories (CSDs) plus International depositories (ICSDs) all competing for business. This creates friction in the settlement system as assets move between depositories and high rates of settlement failure vs other developed capital markets.
- CSDR's settlement discipline regime (SDR) has two core objectives to: 1) support and encourage the harmonisation of depositories across Europe; and 2) to reduce risk to investors and European capital markets by reducing settlement failure. These objectives are widely supported by the market.
- However, MBI requirements are viewed by the market and many policy makers as overkill given their likely impact on market liquidity and the difficulties associated with operationalising the requirements.
- This explains the concerted and consistent pressure on the European Commission throughout the year to de-couple MBI from the penalties regime to more effectively achieve settlement discipline.

Following a public consultation in early 2021, the European Commission announced in June 2021 that it will conduct an impact assessment of the current MBI regime, with a view to making changes. The Review was released in March 2022, and focused, among other issues, on mandatory buy-in and broader settlement discipline regime measures.

In late 2021, ESMA confirmed the process by which the MBI regime would be de-coupled from the wider settlement discipline regime, ending months of uncertainty as to how to prepare for a regulation to take effect that could have had damaging unintended consequences for market liquidity.

## Implications for clients

BlackRock will continue to engage to ensure that the settlement discipline measures are proportionate vs. their potential impact on market liquidity and the related costs of trading.

## Capital markets reform in the UK

<b>THIS AFFECTS</b>	<b>All investors; Market ecosystem; Market infrastructures</b>
<b>JUL 2021-</b>	HMT considers reforms to the UK's regime for wholesale capital markets in Wholesale Markets Review consultation.
<b>NOV 2021 - FEB 2022</b>	HMT invite comments on their proposals for the future of the UK financial services regulatory framework, in the Financial Services Future Regulatory Framework Review.
<b>H2 2022</b>	Financial Services Bill expected to be introduced to Parliament.

On leaving the EU, the UK inherited a large body of retained EU law in primary and secondary legislation, overseen by Parliament. For financial services, this contains detailed and technical provisions typically overseen by regulatory authorities. With this in mind, HM Treasury has initiated the Financial Services Future Regulatory Framework Review (FRF), to revise the expanded responsibilities for strategic oversight, decision-making power, accountability and scrutiny of UK financial services law and regulation. At the same time, the FRF is re-considering the objectives and principles that underpin regulation.

A new Finance Bill is expected to be introduced to Parliament in the second half of 2022. It will move detailed EU law off the UK's statute books and into regulators' rulebooks. This will constitute a significant expansion in regulators' power, which the government is seeking to balance by strengthening mechanisms for HM Treasury direct and review financial services policy, continuing to be scrutinised by Parliament and a continued role for stakeholders – including industry – to provide opinions on upcoming and existing regulation.

The UK will have greater discretion over financial services policymaking than it has had previously. The government has been clear that robust regulation and adhering to international standards will continue to be paramount for UK financial services; but at the same time will seek to tailor and streamline regulation to better suit the UK as a standalone financial services centre.

To guide this process HM Treasury intends to update the objectives and principles that underpin regulation. Under current proposals, the UK will supplement existing the

primary' objectives of consumer protection, market integrity, and effective competition with 'secondary' objectives to promote long-term economic growth and international competitiveness. Importantly, HM Treasury have stressed that growth and competitiveness should not take precedence over the primary objectives, and that the UK's reputation in financial services hinges on high standards.<sup>20</sup>

This approach is evident in the recent Wholesale Markets Review, which concluded in March 2022, after taking views on how to tailor regulation for capital markets and market structure via amendments to the UK application of MiFID. . HM Treasury intends to introduce a series of targeted measures trading venues, equity and fixed income market structure, transparency and reporting, and data availability. Most consequential, however, is a commitment to introduce a consolidated tape of trading data for equities, fixed income, and ETFs.

### Implications for clients

BlackRock supports an approach that lowers regulatory burdens while maintaining high standards of integrity and market transparency. Reviewing the objectives underpinning financial services policy is an opportunity to re-focus regulation around the primary purpose of financial markets: funding the economy while providing end-investors a means of generating returns. We believe that secondary objectives for long-term growth in the sector could, in that regard, be linked to policies that encourage long-term savings and investment and in turn productive investment in the wider economy; and indeed that a new secondary objective formalizing a role for regulators to promote financial inclusion and wellbeing within the UK.

We also encourage a similar focus on outcomes for end-investors as the Wholesale Markets Review is implemented. Capital markets policy that focuses on building market depth, resilience and transparency through regulation that is proportionate and avoids fragmenting markets between jurisdictions will ultimately lower costs for end-investors. To that end we welcome the commitment to introduce consolidated tapes for the UK market. Implemented correctly, this will represent a meaningful addition to the UK's capital markets ecosystem, and help to promote transparency, liquidity, and better trade execution for end-investors.<sup>21</sup>



# Sustainable Finance & Investment Stewardship

The focus on the sustainability agenda across Europe has sharpened following recent events in Ukraine and the resulting spotlight on energy supply and security. Sustainability remains a central focus for Europe, but the additional considerations of working towards reducing reliance on Russian fossil fuels has both reinforced the strategic importance of building up renewable energy sources and brought the short-term supply trade-offs in the transition towards carbon neutrality into sharper focus. While this will remain a critical focus for European policymakers in the short term, it may not greatly alter regulatory reforms already in flight for sustainable finance.

## EU legislation coming into force: SFDR, MiFID Suitability, Taxonomy Regulation

THIS AFFECTS	All investors
JAN 2022	Taxonomy disclosures climate change adaptation and mitigation.
AUG 2022	MiFID suitability changes.
NOV 2022	MiFID product governance changes.
JAN 2023	Combined SFDR and Taxonomy RTS L2 plus Taxonomy disclosures under remaining 4 objectives.

The Commission’s 2018 Action Plan on Financing Sustainable Growth set out a number of policy measures to make sustainability considerations an integral part of the EU financial policy landscape and propel European financial markets towards the objectives set by the UN 2030 Agenda for Sustainable Development and the Paris Agreement. This included proposals to require sustainability-reporting across all European financial products and market participants, to revise the pan-European framework of ESG corporate reporting; to enable investors to express their sustainability preferences in the advice process; and to establish a common framework for identifying the environmental sustainability of specific economic activities.

The implementation of the Sustainable Finance Disclosure Regulation (SFDR) Level 2 measures, the EU Taxonomy Regulation (TR) and the changes under MiFID II are top of mind for many investors as implementation is underway and remaining deadlines are approaching rapidly.

In January 2022, the Level 1 Taxonomy requirements started to apply, which set out high-level disclosure requirements for the first two environmental objectives – climate change mitigation, and adaptation – for European companies and for certain financial products. More granular disclosures (quantitative and qualitative) for all

## Applying the EU Taxonomy in developing standards and labels

Beyond its use as a disclosure framework both for corporates and for certain investment products, the EU Taxonomy is intended to be used as the basis for further policy development. For example, the taxonomy is the basis for two important labelling initiatives currently in development at EU level:

- The EU Green Bond Standard (GBS) is a proposed best-in-class label for green bonds issued by companies and governments. The activities eligible to be funded correspond to those set out in the EU taxonomy. Negotiations are currently under way between the EU co-legislators (the European Parliament, as well as the EU Member States via the European Council) with an agreement expected in 2022. Under discussion are key issues such as the applicability of the standard (to all green bonds issued in Europe on a mandatory basis, or for use as a best-in-class opt-in framework for green bond issuances?), as well as the level of flexibility around the use of proceeds for Taxonomy activities.
- The Ecolabel is an effort to develop a pan-European best-in-class label for ‘green’ retail investment products. Built on the ‘brand’ and the governance framework of the EU Ecolabel (which is applied to, among other things, consumer goods, household and cleaning products), the application of the label to financial products could lead to a truly pan-European best-in-class label for ‘green’ investment products. Discussions on finalising the criteria have been ongoing since 2019 and a proposed framework could be published in the course of 2022.

financial products are expected early next year when the combined Regulatory Technical Standards (RTS) under SFDR and TR will enter into force. These disclosures will likely become critical decision-points for many investors over time, underpinning further transparency and help substantiate the sustainability credentials of many investment products.

Disclosures under the SFDR and TR will form an important base for the upcoming MiFID suitability rules for the advice and distribution market. These rules will come into force in August 2022 (note: before the full suite of SFDR and TR Level 2 rules are expected to apply from January 2023), and require advisors and distributors to take account of detailed client preferences for products with specific thresholds of underlying ‘sustainable investments’ and ‘taxonomy alignment’, or for products considering ‘principal adverse sustainability impact’ characteristics.

BlackRock believes these new frameworks will help end-investors make better informed decisions, although we recognise the implementation challenges which will require asset managers and distributors to collaborate closely. We are hopeful that in the course of the year, the moving pieces of the new frameworks will come together and underpin the development of the European sustainable investment landscape moving forward.

## Renewed Sustainable Finance Strategy

<b>THIS AFFECTS</b>	<b>Retail and institutional investors, SMEs, asset managers, distributors</b>
<b>JUL 2021</b>	EC publishes Renewed Sustainable Finance Strategy.
<b>DEC 2023</b>	EC to report on the Strategy's implementation by end of year.

In July 2021, the European Commission published its Renewed Sustainable Finance Strategy, setting out the forward policy agenda in sustainable finance. Building on the 2018 Sustainable Finance Action Plan, the strategy sets out a roadmap to further the key aims of the Commission’s objectives: help finance the transition, strengthen the financial sector’s resilience to sustainability related risks, and combat greenwashing.

The new roadmap lists a series of policy commitments, evidencing the Commission’s increased ambition on Sustainable Finance. The strategy proposes measures in four different areas: transition finance, inclusiveness, resilience and contribution of the financial system and global ambition. We highlight a few measures below that will impact our clients, selected from a much more comprehensive list.

### Product framework

Further defining the sustainable product framework created by the SFDR, the Commission sets out the objective of developing additional product (or instrument) standards and labels, for example:

- The potential creation of a minimum sustainability criteria for financial products that promote environmental or social (article 8 funds under SFDR)
- Work on other bond labels such as transition or sustainability-linked bonds, an ESG Benchmark label, or an ESG investment fund label to complement the Ecolabel for ‘green’ products

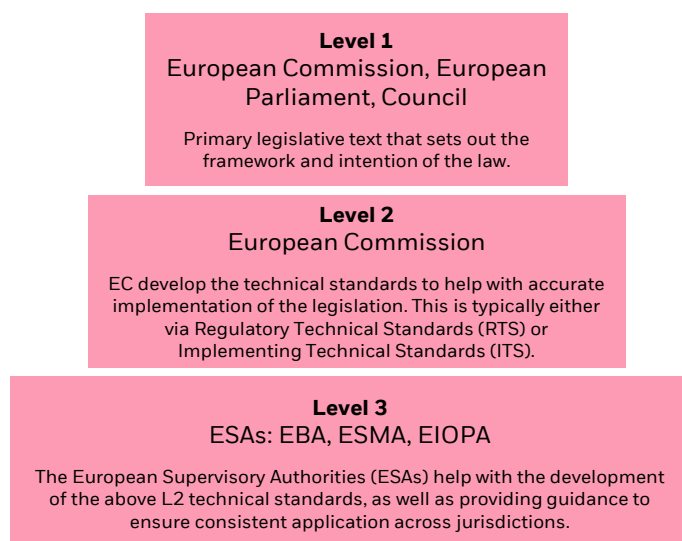
### Taxonomy

Turning the taxonomy into a more comprehensive reference framework remains a priority for the EU. The Commission may look to complement the existing elements of the Taxonomy which focus on “green” with a clearer treatment for ‘transition’ related activities, a framework to classify economic activities that significantly harm environmental sustainability aims (“significant harm”), those that are neutral to the environment, as well as with a social taxonomy. In the first quarter of 2022, the EU Platform on sustainable finance, the permanent expert group tasked to advise the European Commission, released several reports related to the taxonomy. The reports -which do not bind the European Commission- covered the draft technical screening criteria for the four remaining environmental objectives of the EU Taxonomy (in addition to climate change mitigation and adaptation), a proposal for environmental transition taxonomy and recommendations on social taxonomy.

## Conduct

Beyond transparency, the EU's sustainable finance policy efforts look at sustainability risk management through a conduct lens. Level 2 changes to the investment and risk management and governance requirements within UCITS, AIFMD, MiFID and IORPD are already taking effect in 2022. The Commission will propose to extend this concept into the banking and insurance sectors through changes to the Capital Requirements Directive and Solvency II Directive to ensure that ESG factors are consistently included in risk management systems.

## Exhibit 2: The Lamfalussy process for financial services regulation



## Implications for clients

The EU's sustainable finance policy agenda aims to achieve sustainable and inclusive growth for investors, while managing the investment risk that arises from climate change and broader environmental, social and governance issues. By integrating the concept throughout the regulatory framework, this ensures the growth of sustainable finance in Europe is underpinned by a strong foundation. We will continue to engage with policymakers, industry and clients to support a pragmatic framework.

## Issuer sustainability reporting: Increasing the quality and availability of sustainability data

THIS AFFECTS	Listed companies, including financial sector firms and listed SMEs and large unlisted companies (CSRD). All UK registered companies, as well as asset managers and certain FCA-regulated asset owners (SDR). Users of ESG data, including investors and investment product providers.
APR 2021	European Commission legislative proposal for Corporate Sustainability Reporting Directive (CSRD) published - previously known as the Non Financial Reporting Directive.
OCT 2021	The UK Government published a Roadmap to Sustainable Investing, including a Sustainable Disclosures Requirements (SDR) regime.
NOV 2021	IFRS Foundation announced the launch of the International Sustainability Standards Board (ISSB).

The availability of high-quality data on issuer sustainability is key to helping to inform investors and to supporting the informed allocation of capital to companies and assets that are effectively managing their sustainability impacts and risks. To this end, the Commission's proposed Corporate Sustainability Reporting Directive (CSRD) outlines sustainability reporting requirements for both listed and unlisted firms. The UK Government has similarly published plans for a Sustainable Disclosure Requirements (SDR) regime, and the IFRS Foundation launched the International Sustainability Standards Board (ISSB), to develop a global baseline of reporting standards.

## EU

Published in April 2021, the Commission's CSRD proposal requires all listed companies and large private companies to report both on how sustainability issues affect their performance, position and development (financial materiality), as well as their impact on people and the environment (environmental & social materiality). By requiring companies to provide primary source information for disclosures, CSRD also underpins the reporting and disclosures under the SFDR and the EU Taxonomy Regulation (see pages [17](#), [18](#)).

Negotiations between the Commission, Council and Parliament took place through H2 2022, to agree the final text of CSRD. Meanwhile, the work of defining the specific reporting standards companies will need to comply with is undertaken by the European Financial Reporting Advisory Group (EFRAG), working closely with the Global Reporting Initiative (GRI) and maintaining a constructive exchange with the ISSB. These standards will include information on environmental factors aligned with the six objectives of the EU Taxonomy Regulation (see page 18), among other ESG factors, and take account of existing reporting standards and frameworks. BlackRock welcomes the efforts by the Commission to ensure that investors have the necessary information to fulfil their obligations under the SFDR and the Taxonomy Regulation.

### **Key features:**

- The scope of the CSRD proposal extends to both listed and private large companies, as well as listed small and medium-sized companies listed on a regulated market (excluding micro-undertakings) – with proportionate standards. Large companies are defined as meeting at least two of following three criteria:
  - A balance sheet total of €20 million
  - Net turnover of €40 million
  - 250 employees
- CSRD reporting to include primary source information, to serve the needs of investment product providers reporting under SFDR and Taxonomy Regulation.
- Limited assurance to be made by auditors.

### **UK**

In October 2021, the UK Government's Roadmap to Sustainable Investing (outlined on page 22) includes a set of actions to close the sustainability data gap for market participants, including implementing a Sustainable Disclosure Requirements (SDR) regime. The proposed regime acknowledges the need for consistency with EU measures such as SFDR, which many UK firms already report in line with, while seeking to reflect the needs of the UK market and leverage the UK Green Taxonomy. Asset

managers and asset owners will be required to disclose how they take sustainability into account. In November 2021, the FCA published a discussion paper on SDR for asset managers and certain FCA-regulated asset owners and a consultation is expected to follow in the second quarter of 2022. See also page 21.

### **Global**

In November 2021, the IFRS Foundation announced the launch of the ISSB, with the mission to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet the needs of investors. These will focus on sustainability issues that impact enterprise value. A first set of draft standards, including a climate reporting standard was published for comment in March 2022, with an ambitious timetable to finalise these two first standards by the end of the year. The ISSB will sit alongside and work in close cooperation with the IFRS Accounting Standards Board (IASB), ensuring connectivity and compatibility between IFRS Accounting Standards and the ISSB's standards. The ISSB is also working closely with other international organisations and jurisdictions to support the inclusion of the global baseline into jurisdictional requirements, and, in the case of Europe, targeting interoperability with future corporate reporting standards.

### **Implications for clients**

BlackRock welcomes the momentum behind national, regional and global initiatives to improve the availability and quality of issuer sustainability data. We support the Commission's leadership in developing regional reporting standards, and welcome UK government's efforts to close national data gaps through the proposed SDR, and to incorporate ISSB standards in the framework from the outset. High-quality, comparable data on issuer sustainability is needed to help to inform investors and support the allocation of capital to companies that are managing their sustainability impacts and risks. The ISSB will play an important role in delivering convergence towards a global baseline of high-quality sustainability disclosure standards on which different jurisdictions can build. This will both enhance the quality of data and help manage the reporting burden on companies.

## Sustainability and stewardship in the UK

THIS AFFECTS	Large pension schemes; Premium listed issuers; Standard listed issuers; Asset managers, life insurers and FCA-regulated pension schemes; Supervised entities
DEC 2020	FCA publishes guidance on mandatory TCFD reporting for UK premium listed commercial companies.
JAN 2021	DWP confirms TCFD reporting requirements for the largest occupational pension schemes, master trusts and collective defined contribution schemes.
DEC 2021	FCA confirms TCFD disclosure regime for asset managers, life-insurers and FCA-regulated pension schemes, alongside this it extends the application of TCFD requirements to standard listed issuers from January 2022.

As the UK prepares to give up its COP Presidency in November, it has looked to shore up its green credentials and outline its own approach to sustainable finance regulation. A number of important changes came into force in 2021 and 2022, including the publication of the [UK Roadmap to Sustainable Investing](#) (see box overleaf).

The UK approach covers two main priorities: “Greening finance” and “financing green,” with the overall objective of ensuring finance helps transition the economy to net zero by 2050 and cementing the UK’s position as the best place in the world for green finance.

### Greening finance

In November 2020, the Treasury [announced](#) that disclosure against the global TCFD framework will be mandatory across the UK economy by 2025. Across the financial system, the relevant authorities are bringing in changes to make this a reality:

- **Department of Works and Pension (DWP):** From October 2021, the largest occupational pension schemes, master trusts and collective defined contribution schemes must have integrated the TCFD recommendations in their processes and start reporting this year.
- **Financial Conduct Authority (FCA):** Following a revision of the listing rules by the FCA<sup>22</sup> premium listed issuers are required to produce a TCFD report in 2022 on a comply or explain basis,<sup>23</sup> standard listed issuers are expected to disclose on the same basis in 2023.<sup>24</sup> In addition, the FCA confirmed rules relating to climate-related disclosures for asset managers, life-insurers and FCA-regulated pension schemes, coming into force from January 2022 and the first public disclosures to be made by June 2023.<sup>25</sup>

- **Department for Business, Energy & Industrial Strategy (BEIS):** BEIS issued a consultation in March 2021 to create mandatory TCFD reporting for public companies, large private companies and limited liability partnerships to come into effect this year.
- **Prudential Regulation Authority (PRA):** Finally, the PRA wrote to supervised entities setting the expectation that they disclose their climate-related financial risks and opportunities by the end of 2021. The PRA will review these disclosures in order to determine whether additional measures are required.

The UK intends to build on this work and integrate different disclosure frameworks – such as TCFD, IFRS, ISSB – under new ‘Sustainability Disclosure Requirements’ (SDRs) for the corporate sector, asset managers and asset owners, and investment products (further information overleaf).

In November 2021, FCA published a [Discussion Paper](#) on SDRs for asset managers and asset owners, as well as a new classification and labelling system for sustainable investment products, with a full consultation due this summer.

BlackRock supports UK efforts to create a categorisation that is clear and simple to understand for investors. However, given the need for global interoperability, and, in particular, if UK consumers are to retain access to a wide and cost-effective product range, we believe that compatibility with the EU’s SFDR should be considered, for instance by introducing minimum criteria.

### Financing green

Financing the green transition is another priority area for the UK Government. Sustainable infrastructure, in particular, has become a significant priority, as pressure ramps up on the Government to deliver against its net zero commitments while levelling up across the UK.

The UK Government has recently published a [Call for Evidence](#) to support its update of its Green Finance Strategy, planned for publication in late 2022. The updated document will take stock of progress thus far and set out how the UK can better ensure the financial services is supporting the UK’s energy security, climate and environmental objectives.

### Implications for clients

BlackRock recognises that private capital is needed to fund green infrastructure projects, particularly to achieve an orderly transition to net zero and achieve UK Government goals. The net zero transition will lead to a wide range of new risks and opportunities for investors, and as a fiduciary, it’s our job to help clients navigate the transition and, if they choose, to help drive it forward.

## Greening Finance: A roadmap to sustainable investing

The UK ambition to be a world leader in sustainable investment will be pursued in three phases: informing investors and consumers; acting on information; and shifting financial flows. The roadmap focuses on the first phase, which will be delivered through the new economy-wide SDR. It also outlines the UK Green Taxonomy, as well as Government expectations around stewardship for the UK's pensions and investment sectors.

- **Sustainability Disclosure Requirements (SDR):** SDR will create an integrated framework for disclosures on sustainability across the economy. SDR builds on the UK's TCFD implementation and will cover corporate disclosure, asset manager and asset owner disclosure, and investment product disclosure. The FCA published a [Discussion Paper](#) on sustainability disclosure requirements for asset managers and asset owners, as well as a new classification and labelling system for sustainable investment products in November 2021. A full consultation, as well as a consultation on SDR Framework for UK registered companies and UK listed issuers are expected in the autumn.
- **UK Green Taxonomy:** The Government will implement the UK Green Taxonomy, which will set out the criteria which specific economic activities must meet to be

considered environmentally sustainable. Notably, the intention is to include transition-aligned activities, as well as existing 'dark green' activities and ensure that the taxonomy provides decision-useful information to investors. The Taxonomy has six environmental objectives, underpinned by a set of standards known as the Technical Screening Criteria (TSC). The first two TSC (climate change adaptation and mitigation) are due to be finalized by the end of 2022, with the remaining four finalized by end-2023.

- **Stewardship:** The Government expects the pensions and investment sectors to use the information generated by SDR to deliver on their responsibilities as stewards of capital. To facilitate decision-making around climate risks and opportunities, the Government also expects companies and firms to be publishing a high-quality transition plan. In April, the Treasury launched the UK transition plan taskforce to "develop the gold standard" for climate transition plans for UK companies. The taskforce will develop a regime which will require financial institutions and listed companies to create "rigorous and robust transition plans". The taskforce has a two-year mandate and published its first [Call for Evidence](#) in May.

## Planning for Retirement

**41%** of people in Europe are too worried about their financial situation today to think about the future.<sup>26</sup>

### In the UK

#### Security in retirement

The introduction of auto-enrolment in the UK has driven participation in workplace pensions to almost 90% in 2020.<sup>27</sup> As the only regular savings vehicle for most people, it is critical that public policy aims to maximise their retirement income. Research from The Investment and Saving Alliance (TISA) shows that an average workplace DC scheme member's retirement pot will be only one-fifth of the size of the equivalent DB scheme member, falling short of what many will need to support themselves in retirement.<sup>28</sup>

Crucially, many will not realise this fact until it is too late to rectify, with PLSA research showing that 55% of people believe that the auto-enrolment minimum savings rate, currently 8% with at least 3% paid by employers, is enough to deliver a comfortable retirement.<sup>29</sup> The societal and political significance of this shortfall is yet to be fully appreciated.

While we welcome the introduction of initiatives like Pensions Dashboards to encourage people to engage more with their pension, measures that can be put in place during the current Parliament to gradually escalate the savings rate to 12% or beyond over the next decade, as proposed by TISA, would put pension saving on a more adequate path.

While the current cost of living crisis makes changes to long-term savings politically difficult in the immediate short term, it is crucial the Government begins to set a path toward adequate pension saving.

#### Access to private markets

In addition to the savings rate, investment performance is the other significant driver of retirement outcomes. Successive UK Governments have brought forward

initiatives to facilitate more DC pension schemes investment in private assets – recognizing the confluence of interests between the wider economy, which benefits from expanded sources of capital, and pension savers, who benefit from improved returns due to the illiquidity premium offered by private assets.<sup>30</sup>

Since March 2020, amended ‘permitted links’ rules allow unit-linked DC schemes to invest in fewer liquid assets, subject to certain requirements.<sup>31</sup> Since then, the Productive Finance Working Group (PFWG) – comprised of industry, HM Treasury, the FCA, and the Bank of England – has focused on removing further barriers to long-term investment by DC schemes.<sup>32</sup>

One significant development is the new framework for UK Long-term Assets Funds (LTAFs), finalised by the FCA in October 2021.<sup>33</sup> The LTAF option provides a vehicle tailored to the needs of DC schemes, allowing asset managers to begin developing custom-made private market strategies. To fully realise its potential, however, the LTAF needs to be accompanied by a broader ecosystem shift away from focus on fees alone and towards value for money reflected in net-of-fees performance and diversification benefits.

Private market investment strategies typically use performance fees, reflecting different cost structures for managing the assets and aligning manager-client interests over the long term – and are ultimately only incurred with outperformance beyond a threshold. The unpredictability and potentially irregular nature of these fees are difficult to reconcile with a static cap. We therefore welcome the DWP’s decision to exclude well-designed performance fees from the charges cap,<sup>34</sup> provided this is accompanied by strong transparency and principles-based guidance on appropriate structuring and equitable treatment of members.<sup>35</sup>

## Investment strategy, sustainability, and stewardship

Reporting requirements coming into force over and 2022 are increasing expectations of workplace pension trustees’ engagement with, and disclosures of, sustainability, stewardship, and investment strategy (see Sustainability and Stewardship in the UK on page 21).

In particular, the DWP is focusing on pension schemes’ management of climate risks and tracking progress towards net zero targets. DWP is amending regulations to require relevant trustees to measure and report on their investment portfolios’ Paris alignment.<sup>36</sup> These will be disclosed on an ‘as far as they are able’ and ‘best efforts’ basis, recognising persistent data gaps for several asset classes.

## EU long-term savings agenda

The European Commission recognizes the challenges many citizens face in preparing for a comfortable retirement. It has launched several supportive initiatives, for individual EU Member States to rely on when considering how to increase participation rates in national retirement systems. These include commissioning a study of pension systems leveraging auto-enrolment to increase participation and calling on EIOPA to provide technical advice on the development of a Pension Tracking System and Pensions Dashboard.

- **Auto-enrolment:** The Commission’s report *Best practices and performance of auto-enrolment mechanisms for pension savings, 2021*, reviews approaches taken around the world, and provides practical recommendations to Member States seeking to increase participation in workplace schemes.
- **Pensions trackers:** With workers increasingly changing employers many times throughout their career, pension trackers help provide individuals a clear projection of total future income from multiple workplace schemes. EIOPA’s *Technical Advice on the Development of Pension Tracking Systems, 2021* outlines best practices regarding scope, design, progressive implementation and good governance.
- **Pensions dashboards:** Pensions dashboards provide individuals further insights, by taking into account projected future income from both state pension allowances and workplace schemes combined. EIOPA’s *Technical Advice on the Development of Pension Dashboards and the Collection of Pensions Data, 2021*, recommends the phasing in of a European dashboard.

Together, these initiatives are intended to help Member States provide citizens greater clarity around the income they can expect in retirement and take appropriate action to close any gaps. This work is likely to feed into the **Institutions for Occupational Retirement Provision (IORPs) Directive** review expected in 2023, particularly in terms of enhancing transparency for scheme members, and with possible data provision requirements for pension scheme providers

The DWP has also introduced guidance aimed at reinforcing trustee responsibility for and ownership of policies on investment strategy, stewardship, and voting, as well as engagement with service providers. This includes draft non-statutory guidance for schemes’ Statement of Investment Principles (SIP) and draft statutory guidance for Implementation Statements.<sup>37</sup>

We welcome the emphasis being placed on ensuring that all actors throughout the investment chain are fully engaged with their approach to sustainability and stewardship and stand ready to support our clients as they develop their approach.

### **Innovation in the pensions ecosystem**

2022 will see the launch of the first Collective Defined Contribution (CDC) pension scheme in the UK. Following the introduction of the framework to allow CDC pension schemes in the Pension Schemes Act 2021, the law is expected to come into force on 1 August 2022.

Authorization and ongoing supervision of CDC schemes will be conducted by The Pension Regulator (TPR), which launched a consultation on its guidance for CDC schemes and code of practice in January 2022.<sup>38</sup> TPR noted that, while initially CDC schemes will be limited to those set up by single employers, or two or more connected employers, the regulator will look to work with DWP and industry to enable further developments of the CDC market, such as multi-employer schemes and has recently launched a consultation on these lines.

### **Focus on retirement outcomes**

DC decumulation is also a focus for DWP in 2022. In 2020, the FCA introduced a series of investment pathways for members of contract-based pension schemes, however, equivalent protections are not offered to trust-based scheme members when accessing their pension savings. A consultation on this topic was published in June.<sup>39</sup> There is a need to support those who do not engage with or fully understand the financial choices they face when they come to retirement, so we welcome DWP focus in this area.

### **In the EU**

The EC has led a number of initiatives to encourage greater uptake of private pension provision, as part of its wider efforts to drive more capital into EU markets, and to encourage greater financial resilience. These include a

study investigating the performance of “auto-enrolment mechanisms” in pension schemes in a number of EU and non-EU countries. The study is expected to inform the current discussions on pension reforms in a number of Member States, with a view to supporting people in their retirement.

In parallel, EIOPA has submitted its advice to the European Commission on how to design a pension tracking system and a pensions dashboard to allow citizens to have greater control over their pension entitlements. March 2022 also marks the first month in which Pan-European Personal Plans can be launched in the EU though initial take-up is expected to be slow as a number of operational and administrative issues are ironed out.

At the national level, pension reforms continue apace with preparations in the Dutch market for adoption of DC pensions’ contracts by 2026. In Spain and Germany, governments are considering major reforms of their existing pension reforms and are expected to publish recommendations before the end of 2022.



# Endnotes

1. [Proposals to enhance money market fund resilience](#), Financial Stability Board, October 2022
2. [Final Report: ESMA opinion on the review of the Money Market Fund Regulation](#), European Securities and Markets Authority, February 2022
3. [Recommendation of the European Systemic Risk Board on reform of money market funds](#), European Systemic Risk Board, December 2021
4. [Eurosystem contribution to the ESMA consultation on the framework for EU money market funds](#), European Central Bank, June 2021
5. Deposits are only protected up to a certain amount, by schemes such as the Financial Services Compensation Scheme (FSCS) in the UK, or the Deposit and Resolution Guarantee Fund (FGDR) in France for example.
6. More detailed breakdown of the data can be found in [BlackRock's response to ESMA's consultation on the framework for EU money market funds](#), June 2021. The relevant information can be found pp.13-17 in the response to ESMA's Question.
7. Source for global figure is: Fitch, "[More Mutual Funds Suspend Redemptions Due to Liquidity Mismatch](#)", June 2020. Source for European figure is European Security and Markets Authority, "[Recommendation of the European Systemic Risk Board \(ESRB\) on liquidity risk in investment funds](#)", November 2020. The documented cases of suspensions occurring reflected idiosyncratic aspects of funds and / or local market characteristics. For further discussion, see BlackRock, [Lessons from COVID-19: Liquidity Risk Management is Central to Open-Ended Funds](#), November 2020.
8. European Commission [AIFMD and UCITS Proposal](#), November 2021.
9. While swing pricing is an appropriate tool for OEFs to reflect the transaction cost of selling the underlying assets to fulfil redemptions, this is not so for MMFs as they do not generally sell assets to meet redemption requests.
10. For example, see Bank of England and Financial Conduct Authority, [Liquidity management in UK open-ended funds](#), March 2021.
11. ARRr include Secured Overnight Financing Rate (SOFR) in the US, a reformed Sterling Overnight Index Average (SONIA) in the UK, and the Euro Short Term Rate (ESTR) in the Eurozone.
12. BlackRock, Global Investor Pulse 2021, accessed 10 February 2022. Data represents an average of Germany, Italy, Switzerland, UK. Available at: <https://www.blackrock.com/corporate/insights/investor-pulse#barrier-information>
13. See BlackRock response to [blackrock.com/corporate/literature/publication/ec-public-consultation-on-a-retail-investment-strategy-for-europe-080321.pdf](https://www.blackrock.com/corporate/literature/publication/ec-public-consultation-on-a-retail-investment-strategy-for-europe-080321.pdf)
14. Kantar study on disclosure, inducements, and suitability rules for retail investors and Deloitte study on online tools and services for individual investors
15. ESMA CFe on Retail Investor Protection + ESAs CFe on PRIIPs
16. 2<sup>nd</sup> Payment Services Directive, Jan 2018
17. [https://ec.europa.eu/info/business-economy-euro/growth-and-investment/investment-funds\\_en](https://ec.europa.eu/info/business-economy-euro/growth-and-investment/investment-funds_en)
18. See Annex V, European Commission legislative proposal for AIFMD, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52021PC0721>.
19. See The Chancellor's [2021 Mansion House speech](#), 1 July 2021
20. See [speech by John Glen MP, Economic Secretary to the Treasury, at TheCityUK Annual Dinner](#), 14 February 2022
21. See BlackRock, [Response to the Wholesale Markets Review Consultation](#), September 2021
22. See FCA PS20/17 <https://www.fca.org.uk/publication/policy/ps20-17.pdf>
23. See BlackRock's response [here](#).
24. See FCA PS21/23 <https://www.fca.org.uk/publication/policy/ps21-23.pdf>
25. See BlackRock's response [here](#).
26. BlackRock, Global Investor Pulse 2021, accessed 10 February 2022. Data represents an average of Germany, Italy, Switzerland, UK. Available at: <https://www.blackrock.com/corporate/insights/investor-pulse#barrier-information>
27. See Department for Work and Pensions, [Official Statistics – Workplace pension participation and savings trends of eligible employees: 2009 to 2020](#), September 2021.
28. See TISA, [Getting Retirement Right: Plan, prepare, enjoy](#), February 2020, p. 14. These figures consider the difference in outcomes for a notional employee with a salary of £28,000 depending on whether average DB or DC contribution rates are used. A DB scheme member with total contributions of 25% p.a. (19% employer + 6% employee) after 40 years has a notional fund value of £487,700, generating a guaranteed income of £18,666 p.a. Meanwhile the equivalent DC scheme member, with contributions of 8% (3% employer contribution + 5% employee contribution) has a fund value of £154,800, generating a guaranteed income of £3,850 – a fifth of the DB figure.
29. See PLSA, <https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2018/Hitting The Target - A Vision For Retirement Income Adequacy.pdf>
30. See BlackRock, [2022 Private Markets Outlook](#), December 2021, P7. For example, over the past decade there has been a consistent positive premium for private credit over public, standing at approximately 2% as of November 2021; and in private equity, while earnings multiples have increased in recent years, they remain attractive relative to the public equity markets.
31. See Financial Conduct Authority, [PS20/4: Amendment of COBS 21.3 permitted link rules](#), March 2020
32. See Productive Finance Working Group, [A Roadmap for Increasing Productive Finance Investment](#), September 2021.
33. See Financial Conduct Authority, [PS21/14: A new authorised fund regime for investing in long term assets](#), October 2021.
34. Department for Work and Pensions, [Facilitating investment in illiquid assets by defined contribution pension schemes](#), March 2022.
35. For further discussion of our views on performance fees in the charges cap, see our [response](#) to Department for Work and Pensions, Investment Innovation and Future Consolidation: A Consultation on the Consideration of Illiquid Assets and the Development of Scale in Occupational Defined Contribution schemes, April 2019; and our [response](#) to Department for Work and Pensions, Incorporating performance fees within the charge cap, April 2021.
36. Department for Work and Pensions, [Climate and investment reporting: setting expectations and empowering savers](#), June 2022.
37. Department for Work and Pensions, [Reporting on Stewardship and Other Topics through the Statement of Investment Principles and the Implementation Statement: Statutory and Non-Statutory Guidance](#), June 2022.
38. See The Pensions Regulator, [Collective defined contribution \(CDC\) code consultation](#), <https://www.thepensionsregulator.gov.uk/en/document-library/consultations/collective-defined-contribution-code-consultation>
39. Department for Work and Pensions, [Helping savers understand their pension choices](#), June 2022.

## Important Notes

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