Clifford Chance

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Sustainable Finance: EU Council and Parliament reach provisional agreement on SFDR 2.0

The EU Council and the EU Parliament have reached a provisional agreement on amendments to the Sustainable Finance Disclosure Regulation (SFDR 2.0).

The proposed amendments are intended to result in simpler requirements for market participants and more usable information for investors, enabling them to make better informed choices. They include significantly reducing product-level disclosures and a simpler categorisation system for financial products making environmental, social and governance (ESG) claims, comprising three categories for 'sustainable', 'transition', and 'ESG basics' products.

To qualify for the sustainable or transition investment categories, financial market participants must identify and disclose the principal adverse impacts of their investments using measurable indicators selected from a common list established by the EU Commission. For the transition category, two of these indicators must relate to fossil fuel use and greenhouse gas emissions. Investments in companies that are active in the fossil fuel sector may be considered for the transition category if the companies:

- have a clear, time-bound strategy to reduce greenhouse gas emissions, aligned with the Paris agreement;
- allocate 20% of their capital expenditure to economic activities aligned with the EU taxonomy; and
- increase the share of capital expenditure for EU taxonomy-related activities over time.

Financial market participants may choose not to apply the categorisation provisions to alternative investment funds offered exclusively to professional investors.

SFDR 2.0 still needs to be formally adopted by both the EU Council and Parliament before it can be published in the Official Journal. It will begin to apply two years after its publication.

Retail investment package: EU Parliament adopts changes to PRIIPs KID but rejects Omnibus Directive on investor protection

The EU Parliament plenary has voted to reject the informal agreement with the EU Council on the proposed retail investor protection Omnibus Directive amending the Markets in Financial Instruments Directive (MiFID2), the Insurance Distribution Directive (IDD), Solvency II, the Undertakings for the Collective Investment in Transferable Securities (UCITS) Directive and the Alternative Investment Fund Managers Directive (AIFMD).

The directive is part of a legislative package informally agreed with the Council in December 2025 and this part of the deal was rejected by the

plenary by 286 votes to 300, with 23 abstentions. The other part of the legislative package, the proposed Regulation amending the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation to modernise the key information document (KID), was adopted by 311 votes to 261, with 38 abstentions.

The first reading for the KID regulation concluded with its plenary adoption. The procedure on the directive on retail investor protection rules will continue. Amendments to the legislative act are to be tabled, for which a new deadline will be set. The text will then be put to a vote at a subsequent plenary session.

ECB publishes 2026 SREP results and supervisory priorities for 2027-9

The European Central Bank (ECB) has published the 2026 Supervisory Review and Evaluation Process (SREP) results, noting that euro area banks continue to have robust capital and liquidity positions and strong profitability.

Overall Common Equity Tier 1 (CET1) requirements and guidance for 2027 remained broadly stable at 11.3%, compared with 11.2% for 2026. CET1 Pillar 2 requirements remained broadly stable at 1.2%, while non-binding Pillar 2 guidance remained unchanged at 1.1%. Qualitative measures primarily addressed credit risk, internal governance and operational risk.

The ECB has also published its supervisory priorities for 2027-29, focusing on banks' financial resilience to geopolitical and macro-financial risks and their operational resilience and ICT capabilities. Areas of supervisory attention include exposures to non-bank financial institutions, fund financing and private markets, CRR3 implementation, climate and nature-related risks, cybersecurity and third-party risk.

The ECB applied its revised Pillar 2 methodology for the first time in 2026, with no further changes to the SREP methodology expected over the next two years.

FSB sets out priorities for 2027

The Financial Stability Board (FSB) has set out its priorities for 2027. The FSB met in Basel on 16-17 November 2026 to discuss issues affecting the global financial system and its work programme for the coming year.

Issues discussed by members were:

- vulnerabilities affecting the financial system, including an increase in debt issuances as part of the artificial intelligence (AI) investment boom and growing leverage in sovereign bond markets;
- AI developments and the risks to the financial system posed by advanced models;
- a strategic review of the FSB's crisis preparedness methods;
- stablecoins and the FSB's potential next steps in this area, such as a stock take on regulatory and supervisory frameworks across borders; and
- the medium-term direction of the FSB's work to enhance resilience in non-bank financial intermediation (NBFI).

Priorities for the 2027 work programme include AI, global stablecoins and NBFI, and progressing the G20 roadmap to enhance cross-border payments. The final work programme will be published in early 2027.

FSB calls for further action to enhance cross-border payments

The FSB has published its 2026 consolidated progress report on the G20 Roadmap for Enhancing Cross-Border Payments. The report finds that, despite intensified international efforts to support implementation, improvements in the cost, speed, access and transparency of cross-border payments remain gradual and uneven across payment segments and jurisdictions.

The FSB calls for action at the jurisdictional level by both G20 and non-G20 countries to translate international policy work into tangible improvements for end-users. It also highlights the private sector's role in implementing changes, including modernising existing systems and adopting new technologies, and calls for continued engagement with market participants to address practical barriers to implementation.

IOSCO publishes final report on quantum computing

The International Organization of Securities Commissions (IOSCO) has published a final report on the implications of quantum computing for financial markets.

The report draws on a survey of IOSCO members, stakeholder engagement and a literature review. IOSCO finds that quantum computing in financial markets is in the early stages of development, with activity currently limited largely to research, proof-of-concept exercises and pilot testing. The report identifies potential use cases in areas including portfolio optimisation, simulation and modelling, machine learning, derivatives pricing, risk management, fraud detection and market surveillance.

The report highlights the significant cybersecurity risk posed by quantum computing in the medium to long term, noting that it could undermine the cryptographic algorithms that support critical functions. IOSCO suggests that migration to post-quantum cryptography and increased agility in cryptographic updates will be crucial to long-term preparedness for this risk. Responses to the survey indicated that general preparedness is currently at an early stage, with common challenges including dependency on third parties, interoperability concerns and limitations on resources and technical expertise. The report also highlights a risk to investors from institutions overstating the role or capabilities of quantum computing and recommends that securities regulators review disclosure to ensure it is not misleading.

IOSCO will treat quantum as a priority matter for 2027 with a particular focus on raising awareness across the financial sector.

IOSCO publishes 2026 monitoring report on tokenisation of financial assets

IOSCO has published its 2026 monitoring report on the tokenisation of financial assets (FR/06/26), examining developments in 2026 and since IOSCO's November 2025 report.

The report notes that tokenisation is progressing, although it remains transitional and fragmented, with the broader tokenised real-world asset market growing in value from around USD 16 billion on 1 July 2025 to USD 37 billion on 30 June 2026. Commercial traction was identified in fixed income products and money market funds (MMFs), while some jurisdictions saw greater interest in tokenised bonds, asset-backed instruments and tokenised fund interests. IOSCO also highlights the emergence of tokenised equities and equity-linked products, including so-called 'stock tokens', alongside increased retail participation through regulated intermediaries and digital platforms.

From a regulatory perspective, the report notes that authorities have continued to clarify the application of existing frameworks to tokenised activities, alongside targeted legislative and supervisory measures to address new issues. Priorities include legal certainty over token ownership and transfer; consistent on-chain and off-chain records; custody and safeguarding; investor rights and risk disclosure; operational and cyber resilience; and governance of smart contracts, network bridges and oracles.

Collective Investment Schemes (Amendment etc.) (EU Exit) (Amendment) Regulations 2026 made and laid

The Collective Investment Schemes (Amendment etc.) (EU Exit) (Amendment) Regulations 2026 (SI 2026/1183) have been made and laid before Parliament.

SI 2026/1183 amends the Collective Investment Schemes (Amendment etc.) (EU Exit) Regulations 2019 to extend the regime for the temporary recognition of European Economic Area Undertakings for Collective Investment in Transferable Securities (EEA UCITS) funds and sub-funds from six years to seven. This will allow MMFs currently using the regime to continue marketing into the UK, pending the introduction of broader legislation reforming the MMF regulations.

SI 2026/1183 will come into force on 16 December 2026.

UK regulators publish 11th edition of Regulatory Initiatives Grid

The Financial Services Regulatory Initiatives Forum has published the 11th edition of the Regulatory Initiatives Grid, which outlines planned regulatory initiatives for the next two years. The Grid reflects a more stable regulatory pipeline, with major reform programmes moving towards implementation and completion.

Areas of activity include reforms arising from the Government's Financial Services and Markets Bill and the Pension Schemes Act, as well as work on payments and mortgages. The Grid also includes initiatives intended to reduce regulatory burdens and notes the need for regulators to respond to technological developments, including cyber risks and agentic commerce.

UK regulators consult on cyber risk and resilience management

The Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and the Bank of England (BoE) have launched a consultation (FCA

GC26/9 | PRA CP17/26) on proposed guidance clarifying expectations for how firms should manage cyber risk and recover from cyber incidents. The guidance is intended to clarify existing requirements rather than introduce new rules.

The proposals cover governance and senior management accountability, identification and protection of critical IT infrastructure, detection of cyber incidents and response and recovery. Firms would also be expected to maintain up-to-date inventories of key assets and third-party dependencies, regularly test their defences and use the National Cyber Security Centre Cyber Assessment Framework to inform their approach.

Comments are due by 26 February 2027.

The regulators have also published two effective practices documents on managing cyber risks relating to AI and quantum computing.

BoE publishes final and near-final policy documents on FMIs and CCPs

The BoE has published a number of final and near-final policy documents on financial market infrastructures (FMIs) and central counterparties (CCPs).

The BoE has published:

- a policy statement and a statement of policy on its approach to using its permissions and requirements powers to facilitate the mobilisation of new CCPs;
- a policy statement and a statement of policy on its approach to rule permissions and waivers;
- a near-final policy statement on ensuring the resilience of CCPs;
- a near-final supervisory statement on CCP margin;
- a near-final statement of policy on the approach to tiering non-UK CCPs;
- a near-final statement of policy on the approach to comparable compliance permissions;
- a near-final statement of policy on the approach to supervisory processes including model changes, recognition orders and variations of recognition orders, and margin permissions;
- a near-final statement of policy on the approach to permissions in relation to CCP rules (disclosure, outsourcing and interoperability arrangements permissions); and
- a technical note on the impact of default waterfall positioning on pro-rata second skin-in-the-game requirements for CCPs.

The finalisation of the BoE's CCP rulebook is subject to HM Treasury making the legislation regarding the revocation of UK EMIR and commencement of the new CCP framework. According to the BoE, HMT's first SI is expected to be laid in the fourth quarter of 2026, and all required legislation is expected to come into force by the end of the first quarter of 2027.

PRA consults on approach to implementing O-SII buffer

The PRA has published a consultation paper (CP16/26) setting out proposals to clarify its approach to the implementation of the other systemically important institutions (O-SII) buffer. The proposed amendments would clarify the circumstances in which the PRA could use its existing supervisory discretion to set lower O-SII buffer rates in the event of a shock.

The proposals would apply to relevant O-SIIs within the scope of the O-SII buffer, including ring-fenced banks, UK deposit takers holding more than GBP 35 billion in core deposits without material trading activities and large building societies. The proposals would not change the scope of the O-SII designation process or the firms eligible for an O-SII buffer.

Comments are due by 18 February 2027.

FCA seeks feedback on its review of IFPR

The FCA has launched a call for input to inform its review of the Investment Firms Prudential Regime (IFPR). The review is intended to ensure that the regime is clear, effective and proportionate. It will consider:

- how the Prudential sourcebook for MiFID Investment Firms (MIFIDPRU) can align with the common prudential baseline set out in the Core Prudential sourcebook (COREPRU);
- whether the rules can be clarified or simplified;
- whether further guidance would support consistent implementation; and
- whether the IFPR's requirements are proportionate to the risks posed and potential harm across different types of firms.

The FCA is inviting feedback from MiFID investment firms and other relevant stakeholders on whether it is focusing on the right areas.

Comments are due by 20 January 2027. The FCA has emphasised that it is not seeking detailed views on specific rule changes at this stage and it intends to consult on any proposed changes to the IFPR in 2027.

FCA sets out final rules on client categorisation and conflicts of interest

The FCA has issued a policy statement (PS26/23) setting out its final rules on client categorisation and conflicts of interest requirements and feedback on its December 2025 consultation paper (CP25/36).

The FCA is moving client categorisation rules into a new chapter of the Conduct of Business sourcebook (COBS 3A) and changing the way firms assess whether clients can be treated as professional. In particular, it is:

- removing the mandatory COBS 3.5.3R(2) 'quantitative test', except for local authorities;
- introducing separate expertise and wealth routes;
- adding safeguards on informed consent, communications and record-keeping;

- introducing requirements for most existing elective professional clients to be reassessed during an 18-month transition period; and
- rationalising the rules in the Senior Management Arrangements, Systems and Controls sourcebook (SYSC) 10.

The rules on conflicts of interest took effect on 20 November 2026.

The rules on client categorisation take effect on 1 December 2026.

Firms have until 31 May 2028 to reassess existing elective professional clients where required.

BaFin consults on revised MaComp

The German Federal Financial Supervisory Authority (BaFin) has launched a consultation (12/2026) on a revised circular on minimum requirements for the compliance function and further obligations under sections 63 *et seq*. of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG) for investment services firms (MaComp). The revision aims to reduce bureaucracy and complexity by removing unnecessary duplication, in particular in relation to European Securities and Markets Authority (ESMA) guidelines.

The draft retains only the general requirements for investment services firms and the organisational requirements and tasks of the compliance function (previously the General Part and Special Part 1 (BT 1)), with linguistic amendments. Modules BT 2–15 are deleted, as they largely reproduce existing ESMA guidelines that BaFin has incorporated into its administrative practice. The amendments do not affect the substance of BaFin's existing administrative practice.

In future, BaFin will announce on its website whether it adopts new ESMA guidelines and issue a comply or non-comply notice to ESMA. Where adopted, BaFin will apply the relevant guidelines directly.

Comments on the draft are due by 11 January 2027.

BaFin publishes supervisory notice on relicensing of CRD third-country branches under new KWG regime

BaFin has published Supervisory Notice 10/2026 (BA) on the relicensing of CRD third-country branches and requirements for resolution accounts at CRR credit institutions. The notice addresses the transition to the new harmonised supervisory regime under sections 53c *et seq*. of the German Banking Act (Kreditwesengesetz - KWG), introduced by the Banking Directive Implementation and Bureaucracy Relief Act (BRUBEG), which applies from 11 January 2027.

CRD third-country branches must be licensed under the new regime if they wish to continue their existing business after 10 January 2027. The supervisory notice is intended to provide planning certainty in relation to the relicensing process under section 53cc(6) KWG.

BaFin interprets section 53cc(6) KWG as meaning that existing authorisations will neither automatically expire on 10 January 2027 nor be converted into authorisations under the new regime. Instead, upon application and where the relevant CRD third-country branch satisfies the new requirements under sections 53ca to 53cq KWG, BaFin will revoke the existing authorisation and grant a new authorisation in a single process. A submitted self-assessment questionnaire will be treated as an application.

Applicants awaiting a decision may continue their existing business after 10 January 2027 until the procedure has been concluded, unless withdrawal proceedings have already been initiated.

Under section 53ce(3) KWG, branches must maintain a suitable resolution account in which deposited instruments remain available for liquidation or resolution. For accounts held with CRR credit institutions, BaFin expects branches to ensure this through contractual arrangements and to demonstrate suitability during the relicensing process, for example by means of a legal opinion.

The notice applies from the date of publication. Its relicensing provisions remain applicable until all relicensing procedures have been completed, while its provisions on resolution accounts apply until 31 December 2027 inclusive.

BaFin publishes circular on duties of depositaries and capital management companies in relation to cryptoasset investments

BaFin has published Circular 15/2026 (WA) on the duties of depositaries and fund management companies in relation to cryptoasset investments.

The importance of cryptoassets as an asset class, as well as financial instruments issued on the basis of distributed ledger technology (DLT-based financial instruments) in which German investment funds invest directly, has increased significantly in recent years. Such investments entail specific requirements for the material and staffing resources, as well as the processes to be maintained by capital management companies and depositaries.

The circular provides guidance on BaFin's administrative practice in relation to investments in cryptoassets by investment funds. In addition, the circular contains guidance on the custody of DLT-based financial instruments.

It applies from the date of publication and supplements Circular 05/2020 (WA) on the tasks and duties of the depositary under Chapter 1, Part 3 of the KAGB (Depositary Circular).

MAS consults on quantum-safe migration guidance and timelines for financial sector

The Monetary Authority of Singapore (MAS) has conducted a consultation seeking feedback on a proposed circular on financial sector quantum-safe migration guidance and timelines.

The proposed circular builds on the MAS' advisory on addressing the cybersecurity risks associated with quantum, issued in February 2024. While the proposed circular is not intended to impose legally binding obligations on financial institutions (FIs), it sets out the MAS' supervisory expectations for FIs in Singapore to prepare for quantum-safe migration, including indicative milestones and completion timelines.

The MAS notes that quantum-safe migration is a complex, multi-year undertaking requiring sustained senior management commitment and resourcing. It expects FIs to commence preparatory efforts early and encourages them to refer to the Cyber Security Agency of Singapore's quantum-safe handbook and quantum readiness index for practical

guidance on migration planning and implementation. In particular, FIs are expected to:

- ensure that quantum-safe migration is supported by board-level and/or senior management commitment, with clear ownership, sufficient resourcing, and regular progress reporting;
- establish and maintain a comprehensive inventory of cryptographic assets, covering at minimum the algorithms, key lengths and protocols in use, the systems and functions they support, and their associated dependencies;
- develop and maintain a risk-based migration plan, approved by the board and/or senior management, setting out how and when systems and cryptographic assets will be migrated to quantum-safe solutions;
- assess the technical and operational implications of implementing quantum-safe solutions and test proposed solutions prior to deployment as migration to quantum-safe solutions may entail a major system change; and
- establish interim checkpoints and quantitative targets to track transition progress and adjust plans as the threat landscape and cryptographic standards evolve.

The MAS also sought comments on the proposed timelines for FIs to develop their quantum-safe migration plans and complete the migration of their systems to quantum-safe solutions.

The MAS has indicated that the circular should be read as supplementary information to MAS notices and guidelines, including the Notice on Technology Risk Management (TRM), Notice on Cyber Hygiene, TRM Guidelines, and Outsourcing Guidelines.

Recent Clifford Chance briefings

SEC grants relief from the Treasury securities clearing requirements for certain non-US and inter-affiliate repos

On 30 October 2026, the US Securities and Exchange Commission (SEC) issued an order granting exemptive relief for certain non-US and inter-affiliate repurchase and reverse repurchase (repo) transactions from the mandatory US Treasury securities clearing requirements. The exemptive relief should provide useful flexibility for market participants by permitting qualifying non-US and inter-affiliate repo transactions to remain uncleared, easing the legal, operational and economic burdens that mandatory clearing would otherwise impose. Market participants should continue preparing for the mandatory clearing compliance dates of 31 December 2026, for eligible cash transactions and 30 June 2027, for eligible repo transactions. They should also now consider steps to translate the flexibility provided by the order into operating and compliance frameworks that map transactions to the available exemptions, verify counterparty exemption eligibility, and incorporate procedures for threshold monitoring and compliance with the other conditions of the available exemptions.

Clifford Chance has prepared a briefing paper on the SEC's relief from the Treasury securities clearing requirements for certain non-US and inter-affiliate repos.

https://www.cliffordchance.com/briefings/2026/11/sec-grants-relief-from-the-treasury-securities-clearing-requirements-for-certain-non-us-and-inter-affiliate-repos.html

This publication does not necessarily deal with every important topic or cover every aspect of the topics with which it deals. It is not designed to provide legal or other advice.

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