Walkers

Making financial services work

Asset Management and Investment Funds

Legal and Regulatory Quarterly Report

Covering the period
1 January 2025 to 31 March 2025

KEY DATES	
2025	
12 March 2025	**Delegated measures under the Digital Operational Resilience Act ("DORA") on reporting of major ICT-related incidents and the content of the voluntary notification for significant cyber threats commence application.**
30 April 2025	**Deadline for DORA register of information ("ROI") submissions to the ESAs, with financial entities in Ireland required to submit their ROIs to the Central Bank during the window of 1 - 4 April 2025.**
21 May 2025	**ESMA guidelines on funds' names using ESG or sustainability-related terms apply (for funds in existence on 21 November 2024).**
30 May 2025	**Central Bank Fund Profile return submission deadline.**
25 June 2025	**EMIR 3.0 active account requirement to commence application for in-scope counterparties.**
30 June 2025	**Fund management companies managing exchange traded funds ("ETFs") to review their frameworks and practices.**
2 August 2025	**EU AI Act rules on general-purpose AI models become applicable.**
18 August 2025	**Commencement of daily investment fund return (DIFR) phase 2 obligations (reporting data effective 14 August 2025).**
December 2025	**First reporting reference for the new resident investment funds return for the collection of data under ECB Regulation (EU) 2024/1988 on investment fund statistics.**
2026	
24 March 2026	**Revised Central Bank Consumer Protection Code (incorporating Business Standards Regulations) to come into effect.**

This is a condensed version of our Asset Management and Investment Funds Legal and Regulatory Report setting out key developments during the quarter.

Quarter Highlights

In this quarterly edition of the Walkers legal and regulatory report, we identify a number of key highlights during the period for the Irish and European legal and regulatory bodies as follows:

The new sectoral supervisory approach and organisational re-structuring at the **Central Bank of Ireland** (the "**Central Bank**") came into effect from 1 January 2025 (**section 2.2**). The Central Bank published its **Regulatory and Supervisory Outlook Report** outlining the key trends and risks which it has identified as moulding the operating landscape of the financial sector as well as the Central Bank's consequent regulatory and supervisory priorities for the next two years (**section 2.1**). The **Central Bank** published updated AIFMD Q&As which provided clarity in relation to the provision of guarantees by QIAIFs and aspects of loan origination (**section 1.2**).

The European Securities and Markets Authority ("**ESMA**") published two new **AIFMD Q&As** purporting to clarify existing provisions (**section 1.3**). **ESMA** commenced its latest **common supervisory action** with national competent authorities ("**NCAs**") on compliance and internal audit functions in fund management companies ("**FMCs**") and the **Central Bank** swiftly followed by commencing its own thematic review with questionnaires issuing to selected FMCs (**section 1.1**).

As **DORA** came into effect across the European Union (the "**EU**"), the European Commission (the "**Commission**") provided welcome clarification on the definition of information and communication technology ("**ICT**") services (**section 3.2(d)**). A series of additional reporting guidance and tools provided further clarification ahead of the inaugural reporting of ROIs by financial entities (**section 3.2(c)**). The latest statutory instruments outlining Ireland's implementation of DORA also came into effect (**section 3.2(a)**), with additional EU delegated measures published supplementing DORA on reporting incidents and significant cyber threats (**section 3.2(e)**).

The Programme of the new **Irish Government** contained a number of welcome commitments designed to further enhance Ireland's funds and asset management offerings, including an implementation plan for the **Funds Sector Review** recommendations (**section 3.6(b)**).

The Commission published its **Competitiveness Compass**, a strategic framework designed to drive EU global competitiveness and sustainable prosperity (**section 3.1(a)**), followed in March by its proposal for the establishment of an EU **Savings and Investment Union** ("**SIU**") (**section 3.1(c)**)

Against the backdrop of the ongoing work implementing **EMIR 3.0**, an extension of temporary equivalence has been granted to the UK regulatory framework for central counterparties ("**CCPs**") until June 2028 (**section 3.4(a)**).

In **sustainability developments**, the Commission published its first package of omnibus simplification measures focusing on sustainability reporting and proposes significant changes in Corporate Sustainability Reporting Directive ("**CSRD**"), Corporate Sustainability Due Diligence Directive ("**CSDDD**") and the reporting regime under the EU Taxonomy Regulation ((EU) 2020/852) (the "**Taxonomy**"). These include welcome developments which if finalised, would see a reduction of companies in scope and the number of reportable datapoints, as well as the postponement of the commencement of reporting obligations (**sections 4(a) and 4(b)**). This is part of a broader initiative aimed at reducing regulatory burden for firms operating with the EU.

The **Commission** published its work programme in early February 2025, which includes communication of the postponement of the publication of the review of Regulation (EU) 2019/2088 ("**SFDR**") until Q4 2025 (**section 3.1(d)**). As the initial phase of measures under Regulation (EU) 2024/1689 laying down harmonised rules on artificial intelligence (the "**AI Act**") were commenced, the **Commission** published a communication on draft guidelines on prohibited artificial intelligence ("**AI**") practices (**section 3.1(e)**).

1. AIFMD & UCITS DEVELOPMENTS

1.1 Common supervisory action ("**CSA**") on compliance and internal audit functions of fund management companies

On 14 February 2025, ESMA published a press release announcing the launch of a CSA with NCAs on the compliance and internal audit ("**IA**") functions of alternative investment fund managers ("**AIFMs**") and UCITS management companies across the EU.

The CSA aims to assess the extent to which FMCs have established effective compliance and internal audit functions with adequate staffing, authority, knowledge and expertise to perform their duties under the AIFMD and UCITS frameworks.

The compliance and IA functions are designed to ensure that the internal control mechanisms to monitor, identify, measure and mitigate any possible risks of non-compliance with the applicable rules are in place. As a result, ESMA explains that ensuring entities have robust internal controls is crucial to avoid investor detriment and preserve financial stability.

The CSA work will be carried out using a common assessment framework developed by ESMA. The framework will set out the scope, methodology, supervisory expectations and timeline on how to carry out a comprehensive CSA in a convergent way. During 2025, NCAs will share knowledge and experiences through ESMA to foster convergence in how they supervise the compliance of FMCs with the relevant rules in the area.

Following ESMA's announcement, the Central Bank commenced its review of Irish FMCs' compliance and IA functions with questionnaires issuing to selected entities. The questionnaire is formulated under eight headings as follows:

Compliance function

- Compliance policy & procedures.
- Assignment of compliance responsibilities and delegation.
- Conditions enabling the compliance function.
- Compliance reporting to senior management.
- Compliance monitoring plans.

Internal Audit function

- Conditions enabling the IA function, responsibilities, and delegation.
- IA reporting to senior management.
- IA plans.

The Central Bank's CSA questionnaire involves the collation and submission by selected firms of specified supporting documents (including written policies and procedures, as well as copies of relevant reporting) that will enable an assessment by the Central Bank of the compliance and IA functions.

The CSA questionnaire addresses that firms should be able to demonstrate where appropriate, how considerations of proportionality are taken into account by the firm in the implementation of measures for both functions in view of the *nature, scale and complexity* of the business and the nature and range of activities and services undertaken in the course of the business.

ESMA's CSA will be conducted throughout 2025 culminating in a final report with the publication of findings from the CSA exercise during 2026.

1.2 AIFMD Q&A (50th Edition)

On 7 March 2025, the Central Bank published its updated AIFMD Q&A (50th edition). The 50th edition contains three new Q&As are as follows.

- Q&A ID 1160 purports to clarify the application of the prohibition on QIAIFs acting as guarantors for third parties. It confirms that guarantees are permissible under the rule in *Chapter 2 Part 1 Section 1 (i)(7)* of the AIF Rulebook in respect of investments and/or intermediate vehicles for such investments in which the QIAIF has a direct or indirect economic interest, subject to a number of safeguards and investor disclosures. These include that the entry into such guarantee arrangements is deemed to be in the best interests of investors and is clearly disclosed to investors.

In addition, the Central Bank also published two Q&As in respect of loan-originating QIAIFs ("**L-QIAIFs**").

- Q&A ID 1161 confirms for the purposes of the L-QIAIF restriction on lending to financial institutions, that the definition of "financial institution" in the AIF Rulebook is aligned with that defined in EU Directive 2009/138/EC (Solvency II), as transposed in Part 1 Paragraph 3 of the EU (Insurance and Reinsurance) Regulations 2015.

- Q&A ID 1162 clarifies that while the L-QIAIF restriction on lending to persons intending to invest in equities or other traded investments of commodities applies where the borrower intends to use the proceeds to facilitate a trading or speculative investment strategy, it does not prevent lending to a borrower with the intention of acquiring a controlling interest in a target company.

Walkers' Asset Management & Investment Funds and Financial Capital Markets groups have published an advisory on the implications of Q&A ID 1160 entitled *'Fund Finance: Central Bank of Ireland relaxes regulatory prohibition on provision of third-party guarantees by QIAIFs'*.

1.3 ESMA Q&As on AIFMD

On 10 January 2025, ESMA released a number of new and updated Q&As including on the Alternative Investment Fund Managers Directive ("**AIFMD**").

The new Q&As clarify existing practices for AIFMs under the following provisions:

- ID2229 clarifies that AIFMs cannot delegate the portfolio or risk management function to non-supervised undertakings established outside of the EU [*points (c) and (d) of Article 20(1) AIFMD*].

- ID2230 clarifies that AIFMs are not permitted to hold client money. An AIFM may be authorised to provide safekeeping services in relation to shares or units of collective investment undertakings but does not permit AIFMs to safekeep clients' money. The Q&A notes that the position will not change as a result of the extension of the scope of ancillary services under Article 6(4)(b) of Directive 2024/927/EU ("**AIFMD II**").

1.4 ESMA updates on deliverables

On 6 March 2025, ESMA published a letter to the Commission (dated 3 March 2025) where it communicates its intention to postpone and deprioritise a number of its 2025/26 deliverables, citing the coincidence of a large number of reviewed legislative files with the need to prepare for implementation of new responsibilities and the lack of accompanying additional resources.

Please note the following proposed postponements:

Legislative file	Item	Initial deadline	Proposed action
AIFMD II	RTS on open ended loan originating alternative investment funds	16 April 2025	Delay by 6 months
	Guidelines to specify the circumstances in which the name of a fund is unfair, unclear or misleading	16 April 2026	Delay by at least 12 months.
UCITS Eligible Assets Directive	Technical advice on eligible assets	April 2025	Delay of 3 months
EMIR 3.0	Range of Level 2/3 measures	4 December 2025	Various delays

On 13 March 2025, ESMA also published an overview list of planned consultations for 2025, which include:

- Integrated reporting obligations under AIFMD/UCITS (AIFMD II) review (**Q2 2025**)
- Sustainable Finance: RTS on Green Bond Regulation and RTS on ESG Rating Providers (**Q2 2025**); and
- EMIR 3.0 Level 2 RTS (various, including on revised clearing thresholds measures) (**Q2-Q4 2025**).

ESMA notes that in identifying those high priority and de-prioritised deliverables it has taken into account the Commission's political priorities on SIU, competitiveness and burden reduction. The resources freed up from these postponements and de-prioritisations will be diverted towards delivering on the highest priority workstreams for ESMA, amongst which are the implementation of EMIR 3.0, MiFID/MiFIR Review, the T+1 project and AIFMD II.

2. CENTRAL BANK UPDATES

2.1 Regulatory & Supervisory Outlook 2025

On 28 February 2025, the Central Bank published its Regulatory and Supervisory Outlook 2025 ("**RSO**"), its second annual report setting out the Central Bank's view on the key trends and risks facing the financial sector, along with the regulatory and supervisory priorities for the next two years in the context of those risks. The RSO was accompanied by a press release and an overview of the Central Bank's latest approach to supervision.

The scope of the RSO extends to internationally active regulated entities and the interests of their consumers and investors and the RSO is not limited to those segments of the financial sector associated with the domestic economy. The Central Bank have noted that the RSO is "set against the backdrop of an increasingly fast-moving, interconnected and uncertain world, which is being shaped by a complex interplay of geopolitical, economic, technological and environmental forces". The Report compliments the Central Bank's publications with a macroeconomic or financial stability perspective. The RSO also exhibits specific *Spotlight* chapters exploring areas of particular concern, such as consumer protection, artificial intelligence ("**AI**") and the rise in macro-economic and geopolitical risks.

The Central Bank also published a letter from the Governor of the Central Bank to the Minister for Finance and accompanying press release entitled *'Building economic resilience is key for Ireland'* setting out the Central Bank's key "financial regulation priorities for 2025.

The Governor outlines how the financial sector has an important role to play in supporting the broader economy through global transitions, adding that "both domestic and EU policy efforts should be enhanced to translate savings into investment and create a more vibrant funding environment for infrastructure and innovation".

The Governor also emphasised the SIU must deliver if Europe is to regain its competitive edge, and if we are to find ways to unlock the €11.5 trillion held by Europeans in deposits and cash and channel it to drive European innovation, while maintaining our resilience in the face of future potential shocks.

The headline sectoral risks and trends in the RSO for the funds sector have been updated from the inaugural 2024 report, with further detail set out in the following table.

Topic and risk Outlook for 2025/26	Risk Description	Risk drivers
1. Leverage and liquidity ***Risk outlook increasing***	Leverage and liquidity are "evergreen" sectoral risks which require on-going monitoring and mitigation. Liquidity issues can restrict a fund's ability to meet redemption requests upon demand. Instances in which leverage and liquidity issues arise together require particular focus, e.g. high levels of leverage in some fund cohorts can amplify liquidity issues within such funds.	Deficiencies in fund and fund service provider ("**FSP**") liquidity risk management frameworks. Funds with less liquid assets. Highly leveraged funds. Interconnectedness between the non-banking financial institutions ("**NBFI**") and traditional financial sectors.
2. Asset valuation and market risks ***Risk outlook increasing***	The response of the financial system to the external environment and moves towards more private assets increase valuation risks in the sector, with harder to value asset types or those with greater inherent market risk are increasingly proposed within fund structures.	Volatile geopolitical environment and changing investor preferences. Asset valuation challenges at asset class level.
3. Operational risks and resilience ***Risk outlook increasing***	The increase in digitalisation of fund operations, as well as the interconnectedness of the funds industry, exacerbates the potential impact of a successful cyberattack and operational disruptions. The risk that outsourcing frameworks of funds and FMCs do not adequately mitigate third party risks. Money laundering and terrorist financing risks is driven by the often-complex legal structures of funds, which can create a lack of transparency in relation to the ownership and control of these structures which can be further compounded where the bank and custodian accounts of a fund are held in offshore jurisdictions, particularly those jurisdictions with bank secrecy laws.	Increasing deployment of technology and digitalisation. Geopolitically driven threats. High levels of delegation and outsourcing in the funds sector.

Topic and risk Outlook for 2025/26	Risk Description	Risk drivers
	Continuing areas of key supervisory focus: FMC governance continues to be a key area of focus, in particular, the outsourcing risks associated with 'White Label'/Third Party FMCs, given the growth of this business model in recent years. In the course of the Central Bank's AML/CFT supervisory engagements with funds and fund service providers, the Central Bank has identified AML control deficiencies in the areas of AML/CFT risk assessments, governance and oversight, customer due diligence processes and suspicious transaction reporting process and procedures. Firms will be subject to on-going scrutiny and assessment of the robustness of these controls.	Growth of white label/third party management companies.
4. Sustainable finance	The funds sector fails to support or encourage the transition to a sustainable economy. Risks related to non-compliance with relevant SFDR rules which may divert investments from their intended use, i.e. greenwashing. Risks of greenwashing and so-called "greenhushing" are underlined, the former amplified by diverging interpretations of regulatory requirements and shortcomings of ESG-related data, whereas the latter is attributed to the political and geopolitical environment. The Central Bank notes a slight downward trend in the number of the most sustainable cohort funds (Article 9) seeking authorisation since the end of 2022, and an upward trend in the number of funds seeking authorisation under the less onerous Article 8.	Shifting investor demand for "green" products and the promotional advantages of "sustainable" or "ESG" labels. Global climate targets not being met.
5. Data, AI and modelling risks	Increasing use of AI tools could potentially have regulatory and investor protection consequences if not governed properly. Inaccurate and/or incomplete fund returns submitted to the Central Bank raise questions about data governance procedures and effectiveness.	Increasing deployment of generative AI tools. Poor governance of data completeness and accuracy by funds and FSPs.
6. Strategic risk and adapting to structural change	Retail investors are unable to participate in financial markets sufficiently to support the achievement of better returns for themselves (subject to their risk appetite and tolerance). Funds are unable to support the funding of innovation and the scaling of Irish and other EU	Lack of confidence, opportunity and/or incentives for citizens in Ireland and some other EU countries to participate in the funds market.

Topic and risk Outlook for 2025/26	Risk Description	Risk drivers
***Risk outlook increasing**	companies. Risks arising from the growth in complex investment strategies in growing new market segments. *Trends:* The Central Bank has noted increased engagement by funds and FSPs in relation to proposals for investment in alternative assets, such as crypto-assets, private debt and collateralised loan obligations (known as CLOs).	Embedded culture of bank financing in the EU. Growth in demand for new types of potentially more complex and higher risks investments.

Supervisory activities

The Central Bank's key supervisory activities for 2025/26 will include:

- Risk-based review of applications regarding funds and FSPs.
- Sectoral and thematic assessments, including the completion of the ESMA CSA on compliance and IA functions.
- Continuing the focus on delegation and outsourcing arrangements in FMCs.
- Focusing on FSPs' implementation of the requirements of DORA.
- Continuing to enhance and use fund data and risk models to deliver a data-led, agile and risk-based approach to the effective and efficient oversight of the sector.

Appendix A of the RSO details a number of key EU and domestic r*egulatory initiatives* of relevance to the sector including:

- **EU AI Act**: The first provisions of the AI Act came into force on 2 February 2025; in relation to AI literacy and prohibition of certain AI practices. The other obligations under the AI Act will be phased in over a period of 36 months with the key obligations in place within 24 months of entry into force of the AI Act.
- **Individual Accountability Framework ("IAF") implementation**: During 2025, the Central Bank will continue to implement the IAF in a proportionate and predictable manner.
- **Fund Sector 2030 Review** ("**2030 Review**"): the Central Bank is now working to implement 16 of the 42 recommendations of the 2030 Review which relate to the work of the Central Bank.
- **Tokenisation**: The Central Bank intends to publish a discussion paper on the potential application of tokenisation within investment funds.
- **Transposition of AIFMD II:** The Central Bank's Funds Policy Team is currently transposing the new rules into the domestic framework, which will require extensive updating.
- The Commission proposals in the areas of the **Retail Investment Strategy ("RIS")** and the **omnibus package on regulatory simplification** are also referenced.

Arising from the RSO and the Governor's letter, the Central Bank published a cross-sectoral Dear CEO letter to draw attention to the Central Bank's key regulation and supervision priorities for 2025 (the "**Letter**").

The Letter outlines the six overarching supervisory priorities which frame the more detailed supervisory strategies for each of the financial sectors which are consistent with those published last year.

On the macro-environment, the Letter outlines the fragile market sentiment amid the current geopolitical and economic situation and notes a further escalation in any of the areas of concern or other such developments could trigger a cascade of adverse economic, financial market, supply chain and operational impacts.

The Letter also outlines at a high-level its key regulatory initiatives contained in Governor Makhlouf's own letter to the Minister:

- Finalisation of the revised **Consumer Protection Code** to ensure consumers are protected in a more digitalised financial services sector.

- Implementation of the Markets in Crypto Assets Regulation **("MiCA")**, including engaging with firms seeking authorisation and work to raise awareness of the risks related to crypto for consumers.

- Ensuring firms have effective governance underpinned by strong ethical culture and robust systems of delivery. This will include continuing to embed the **IAF** for in-scope firms (including the extension of the Senior Executive Accountability Regime ("**SEAR**") to (independent) non-executive directors) and supporting external stakeholders through ongoing engagement; and

- Enhancing operational resilience, including cyber-related resilience, across the financial sector, through the effective implementation of **DORA**.

The Letter also addresses the Central Bank's intention to work closely with the Department of Finance on the recommendations from the 2030 Review and progressing proposals related to the SIU. It will also be proactively engaging, domestically and internationally, with the regulatory simplification agenda. Notably, the Letter points out that in any drive to simplify, it will call out the risks should the legitimate aims of simplifying frameworks go too far and will ensure not to compromise on delivering the stability, resilience and protections that consumers and the wider economy needs.

These recent publications from the Central Bank provide a helpful overview for boards and officers of funds, FSPs and other market participants as they navigate the regulatory year ahead. Funds and FSPs may wish to align with the Central Bank's expectations by ensuring that the risks and supervisory priorities outlined in the Letter and the RSO respectively are monitored and addressed in the firm's horizon planning, risk assessment and risk mitigation programmes.

2.2 Organisational update and supervisory approach *(This is a further update to section 2.3 of the quarterly report covering the fourth quarter of 2024)*

In January 2025, the Central Bank published their updated structure chart reflecting its new supervisory approach and management re-structuring of key divisions effective from 1 January 2025. The revised organisational structure includes previously signalled changes to their operating model with a new more-integrated and sectoral approach to supervision now being taken.

The supervision overview details the evolution of its supervisory approach since the introduction in 2011 of its risk-based supervision (known as PRISM). This new supervisory approach will ensure that the Central Bank continues to achieve its overarching safeguarding outcomes, i.e. protection of consumer and investor interests, the integrity of the financial system, the safety and soundness of firms, and financial stability (known as safeguarding objectives), and is based on the following design considerations:

- outcomes focused and integrated, risk-based supervision;
- risk response and remediation;
- supervisory effectiveness; and
- supervisory efficiency.

Each sector will be supervised in an integrated, holistic fashion with a multi-year supervisory strategy undertaken by supervisory teams from both vertical and horizontal areas. The strategies will be refreshed annually to ensure current and emerging risks, threats and vulnerabilities are considered and properly aligned with the Central Bank's annual RSO report. This approach is expected to involve the use of increasing sectoral and cross-sectoral engagements with shorter timeframes for completion of reviews.

Against this backdrop a new single Capital Markets & Funds Directorate, which brings together elements of the capital markets universe which had been housed in different parts of the Central Bank is now headed up by Gerry Cross as Director. The re-structuring also reflects Mary-Elizabeth McMunn's appointment as the new Deputy Governor, Financial Regulation, with Sharon Donnery commencing her new role as a member of the Supervisory Board at the ECB.

2.3 Markets update (1 of 2025)

On 10 March 2025, the Central Bank published markets update (issue 1 of 2025) which contained the updates:

- ESMA publishes European Commission Q&As clarifying AIFMs delegating portfolio or risk management to non-supervised undertakings established outside the EU and holding client money *[This update is addressed in section 1.3 of this report].*
- Central Bank publishes 50th Edition of the AIFMD Q&A *[This update is addressed in section 1.2 of this report].*

2.4 Money market and investment fund return (MM2/OF3) update *(This is a further update to section 3.5(d) of the quarterly report covering the third quarter of 2024)*

On 5 February 2025, the Central Bank published the proposed template and supplementary documentation regarding the additional reporting requirements under the new return designated the MM2 return. The MM2 return will implement the European Central Bank ("**ECB**) recast Regulation (EU) 2024/1988 on investment fund statistics.

- MM2 Template
- Industry Q&A
- OF3 - MMIF Notes on Compilation
- OF3 - MMIF schemas

The updated Q&A includes detail concerning the transitional period to the MM2 return (*section 4*), incorporation of information currently submitted by way of the Fund Profile return (*section 5*) as well as additional detail on regulatory reporting responsibility, standardisation and reliance on external/additional sources (*section 7*).

On the question of regulatory responsibility for completion of the return, the Q&A confirms that the investment fund retains responsibility of ensuring regulatory obligations are met and will be subject to non-compliance guidelines, however, the contracts of engagement between the fund and the administrator may define where the obligation to compete the return lies.

Next steps

The Central Bank expects to carry out a wider industry engagement on the additional reporting requirements with FMCs and investment funds during H1 2025.

2.5 Revised Consumer Protection Code ("**CPC**")

On 24 March 2025, the Governor of the Central Bank launched the Central Bank's revised CPC, following its comprehensive consultation and review process. The CPC outlines a set of rules and business standards applying to regulated financial firms to secure customers' interests and which seeks to embody a customer-focused mind-set in a digital world.

The Central Bank published the following supplementary material on the revised CPC:

- Feedback statement on CPC review;
- Central Bank Reform Act 2010 (Section 17A) (Standards for Business) Regulations 2025 (S.I. No. 80 of 2025) (incorporating Supporting Standards for Business) (the "**Business Standards**");
- Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Consumer Protection) Regulations 2025 (S.I. No. 81 of 2025);
- HTML navigation tool for the two sets of foregoing regulations to facilitate ease of access and navigation of the CPC;
- Guidance on Securing Customers' Interests;
- Guidance on Protecting Consumers in Vulnerable Circumstances;
- General CPC Guidance;
- Mapping tool – Existing Codes and Regulations in the new Regulations; and
- Explainer: What is the CPC 2025 and how can it protect me.

The Standards for Business Regulations introduced under the Central Bank (Individual Accountability Framework) Act 2023 set out governance, resource and risk management requirements. The regulations also prescribe conduct standards which regulated firms must adhere to. The more granular Supporting Standards for Business provide detail on how firms can meet the standards for business.

The Consumer Protection Regulations and associated guidance cover matters such as customer suitability assessment and greenwashing requirements, sustainability preferences, remuneration conflicts of interest, requirements for firms using digital technology, advertising protecting consumers in vulnerable circumstances (as defined) and informing consumers effectively.

In addition, to natural persons the scope of "consumer" under the Consumer Protection Regulation is increased to encompass businesses with a maximum annual turnover threshold of €5 million (from €3 million).

The revised CPC replaces the existing CPC (dating to 2012) following a twelve-month transition period, with effect from 24 March 2026.

Walkers' Regulatory & Risk group have published an advisory entitled *'Central Bank modernises consumer protection code and introduces standards for business*'.

2.6 Enforcement action

On 27 February 2025, the Central Bank published a press release concerning its latest enforcement action against a MiFID investment firm involved in arranging and executing transactions in financial instruments.

The enforcement action saw the imposition of a fine for breaches of obligations under Article 16(2) of the Market Abuse Regulation (596/2014/EU) to identify and report to the Central Bank suspicious transactions or orders ("**STORs**") that may indicate potential market abuse.

In addition to failures to make the appropriate STOR reporting, the press release highlights governance failures in the firm's compliance function, its internal escalation procedures and in the effectiveness, decision-making and record keeping of the relevant STOR committee.

2.7 Demographic Analysis Report 2024 for pre-approval controlled function ("**PCF**") roles

On 12 March 2025, the Central Bank published the latest edition of its demographic analysis report which highlights data on the diversity of PCF role holders and applicants for PCF roles during 2024. The analysis is primarily focused on gender diversity as there is limited data on other forms of diversity (beyond age). The report notes gender diversity is indicative of wider diversity trends.

Female representation increased in all sectors in 2024 with asset management sector representation (PCF role holders) increasing from 23% to 26%. The share of PCF applications in the sector which were received from females in 2024 was 36% (up from 34% in 2023). Additional data is contained in the report breaking down the data, according to role types and age ranges.

On 10 March 2025, the Governor of the Central Bank published a blog entitled *'Accelerating Diversity'*. The Governor notes the 2024 report shows that the rate of female applicants for some of the significant leadership roles within regulated financial firms across the industry has steadily increased from 16% in 2012 to 34% in 2024. This is the first time representation from female applicants has exceeded one-third. Although these are encouraging and welcome developments, he notes the report serves as a timely reminder that more needs to be done to encourage greater diversity – in all its forms – in Irish regulated firms.

The Governor also focuses in his blog remarks on the importance of *'diversity of thought'*. The Central Bank perceives diversity of thought as critical to ensure a range of perspectives are considered and evaluated to help policymakers, firms and businesses navigate their way through uncertainty.

2.8 Speeches during the period

(a) *MiCA industry briefing*

On 28 March 2025, Director of Capital Markets & Funds, Gerry Cross, delivered an industry briefing on MiCA. Mr Cross' remarks followed the publication of the Central Bank's application form for authorisation as a Crypto-Asset Service Provider under MiCA.

The session covered relevant topics including custodying of crypto-assets, substance requirements and outsourcing, business models and the interplay between MiCA and other regulatory regimes.

(b) *The value of trusted institutions*

On 13 March 2025, the Central Bank published remarks delivered by the Governor entitled *'The value of trusted institutions'*. His remarks focused on the significant role that trust and credibility play to ensure that an independent central bank delivers its objectives. The Governor's speech addressed his suggestions for how central banks can met the challenge of sustaining trust in a world of alternative truths and disinformation bubbles, with a view to building social capital and his view of the centrality of humility and effective communication.

(c) *Innovation and technology in financial crime*

On 4 February 2025, Deputy Governor, Consumer and Investor Protection, Derville Rowland delivered remarks entitled '*Innovation and technology in financial crime'.* Her remarks touched on the EU's AML package, fraudulent use of AI tools and developing a wider approach to preventing financial crime.

2.9 UCITS/RIAIF application forms (updated)

On 13 January 2025, the Central Bank updated a number of its UCITS & RIAIF authorisation application forms.

The investment restrictions template has been amended to reflect the list of eligible issuers includes the Government of Saudi Arabia (provided the issues are of investment grade) in the list of issuers for which a UCITS/RIAIF may invest up to 100% of net assets.

The updated versions of the relevant application forms should be used going forward.

2.10 Investment Fund statistics Q4 2024

On 28 February 2025, the Central Bank published its Investment Fund Statistics for Q4 2024, which show net asset values of Irish domiciled funds increased for the ninth successive quarter, by €308bn, and climbed to €4,992bn by the end of Q4 2024, driven by transaction inflows of €131bn and positive revaluations of €177bn. The release shows that total assets under management, which stood at €1.6 trillion in Q1 2014, has more than tripled during the last 10 years to reach €5.54 trillion by the end of Q4 2024.

On 5 March 2025, the European Fund and Asset Management Association ("**EFAMA**") published its European Quarterly Statistical Release for Q4 2024 entitled *'Strong net asset growth for funds in 2024, significantly higher net sales in equity, bond, and MMF UCITS'*, together with an overview of the full year 2024. The release shows that net assets of UCITS and AIFs rose by 3.2% in Q4 2024, comprising of net inflows of UCITS amounting to €216 billion and net inflows of AIFs amounting to €21 billion and ETFs maintained their positive inflow momentum. The release notes that long-term SFDR Article 9 funds saw their fifth consecutive quarter of net outflows, totalling €7.5 billion, while Article 8 funds attracted €43 billion in new money.

3. OTHER LEGAL AND REGULATORY DEVELOPMENTS

3.1 European Commission

(a) *EU competitiveness compass (This is a further update to section 3.4(a) of the quarterly report covering the fourth quarter of 2024)*

On 29 January 2025, the Commission published a communication entitled "*A Competitiveness Compass for the EU*" which sets out the framework for the Commission's work on competitiveness for the next five years and lists its initial priorities to reignite economic dynamism in Europe.

The accompanying press release notes the competitiveness compass is composed of various flagship measures divided into three key pillars (innovation, decarbonisation and reducing dependencies) as well as five horizontal enablers:

- regulatory simplification;
- financing competitiveness;
- enhanced coordination;
- lowering single market barriers; and
- promotion of skills and quality employment**.**

The communication initially targets initiatives including relating to the omnibus simplification package and developing the new SIU.

(b) *Work programme for 2025*

On 11 February 2025, the Commission released its work programme for 2025, contained in a Commission communication entitled 'A Bolder, Simpler, Faster Union'.

Among the key initiatives designed to foster a more integrated, resilient, and sustainable financial market, include the omnibus legislative package on sustainability that simplifies various pieces of legislation (subsequently published on 26 February 2025, and *outlined at section 4(a) of this report*). The communication notes a record number of initiatives with a strong simplification dimension. These will contribute to achieving the goal of reducing administrative burdens by at least 25%, and at least 35% for SMEs. The Commission also includes an annual plan of evaluations and fitness checks to ensure continuity of the simplification and burden reduction exercise. The 'omnibus proposals' to be adopted in stages, will tackle priority sectors signalled by stakeholders and referred to in the Draghi report. The communication notes the omnibus proposals are designed to concentrate efforts in ensuring coherence, building momentum and thereby maximising simplification by addressing the consequences of interactions of different pieces of legislation.

Other notable initiatives communicated in the programme of work and their associated timelines include:

- **Communication on a SIU** (non-legislative, outlined at section 3.1(c)).

- **Review of the Securitisation Framework** (legislative, incl. impact assessment, Article 114 TFEU, Q2 2025).

- **Revision of the Sustainable Finance Disclosure Regulation** (legislative, including impact assessment, Article 114 TFEU, Q4 2025).

The foregoing are classed as simplification initiatives or initiatives with a strong simplification dimension. The timeline referenced for each is indicative only and subject to change during the preparatory process.

The Commission has also incorporated, via its law-making process and pursuant to political guidelines, a publication dated 11 February 2025 on its new Simplification and Implementation agenda to achieve streamlining and simplification of EU, national and regional rules and to implement policies more effectively.

(c) *Communication on the SIU*

On 19 March 2025, the Commission published a Communication regarding its adopted strategy on the SIU, alongside the following:

- Press release | European Commission

- Questions and answers on the Savings and Investments Union

- Factsheet: Savings and Investments Union - European Commission

The purpose of the SIU is to improve links between savings and investments to enable EU companies to meet their capital needs and to increase returns for EU citizens on their long-term savings. The SIU will consist of a number of initiatives intended to foster the development of capital and banking markets including to:

- mobilise savings more effectively, in particular by supporting retail participation in capital markets through simple and low-cost saving and investment products and through appropriate incentives.

- make more investments available for EU companies, including for young and innovative companies, in particular by incentivising European private and institutional investors to channel funding to productive and innovative firms.

A number of proposals of relevance are outlined in the Communication as follows:

1. Improving cross-border distribution of funds and reducing operational barriers facing asset managers

In Q4 2025, the Commission will propose legislation to remove remaining barriers – at national or at EU level - to the distribution of EU-authorised funds across the EU. The Commission will also come forward with measures to reduce operational barriers affecting cross-border groups, thereby enhancing the competitiveness and agility of the asset management sector. This aims to simplify operations for asset managers and ensure more efficient access and servicing of clients.

2. Addressing Gold-Plating and National Options

The Commission will work closely with the ESAs and Member States to identify and remove barriers, including gold-plating of commonly agreed EU legislation and reducing national options and discretions that contribute to fragmentation.

Simplification efforts will underpin these actions, including reducing transposition burdens and narrowing gold-plating opportunities. In Q2 2025, the Commission will set up a dedicated channel for all market participants to report on encountered barriers within the single market and will step up enforcement action to accelerate their removal.

3. Adoption of Measures for EU Investment Savings Accounts

The Commission will adopt measures by Q3 2025 to create a European blueprint for savings and investments accounts or products. The Commission will also issue a recommendation to Member States on the tax treatment of savings and investments accounts.

4. Enhancing Supervisory Convergence

In Q4 2025, the Commission will propose measures to strengthen supervisory convergence tools and make them more effective. This includes ensuring that all financial market operators receive the same supervisory treatment irrespective of their location across the Union. The aim is to reduce divergence in supervisory practices, which can create barriers to cross-border activities and increase compliance costs. The Commission also calls on the ESAs and NCAs to make full use of currently available tools and implement the simplification agenda as outlined in the Simplification Communication

5. Transfer of direct supervision

The Communication notes that in cases where market participants have a significant cross-border presence, a supervisory perspective that extends beyond the national level can bring useful synergies. Transferring certain supervisory tasks to ESMA may be appropriate for large trading and post-trading infrastructures, *large cross-border asset management groups*, and new or emerging sectors such as crypto asset services providers.

6. Promoting institutional investment in equity and alternative asset classes

By Q4 2025, the Commission will take measures to stimulate equity investments and certain alternative assets, namely venture capital, private equity and infrastructure by institutional investors.

- This includes specifying eligibility criteria for the favourable prudential treatment of long-term investments in equity by insurers under Solvency II and addressing any further undue barriers to equity investment by institutional investors.

- For banks, the Commission will give guidance on the use of the favourable prudential treatment for investments under legislative programmes.

- For pension funds, the Commission will clarify how such investments can be in line with the prudent person principle enshrined in current legislation.

The aim of these measures is to promote investment in equity and certain alternative asset classes, such as venture capital and growth capital.

On securitisation, the Commission will make proposals in Q2 2025 focusing on simplifying due diligence and transparency and adjusting prudential requirements for banks and insurers.

7. Upgrading the EuVECA Regulation

By Q3 2026, the Commission will review and upgrade Regulation (EU) No 345/2013 on European venture capital funds to make the EuVECA label more attractive. This includes widening the scope of investable assets and strategies.

On 17 February 2025, ESMA's Head of Governance delivered a speech at European Parliamentary week entitled *'Creating an ecosystem for European investments'* on the need to empower retail investors and to address the fragmentation in European capital markets to contribute towards making the SIU successful.

(d) *Proposal on T+1 settlement cycle in the EU (This is a further update to section 3.6(d) of the quarterly report covering the fourth quarter of 2024)*

On 12 February 2025, the Commission published a legislative proposal for a Regulation to shorten the settlement period for EU transactions in transferable securities from two business days to one business day through an amendment to Article 5(2) of the Central Securities Depositories Regulation (909/2014/EU) ("**CSDR**").

The amendment Regulation seeks to:

- improve settlement efficiency and the resilience of EU capital markets, as well as helping develop deeper and more liquid capital markets; and
- avoid market fragmentation and reduce costs linked to misalignment with other major jurisdictions globally.

The proposed Regulation will now be considered by the European Parliament and Council and would apply from 11 October 2027.

(e) *Guidelines on prohibited AI practices (This is a further update to section 2.10(b) of the quarterly report covering the fourth quarter of 2024)*

On 4 February 2025, the Commission published draft guidelines on prohibited AI practices under Article 5 of the AI Act (the "**Guidelines**"). Article 5 outlines and provides real-world examples of eight types of prohibited AI practices, such as social scoring, emotion recognition, biometric classification and real-time remote biometric identification in publicly accessible places for law enforcement purposes.

The Guidelines are non-binding, but the Commission says that they provide a valuable insight on how to interpret the Article 5 prohibitions. The Commission notes that the Guidelines are intended to promote the consistent and uniform application of the AI Act across the EU and are aimed at competent authorities, and providers and deployers of AI systems.

The Guidelines also address the interplay between Article 5 prohibitions and high-risk AI systems (Article 6 and Annex III) of the AI Act. The Commission has released the Guidelines as an approved draft, as the Article 5 prohibitions on high-risk AI systems entered into effect from 2 February 2025 and will formally adopt the Guidelines when all language versions are available.

3.2 DORA

(a) *European Union (Digital Operational Resilience) Regulations 2025 (the "**Regulations**")*

On 24 January 2025, the Regulations (S.I. No. 12/2025) were published in Iris Oifigiúil. giving effect to Directive (EU) 2022/2556 as regards digital operational resilience for the financial sector across a number of sectoral regulations, including the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations (the "**UCITS Regulations**") and the EU (Alternative Investment Fund Managers) Regulations (the "**AIFM Regulations**").

The Regulations amend the UCITS Regulations and the AIFM Regulations whereby the requirements for fund management companies to maintain procedures, controls and arrangements for electronic data processing, shall include network and information systems that are set up and managed in accordance with Regulation (EU) 2022/2554.

The Regulations came into operation on 17 January 2025.

(b) *European Union (Digital Operational Resilience) Regulations 2025 (No. 2) the "(**No. 2) Regulations**")*

On 14 February 2025, the (No. 2) Regulations (S.I. 20/2025) were published, further outlining Ireland's implementation of DORA.

The (No. 2) Regulations clarify the role of the Central Bank as Ireland's competent authority and enforcement provisions, including the level and type of sanctions for DORA non-compliance.

(c) *Central Bank guide to DORA reporting*

On 17 January 2025, the Central Bank published a guide to 'Submitting major ICT-related incident and significant cyber threat report(s)' pursuant to DORA, as well as the following associated reporting submission templates:

- major ICT-related incident reporting template; and
- significant cyber threat reporting template.

The major ICT-related incident reporting template and significant cyber threat reporting template been designed by the European Supervisory Authorities (the "**ESAs**") and are to be used by in scope financial entities when submitting a major ICT-related incident and significant cyber threat report respectively.

The Central Bank notes that minor updates may be made to these documents in the coming months.

On 25 March 2025, the Central Bank published the Guide to Submitting DORA Registers on the Central Bank of Ireland Portal.

Financial entities subject to DORA are required to submit their Registers of Information (all contractual arrangements on the use of ICT services provided by ICT third-party service providers per article 28(3) of DORA) to the Central Bank via the Portal from **April 1 to 4 2025**. The Central Bank have issued this 'how-to' guide and checklist on how to upload the prepared Register and have noted that firms should ensure they are using the latest version of the system guide at all times as there may be periodic updates. The Central Bank's webpage Reporting Registers of Information provides further information on the reporting, noting that the register should contain all data as at 31 March 2025 per the relevant Implementing Technical Standards.

On 2 March 2025, ahead of the submission window for ROIs, the Central Bank published its list of common mistakes that financial entities may inadvertently make in uploading DORA ROI files, as encountered through testing, as well as a recap of the key links to be followed for guidance.

The Central Bank encourages financial entities to frontload their initial submission early in the 1 - 4 April window such that there is time for the firm to remediate any issues. The list also includes a reminder of the structure the compiled files should have for upload, as well as the ESA webpage on ROI preparation providing all useful information on how to prepare the ROI reporting package.

(d) *ESA Q&A update – DORA implementation*

On 22 January 2025, EIOPA published a number of new Q&As on the interpretation of DORA (available using the ESA Q&A tool), including answers provided by the Commission.

Most notably, the Commission has provided clarification in Q&A ID 2999 - DORA030 regarding the types of services which should be considered ICT services based on the definition in Article 3(21) of DORA.

The Q&A confirms in the situation where financial entities provides financial services with an ICT component to other financial entities, the receiving financial entities should assess whether:

i) the services constitute an ICT service under DORA, and
ii) whether the providing financial entities and the financial services they provide are regulated under EU law or any national legislation of a member state or of a third country.

Where both tests are positive, then the Q&A confirms that the related ICT service should be considered to predominantly be a financial service and should not be treated as an ICT service within the meaning of Article 3(21).

Where the service is provided by a regulated financial entity providing regulated financial services but is unrelated or is independent from such regulated financial services, the service should be considered as an ICT service. The same rationale applies to ancillary services provided by an entity, depending on whether such ancillary services are regulated financial services or a service inseparable from, indivisible from, preparatory or necessary for the provision of a regulated financial service, and are not provided in a standalone manner.

The Q&A is without prejudice to the requirements applicable to financial entities under DORA, other than the requirements related to ICT third-party risk management.

On 28 March 2025, the EBA published updated ESAs FAQs on reporting of ROIs under DORA.

(e) *Delegated and Implementing Regulations published in the official journal of the EU (the "**OJ**")*

On 22 February 2025, the following measures supplementing DORA were published in the OJ, finalising details on reporting ICT related incidents and significant cyber threats.

- Commission Delegated Regulation (EU) 2025/301 with regard to regulatory technical standards ("**RTS**") specifying the content and time limits for the initial notification of, and intermediate and final report on, major ICT-related incidents, and the content of the voluntary notification for significant cyber threats under Article 20(3) of DORA.

- Commission Implementing Regulation (EU) 2025/302 supplementing DORA by laying down implementing technical standards (ITS) for the application with regard to the standard forms, templates and procedures for financial entities to report a major ICT-related incident and to notify a significant cyber threat under Article 20(4) of DORA.

Both regulations enter into force on 12 March 2025.

(f) *RTS on sub-contracting ICT services (This is a further update to section 3.5(h) of the quarterly report covering the third quarter of 2024)*

On 24 March 2025, following their initial rejection by the Commission, the Commission adopted a delegated regulation with RTS under Article 30(5) of DORA specifying the elements that a financial entity has to determine and assess when sub-contracting ICT services supporting critical or important functions.

The RTS set out requirements when the use of sub-contracted ICT services supporting critical or important functions (or material parts of such functions) by ICT third-party service providers is permitted by financial entities, including to:

- Establish the rules on proportionality and group application.
- Set out rules on due diligence and risk assessment regarding the use of sub-contractors supporting critical or important functions.
- Establish the description and the conditions under which ICT services supporting a critical or important function may be sub-contracted.
- Contain the rules on material changes to sub-contracting arrangements of ICT service supporting critical or important functions and the provisions on the termination of contractual arrangements.

The adoption of the RTS follows the ESA opinion accepting the Commission's amendments to the RTS.

The delegated regulation will enter into force 20 days following publication in the OJ.

(g) *ESA guidelines on estimation of aggregated annual costs and losses caused by major ICT-related incidents under DORA*

On 18 March 2025, ESMA published official translations, including the English language version of the ESA's joint guidelines on the estimation of aggregated annual costs and losses caused by major ICT-related incidents under Article 11 of DORA.

The guidelines are issued under Article 11 of DORA and also specify a common template for the submission of the aggregated annual costs and losses.

The guidelines specify a common template for the submission of the aggregated annual costs and losses and will apply from 19 May 2025. NCAs must notify the relevant ESA whether they comply, intend to comply or reasons for non-compliance, by this date.

(h) *ESAs roadmap for designating critical ICT third-party providers*

On 18 February 2025, the ESAs published a roadmap sets out four steps for the designation of critical ICT third-party service providers ("**CTPPs**") in 2025, with the following deadlines:

By **30 April 2025**, the ESAs will collect the registers of information on ICT third-party arrangements submitted by financial entities to competent authorities.

By the end of **July 2025**, the ESAs will perform the criticality assessments required under DORA and notify third-party service providers if they are classified as critical.

By **mid-September 2025**, there will be a six-week hearing period where ICT third-party service providers can raise objections to the assessment, with a reasoned statement and supporting information.

By the **end of 2025**, the ESAs will have designated, and published a list of, CTPPs and commenced oversight engagement.

The ESAs will also continuously engage with the market throughout this period.

The accompanying EBA press release notes that ICT third-party service providers that are not designated as critical can voluntarily request to be designated once the list of CTPPs is published, with details on how to raise a request to be provided soon.

The ESAs intend to organise an online workshop with ICT third-party service providers in Q2 2025 to provide further clarity on preparatory activities, the designation process and the ESAs' oversight approach.

(i) *ESAs report on centralisation of DORA reporting*

On 17 January 2025, the ESAs published a report on the feasibility of further centralisation, including the option of a fully centralised model, in the reporting of major ICT-related incidents by financial entities in accordance with Article 21 of DORA.

The report has been submitted to the EU bodies to consider its findings for potential future developments in the further centralisation of ICT-related incident reporting.

3.3 ESMA & the ESAs

(a) *ESMA research on AI in investment funds*

On 25 February 2025, ESMA published its latest TRV research investigating the impact of '*AI on EU investment funds: adoption strategies and portfolio construction*' and its recent advancements in the EU investment management industry.

Key takeaways from the publication include:

- Funds that promote the use of AI to power quantitative investment strategies control only a small share (0.1%) of the assets managed by EU UCITS and have had mixed success with investors, attracting limited inflows. These funds typically aim to integrate AI into systematic investment strategies but have not delivered significantly higher or lower performance and have had mixed success among investors, experiencing outflows in recent periods. Instead, asset managers use generative AI and tools based on large language models primarily to support human-driven investment decisions.

- While new AI technologies may bring improvements and enhance productivity across a range of tasks, the penetration of AI into quantitative investment remains cautious.

- The article also assesses investment in AI, i.e. the portfolio allocation to AI-related companies by EU investment fund. The portfolios of EU funds have tilted towards AI-focused equities increasing their exposure to firms that contribute to AI development and adoption by more than 50%. This increased exposure might shift the risk profile of some funds and amplify market risks.

Notwithstanding the somewhat subdued promotion of AI by funds, ESMA expects that depending on the trajectory of its penetration in investment management, new forms of AI risk to investor protection and financial stability may arise in the future, tied to third-party dependencies and service provider concentration, cyber threats, model and data governance, and increased market correlations.

On 26 March 2025, ESMA published an investor warning aimed at retail investors and consumers highlighting the risks arising from the use by the public of investing tools powered by AI.

(b) *Guidelines on money market funds ("**MMF**") stress test scenarios (This is a further update to section 3.3(d) of the quarterly report covering the first quarter of 2024)*

On 25 February 2025, ESMA published the official translations of its annually updated guidelines on stress test scenarios under Article 28 of the Regulation on MMFs. The parts of the guidelines shown in red text will apply from 24 April 2025. The other parts of the guidelines already apply from the dates specified in Articles 44 and 47 of the Regulation.

ESMA's final report published on 7 January 2025 includes explanations on reporting results for macro systemic shocks and the new risk parameters for MMF managers, to be included with quarterly reporting to NCAs.

The guidelines are updated at least every year to take into account the latest market developments.

(c) *EBA AML/CFT package consultations*

On 6 March 2025, in response to the Commission's request for advice, the European Banking Authority (**EBA**) launched a public consultation on four sets of draft RTS to form part of the EU's new AML/CFT legislative package.

The EBA's consultation requests feedback on the following four RTS:

- draft RTS on harmonised ML/TF risk assessments

- draft RTS on customer due diligence requirements

- draft RTS on the criteria for selection of institutions for direct supervision by the EU Anti-Money Laundering Authority (AMLA)

- draft RTS on pecuniary sanctions, administrative measures and periodic penalty payments.

The consultation closes on 6 June 2025.

(d) *ESMA's Trends, Risks and Vulnerabilities Report*

On 13 February 2025, ESMA published its first Trends, Risks and Vulnerabilities Report for 2025 alongside its statistical annex (the "**Report**"). The Report finds that overall risks in EU securities markets are high, and market participants should be wary of potential market corrections.

ESMA's press release *'Geopolitical and macroeconomic developments driving market uncertainty'* provides an overview on structural developments and the status of key sectors of financial markets, during the second half of 2024.

On asset management: In 2H24, EU fund asset growth was due to valuation effects, with most categories performing positively amid muted flows. Overall EU equity fund performance outperformed EU indices reflecting a growing exposure to the US. This could expose these funds to higher market risks given signs of overvaluation in US equities. Funds remain exposed to key elevated risks, especially liquidity, credit and valuation risk. Leverage remains high for hedge funds and commercial real estate fund valuation has not adjusted substantially to underlying prices.

On sustainable finance: Uncertainty linked to the direction of global climate policy continued to grow in 2H24. A renewed need to consolidate public finances in advanced economies raised questions on government abilities to finance the transition, while slower ESG investing momentum signalled a drop in appetite for 'green' products. Yet, the strength of the EU green bond market, underpinned by non-financial corporate issuance, suggests a broader greening of the economy continues.

Net inflows into SFDR Art.8 funds (promoting environmental or social characteristics) accelerated, supported by demand for transition finance products, but remained lower than flows into Art.6 funds without ESG features.

ESMA's Chair, Verena Ross, outlined the findings as follows:

"Financial markets remain optimistic, but recent events show that confidence is fragile, including in Europe. The evolution of economic growth, global monetary policy and geopolitics remains uncertain, and this gives rise to key risk drivers.

Market participants need to keep their eyes firmly on growing risks, from possible corrections in surging markets such as cryptos, to the threat of disruption from increasingly sophisticated and frequent cyber-attacks.

The difficult funding environment, particularly for equity financing, in Europe identified in the report also shows just how important it is to strengthen European capital markets."

The Report notes that global markets soar but downside risks are mounting. This is especially visible from an EU perspective where economic and political uncertainties are weighing on markets and where market-based corporate financing remains lacklustre.

(e) *Spring update on risks and vulnerabilities in the EU financial system*

On 31 March 2025, ESA's Joint Committee published their Spring 2025 update on risks and vulnerabilities in the EU financial system

The update calls for vigilance from supervisors and financial entities alike, in light of the growing geopolitical tensions and rising cyber risks (including trade disputes, rapidly shifting policies, ongoing international conflicts and the prospect of economic fragmentation). While preparing for continued market volatility and material liquidity risks, the ESAs emphasise the need for proactive risk management, stronger cyber resilience and a close monitoring of global financial linkages, including currency risk. The update highlights the rise of AI in financial services also increases exposure to cyber threats, market correlations, and data governance challenges and the need for stronger cybersecurity measures, critically assessment of AI solutions and robust data frameworks.

(f) *ESMA measures to simplify regulatory reporting and reduce burdens on financial firms*

On 7 February 2025, ESMA published a press release which announced its support for the Commission's objective to simplify and reduce the reporting burden in the financial sector. ESMA outlined several initiatives aimed at streamlining regulatory reporting requirements and reducing the compliance burden on financial firms.

Key measures outlined by ESMA include changes to the markets in financial instruments regulation (known as MiFIR) transparency framework to eliminate duplicative reporting, plans to discontinue certain reporting flows in favour of utilising existing transaction data, and proposals to digitalise sustainability disclosures in a phased manner. ESMA states that they are consulting on ways to ease the burden of electronic disclosures for financial statement notes.

ESMA's efforts are part of a broader initiative to simplify the regulatory landscape while maintaining financial stability, market integrity, and investor protection objectives. ESMA stated it will continue to engage with stakeholders to identify further simplification opportunities, contributing to a more effective and attractive EU capital market.

(g) *ESMA 2026- 2028 Programme (This is a further update to section 3.6(b) of the quarterly report covering the fourth quarter of 2024)*

On 31 January 2025, ESMA published the programme document for 2026-2028 highlighting ESMA's planned work for the period including:

- developing the new SIU (outlined at section 3.1(c) of this report).
- increasing the competitiveness of the European financial sector, including through simplification of rules and the reduction of compliance costs.
- preparing for and implementing new supervisory mandates, such as those related to DORA and the regulation on ESG rating providers.
- taking actions against the risk of greenwashing and enhancing its regulatory framework to support the EU's green transition and ensure transparency in ESG disclosures.
- actively monitoring developments relating to blockchain and artificial intelligence, reassessing its rulebook to ensure its relevance and exploring the potential of leveraging these technologies for supervisory purposes.
- implementing legislative files including the reviews of EMIR 3.0, CSDR (CSDR Refit), AIFMD, the UCITS Directive and the ELTIF Regulation.
- shortening the settlement cycle (T+1) by Q4 2027.

Key planned outputs and reports relevant to the asset management sector are noted as:

- Monitoring the risks posed by the growth of the NBFI sector.
- Guidelines on the activation of suspensions of subscriptions and redemptions of funds by NCAs (expected Q2 2026).
- Report on tackling greenwashing risk in the sustainable investment fund market (Q2 2026).
- Report on the 2025 CSA on Compliance and Internal Audit Functions of UCITS management companies and AIFMs (Q2 2026).
- Annual ESAs' report on principal adverse impact disclosures under Article 18 SFDR (Q3 2026). ESAs may also provide more guidance and Q&As for sustainability disclosures under the SFDR.

Subject to market developments, ESMA expects key areas of focus in 2026 in the asset management sector could include the use of leverage by funds, liquidity, as well as interconnectedness of funds with the rest of the financial system. ESMA notes that the Commissions' assessment and review of the PRIIPs Regulation and SFDR may give rise to RTS and requests for technical advice from the ESAs. In 2026, ESMA will finalise the project on "*Tackling greenwashing risk in the sustainable investment fund market*" as part of the Commission's Technical Support Instrument.

(h) *ESMA report on costs and performance of retail products*

On 17 January 2025, ESMA published its seventh market report on the costs and performance of EU retail investment products (the "**Report**").

The headline finding in the Report shows a decline in the costs of investing in key financial products. The accompanying press release outlines that the cost levels of funds in the EU remain high by international standards, as well as the average fund size in the EU being almost 10 times smaller than that of, US mutual funds. Accordingly, ESMA concludes that with the EU market totalling more than 50,000 EU funds, economies of scale occurring within the EU's single market are not being fully realised. The market inefficiencies revealed by this higher cost level demonstrate to ESMA the need to focus on the competitiveness of EU markets, within a future SIU.

Among member states, Netherlands and Sweden exhibited the lowest total costs, while the highest cost levels were observed in Luxembourg and Austria.

The key findings in the Report are:

- UCITS costs decline gradually, from high levels. Investors should continue to consider fund fees carefully in their investment decisions – especially since costs have not dropped for all categories of funds: ongoing costs of mixed funds and equity passive funds have been relatively stable over time.

- UCITS performance slightly improved: Returns progressed in 2023 but remained far from their 2021 levels. The annual net performance of bond and mixed funds improved between 2022 and 2023 but remained in negative territories.

- ESG UCITS showing lower costs and higher performance that non-ESG: Overall, ESG funds outperformed their non-ESG equivalents in 2023. Ongoing costs of retail ESG funds remain lower or similar to the ongoing costs of non-ESG equivalents while there are disparities across asset classes: non-ETF equity ESG funds outperformed, while equity ETF, fixed income and mixed ESG funds underperformed.

- AIFs less demanded by retail investors: The market for AIFs remained dominated by professional investors and is less invested by retail investors compared with the UCITS market.

ESMA has been mandated to produce a report on costs linked to investment in UCITS and AIFs, for which a data collection exercise with NCAs is ongoing and the analysis will be part of an enhanced 2025 ESMA market report on costs and performance of EU retail investment products that is expected later this year to bring new insights and more granular information on fund costs.

(i) *ESMA research on EU fund costs structures*

On 19 February 2025, ESMA published its latest TRV advisory entitled *'Scale Factor: Impact of size on EU fund cost structures'.* The findings of the publication will be relevant in the EU in the context of the proposed development of a SIU and the ongoing negotiations of the RIS proposals.

This study examines how size affects costs in the European investment fund market, comparing it with the US market. ESMA's analysis demonstrates that both individual share class size and parent company size significantly influence share class costs, though these effects vary between markets. It finds a negative correlation between share class size and costs in both markets, indicating economies of scale, but the relationship is stronger in the US market.

At a policy level, ESMA sees important implications both from a policy and investor protection perspective as results suggest that greater consolidation could – assuming unimpaired competition – benefit European investors through cost efficiencies. From an investor protection perspective, ESMA suggests that investors should still consider costs carefully when taking investment decisions and awareness of fund costs and their potential drivers is key.

EFAMA publications on EU fund costs

On 13 February 2025, EFAMA published a press release entitled *'A like-for-like comparison of the cost of US mutual funds and UCITS is missing from the latest ESMA report'.* In the statement, EFAMA strongly contests the findings of ESMA's recent seventh market report on costs and performance of EU retail investment products, arguing that the comparison lacked context. Its own research suggests that US mutual funds were not necessarily cheaper than UCITS.

On 20 February 2025, EFAMA published a press release on its latest Market Insights series, titled *"Beyond fund consolidation: a more promising strategy for bigger funds and faster cost declines in Europe"*. This publication compares the size and number of equity UCITS with that of US equity mutual funds and seeks to challenge a commonly held belief that fund consolidation will significantly lower the cost of funds in Europe. It argues that significant fund consolidation across Europe is hindered by various barriers, including tax treatment, regulatory complexity and divergence, local distribution agreements, languages. EFAMA further argues that to lower fund costs for investors the focus should be on fostering the growth of UCITS assets, instead of on encouraging fund consolidation.

(j) *Guidelines on reverse solicitation under MiCA (This is a further update to section 3.6(o) of the quarterly report covering the fourth quarter of 2024)*

On 26 February 2025, ESMA published translated version of its guidelines under MiCA on situations in which a third-country firm is deemed to solicit clients established or situated in the EU and the supervision practices to detect and prevent circumvention of the reverse solicitation exemption.

The guidelines are intended to provide clarity to NCAs and market participants, especially third-country firms, on the limited situations where the offer or provision of crypto-asset services to clients established or situated in the EU will be regarded as initiated at the own exclusive initiative of the relevant clients.

The guidelines apply from 27 April 2025 and NCAs must notify ESMA within two months of the publication date whether they comply or do not comply with the guidelines.

(k) *ESAs evaluation report on EU securitisation framework (This is a further update to section 3.3(d) of the quarterly report covering the fourth quarter of 2024)*

On 31 March 2025, the Joint Committee of the ESAs published an evaluation report on the functioning of the Securitisation Regulation ((EU) 2017/2402). The report offers recommendations to enhance the effectiveness of Europe's securitisation framework, ensuring investor protection and financial stability. These recommendations are in response to the Commission's call for evidence on its review of the current EU securitisation framework.

The evaluation report seeks to strengthen the overall effectiveness of Europe's securitisation framework through simplification, while ensuring a high level of protection for investors and safeguarding financial stability:

- scope of application when at least one party in the securitisation is based in the EU.
- broadening public securitisation definition to include transactions with an EU-approved prospectus, traded on EU markets, or broadly marketed with non-negotiable terms.
- proportional due diligence: simplify due diligence requirements for institutional investors.
- simplifying transparency and reporting: streamline reporting templates and improve data standardisation.

- adjustments to the simple, transparent, and standardised (STS) framework, especially for on-balance-sheet securitisations.
- additional guidance on risk retention rules in specific cases, purporting to reduce interpretation challenges.
- strengthening supervisory convergence/consistency across Europe.

The recommendations in the report will now be considered by the Commission.

(l) *Official translations of ESA guidelines on the exchange of information system for assessing fitness and propriety (This is a further update to section 3.6(f) of the quarterly report covering the fourth quarter of 2024)*

On 18 February 2025, ESMA published a new webpage with official translations, including the English language version, of the ESAs' joint guidelines on the system established by the ESAs for the exchange of information relevant to the assessment of the fitness and propriety of holders of qualifying holdings, directors and key function holders of financial institutions and financial market participants by competent authorities

The guidelines apply from 17 February 2025, the date of publication of the translations. Competent authorities must notify the relevant ESA whether they comply, intend to comply or reasons for non-compliance, by 17 April 2025. In the absence of any notification, the competent authority will be considered to be non-compliant.

(m) *ESMA Q&As (EMIR, MIFID II CSDR, MICA)*

On 21 February 2025, ESMA published or updated the following Questions and Answers:

European Market Infrastructure Regulation (EMIR)

- Assessment of significance for the purpose of the Error and Omission Notifications (2441)
- Reporting of Settlement Rate Options (2442).

Markets in Financial Instruments Directive II (MiFID II) - Secondary Markets

- Open interest thresholds in energy derivatives (2439).

On 10 January 2025, ESMA published a number of new or updated Q&As as follows:

CSDR Change of beneficial ownership (ID714)

MiCA:

- Possibility of natural persons and trusts / trustees to be authorised as CASPs (2342)
- Minimum capital requirements for CASPs (2343)
- Audit / certification of CASP financial statements (2344)

OTC derivatives, central counterparties and trade repositories (EMIR) – CCPs

- Calibration of confidence interval for CCP margin requirements (2010)

(n) *Report on draft technical standards to recalibrate and clarify CSDR*

On 20 February 2025, ESMA published the following three final reports containing the first set of draft technical standards to recalibrate and clarify the framework under CSDR in line with the changes made by the Regulation amending the CSDR (EU/2023/2845) (known as CSDR Refit):

- The review and evaluation process of EU central securities depositories ("**CSDs**"), where ESMA suggest a harmonisation of the information to be shared by CSDs for feeding the overall assessment of the competent authorities, plus a one-year implementing period for the new reporting items that will require an adaptation of the IT processes of CSDs.

- The criteria under which the activities of an EU CSD in a host member state could be considered of substantial importance for the functioning of the securities markets and the protection of investors. It includes details about the data collection process for the indicators needed to assess the substantial importance of European CSDs in a host member state. This will be the basis to determine the CSDs for which colleges of supervisors have to be established.

- The notifications from third country CSDs, where ESMA is proposing to streamline the information to be notified, aiming for an accurate understanding of the provision of notary, central maintenance and settlement services in the EU.

The final reports have been submitted to the Commission for consideration and adoption.

(o) *ECB working paper on funds and euro disaster risk*

On 17 February 2025, the ECB published a working paper examining how investment funds adjust their holdings of euro area sovereign debt in periods when perceived disaster risk within the euro area rises.

The paper finds that investment funds are unique in their significant shedding of periphery debt in response to euro disaster risk shocks

Overall, the paper highlights the critical role investment funds play in the financial system, especially during periods of instability, and underscores the need for enhanced oversight and understanding of their market behaviours.

(p) *ESMA newsletters – spotlight on markets*

During the period, ESMA issued its latest spotlight on markets newsletter covering its publications in each of January and February addressing several key regulatory updates and developments.

3.4 EMIR Regulation (648/2012) ("**EMIR**")

(a) *Extension of temporary equivalence of UK regulatory framework for CCPs*

On 31 January 2025, Commission Implementing Decision (EU) 2025/215 determining, for a limited period of time, that the regulatory framework applicable to CCPs in the UK is equivalent to EMIR was published in the Official Journal of the EU. The extension is designed to provide time for the implementation of measures under EMIR 3.0.

The Implementing Decision specifies that for the purposes of Article 25 of EMIR, the legal and supervisory arrangements of the UK applicable to CCPs already established and authorised in the UK are considered to be equivalent to the requirements laid down in EMIR from 1 July 2025 until its expiration on **30 June 2028**. The temporary equivalence of the regulatory framework for UK CCPs, had been due to expire on 30 June 2025.

(b) *EMIR 3.0 update (This is a further update to section 3.2(a) of the quarterly report covering the fourth quarter of 2024)*

On 31 January 2025, the ECB published FAQs on initial margin models under EMIR 3.0.

On 29 January 2025, ESMA published a speech on shaping the future of EU capital markets. The remarks outline that EMIR 3.0 requires ESMA to produce 28 sets of RTS and implementing technical standards, as well as guidance, with the majority of this work to be finalised by December 2025. The speech outlines the prioritisation and sequencing of this work.

ESMA expects to submit final draft RTS on active account requirements to the Commission well before June 2025.

On 27 March 2025, ESMA published a speech delivered by Froukelien Wendt of its CCP Supervisory Committee outlining the implementation of EMIR 3.0 from a regulatory perspective.

On 25 February 2025, ESMA published a keynote speech which focused on the improvements to create a more competitive EU clearing ecosystem and the successful rollout of EMIR 3.0.

3.5 European Systemic Risk Board ("**ESRB**")

On 3 February 2025, the ESRB published a report on a proposed monitoring framework for systemic liquidity risks in the financial system. The proposed framework is based on three composite indicators intended to capture underlying vulnerabilities in the financial system that could potentially give rise to elevated liquidity stress:

- funding liquidity risks,
- market liquidity risks, and
- contagion and amplification risks.

The framework is intended to apply to key entities and markets (that is, entities or markets that are likely to trigger stress, transmit it or be subject to strong spillovers from stress elsewhere). The ESRB suggests that, in the euro area, investment funds, banks, insurance corporations and pension funds are likely to be key entities for systemic liquidity. The ESRB considers that the framework could be used to devise indicators with early warning properties for systemic illiquidity, to design stress test scenarios and to provide a basis for measuring global liquidity and the global dimension of systemic liquidity risks.

3.6 Irish Government

(a) *Programme for Government (This is a further update to section 3.1(b) of the quarterly report covering the fourth quarter of 2024)*

On 15 January 2025, the Programme for Government 2025 (the "**Programme**") was published. The Programme highlighted areas of focus within the fund sector for the next Government and specifically reflects the implementation of the recommendations of the Funds Sector 2030 Review (the "**Funds Review**"). The following are the key commitments mentioned within the Programme of relevance to the asset management sector:

- to simplify and modernise the regulatory framework to ensure Ireland remains competitive within the EU and globally, facilitating continued investment;
- the implementation of the recommendations of the Funds Review;
- to attract private market investment into the economy through an enhanced regulatory framework, promoting regional growth and improving financial futures for Irish citizens;
- to support the development of the SIU, seeking opportunities to improve competition in key financial sectors and to support the green and digital transitions; and
- to enhance Ireland's funds and asset management offerings to position Ireland as a leading hub for sustainable and green finance, catering to evolving investor needs and the drive for better access to sustainable capital.

(b) *Spring 2025 legislative programme (This is a further update to section 3.4 of the quarterly report covering the third quarter of 2024)*

On 19 February 2025, the Irish government published its spring 2025 legislative programme.

- The Miscellaneous Provisions (Registration of Limited Partnerships and Business Names) Bill aimed at reforming the Limited Partnership Act 1907 and the Registration of Business Names Act 1963 strengthening Ireland's regulatory framework and responding to concerns raised in relation to the transparency of Limited Partnerships remains listed in the other legislation (non-priority list), with heads of the bill listed as approved in July 2024.

- The Regulation of Artificial Intelligence Bill to give full effect to the AI Act is at the heads of bill preparation stage (non-priority list). The bill will designate NCAs responsible for implementing and enforcing the EU regulation and will provide for penalties for non-compliance. While the AI Act as a regulation has direct effect, the bill would establish the national regulatory framework for AI governance in Ireland as well as national enforcement mechanisms.

- The Financial Services and Pensions Ombudsman (Amendment) Bill 2023 to amend the Financial Services and Pensions Ombudsman (FSPO) Act 2017, to take account of the 'Zalewski' ruling and update elements where the FSPO could be viewed as administering justice has been included is at Dail committee stage.

On 28 February 2025, Minister for Finance delivered a speech to Irish tax institute focusing on external risk environment, programme for government and simplification agenda.

3.7 FSB work programme *(This is a further update to section 3.8(b) of the quarterly report covering the first quarter of 2024)*

On 24 January 2024, the FSB published its work programme for 2025.

Priority areas of work and new initiatives include the following:

- Supporting global cooperation on financial stability. The FSB will continue to monitor global financial stability developments and the implications of emerging financial innovation (including tokenisation and crypto-assets) and conduct analytical deep dives on vulnerabilities in NBFI and climate change.

- Enhancing the resilience of NBFI, while preserving its benefits. This includes finalising policy recommendations on NBFI leverage.

- Harnessing the benefits of digital innovation while containing its risks. The FSB's work includes: a thematic peer review on implementation of its crypto-asset recommendations, a report on how financial authorities can monitor AI adoption and assess related vulnerabilities and finalising the format for incident reporting exchange (FIRE).

- Implementing the systemically important financial institution framework; and

- Addressing financial risks from climate change.

The annex to the work programme provides an indicative timeline of the FSB's planned publications for 2025 and 2026.

On 24 February 2025, the FSB Chair published a letter to G20 Finance Ministers and central bank governors calling for a renewed focus on implementation of a number of FSB global reforms.

3.8 International Organisation of Securities Commissions ("**IOSCO**")

(a) *Work programme for 2025*

On 12 March 2025, IOSCO published its work programme for 2025. IOSCO's work will focus on the following five key areas:

- Strengthening financial resilience. IOSCO will continue to prioritise issues related to NBFI.

- Supporting market effectiveness. IOSCO will review its Principles for the Valuation of Collective Investment Schemes. It will also examine key developments relating to the growth of after-hours trading on equity trading venues.

- Protecting investors. IOSCO will initiate a series of targeted actions to tackle new risks to retail investors, including imitative and copy trading, poor digital engagement practices, potential conflicts of interest by neo-brokers and the activities of finfluencers.

- Addressing risks in sustainability and FinTech. IOSCO will assess the implementation of its recommendations on sustainability-related practices, policies, procedures and disclosures in asset management. It will also advance its work on the use of AI in financial markets and continue to closely monitor developments in asset tokenisation in securities markets.

- Promoting regulatory co-operation and effectiveness.

A detailed list of initiatives with indicative timelines is set out at the end of the work programme.

(b) *Consultation on AI in capital markets*

On 12 March 2025, IOSCO issued a consultation report on AI in capital markets.

The purpose of the consultation report is to create a shared understanding among IOSCO members of the issues, risks and challenges that emerging AI technologies used in financial products and services may pose to investor protection, market integrity, and financial stability, and to assist IOSCO members as they consider regulatory responses.

The consultation report is open to responses until 11 April 2025.

3.9 UK Developments

(a) *Overseas funds regime ("**OFR**") implementation (This is a further update to section 3.7 of the quarterly report covering the third quarter of 2024)*

On 16 January 2025, the UK's Financial Conduct Authority ("**FCA**") updated its webpage on the OFR with a user guide relating to the notification of certain material changes to a recognised collective investment scheme or sub-funds subject to the OFR.

The FCA reminds firms that, from the point at which a collective investment scheme or sub-fund is recognised under the OFR gateway, its operator will be required to notify the FCA of certain subsequent changes affecting its status, such as alterations to fund names, legal structures, investment objectives, and connected parties. This notification must be submitted through a material change notification form on the Connect system and the user guide is designed to help firms make this notification.

Fund operators must continue to submit the latest versions of scheme documents to the FCA, including when changes are made, and follow the FCA's naming convention. Other specified changes (as listed), including regulatory contraventions, supervisory sanctions, suspensions of dealing, as well as updates to submitted documentation must all be notified to the FCA via email.

The full list of changes requiring notification are confirmed as those set out in Table 3 of the FCA policy statement on implementing the OFR.

4. SUSTAINABLE FINANCE

(a) *Commission omnibus simplification package*

On 26 February 2025, the Commission published its proposals on an omnibus simplification package on sustainability:

- a Directive as regards the dates from which member states are to apply certain provisions of the CSRD and of the CSDDD (known as the *'stop-the clock mechanism'*); and

- a Directive that amends provisions of the Audit Directive, Accounting Directive, CSRD and CSDDD.

The package was accompanied by Q&A document and a speech by Commissioner Albuquerque on competitiveness and the simplification omnibus.

The first proposed Directive, the *'stop-the clock mechanism'* sets out a two-year postponement to sustainability reporting requirements under the CSRD for all companies that are currently required to comply from financial year 2025 or 2026 depending on their size (i.e. large undertakings that are not public interest entities, subject to the revised eligibility criteria). The proposal would also postpone the transposition deadline for the CSDDD to 26 July 2027, as well as the first phase of its application to in-scope companies by one year to 26 July 2028.

The second proposed Directive seeks to make substantial changes in relation to both the nature and scope of the due diligence and reporting obligations set out in the relevant legislation, and the companies falling in scope of those obligations.

In particular, the number of companies subject to mandatory sustainability reporting obligations introduced by the CSRD would be vastly reduced by approximately 80%, with only large undertakings that have greater than an average number of employees greater than 1,000 being required to comply (different thresholds apply for non-EU companies) and the mandatory reporting standards would be revised and simplified. Additionally, there would be no sector-specific reporting standards, avoiding an increase in the number of prescribed datapoints that undertakings should report. The proposal also includes amendments to the Accounting Directive that provide for derogations from the reporting requirements in Article 8 under Taxonomy.

Out-of-scope undertakings (including those with up to an average number of 1,000 employees) not subject to the mandatory reporting requirements of CSRD, would be permitted to use the proportionate voluntary standard to be adopted by the Commission as a delegated act, based on the VSME standard developed by EFRAG and are also protected by a value-chain cap from excessive information requests from larger companies within scope.

In addition, the scope of the due diligence obligations in the CSDDD would be limited, most notably by reducing the requirements to map and analyse risks in relation to indirect business partners and downgrading the requirements for meaningful stakeholder engagement. Further, companies will no longer be obliged to terminate business relationships as a last resort when severe potential or actual adverse impacts are identified. The required frequency for periodic monitoring of the adequacy and effectiveness of a company's due diligence policy and measures would also be extended from 12 months to five years.

The stop-the-clock mechanism was subsequently adopted by the EU Council and the EU Parliament, creating legal certainty on the start date of CSRD and CSDDD obligations. For Irish companies, the Minister for Enterprise, Tourism and Employment has indicated that the department will shortly be amending the existing Irish legislation governing CSRD to further clarify and reduce the scope of companies covered, as well as moving quickly on legislation giving effect to these changes, once these are adopted at EU level.

On 27 March 2025, EFRAG was officially mandated by the Commission with simplifying the ESRS, with its simplification advice due by 31 October 2025.

The co-legislators must now consider the more substantive legislative changes in the second proposal.

As the legislative proposals take the form of EU Directives, subject to the measures taking effect following publication in the OJ, member states would be expected to transpose each of the Directives into national laws (a) for the first proposal, by 31 December 2025, and (b) for the second proposal, within 12 months of the proposed Directive taking effect.

(b) *Call for evidence ("**CfE**") on simplifying the Disclosures Delegated Act under the Taxonomy*

On 26 February 2025, the Commission published a CfE and accompanying annexes of a draft delegated regulation amending the Disclosures Delegated Act ((EU) 2021/2178) (the "**Delegated Regulation**"). Amendments are also proposed to the Taxonomy Climate Delegated Act (Delegated Regulation (EU) 2021/2139) and the Taxonomy Environmental Delegated Act (Delegated Regulation (EU) 2023/2486).

The draft Delegated Regulation forms part of the Commission's proposed omnibus package amending sustainability due diligence and reducing and simplifying reporting of companies.

Introducing a 10% de minimis compliance threshold

The proposed Delegated Regulation would exempt large undertakings with a wide variety of activities from assessing the compliance with the technical screening criteria of non-material economic activities. For activities classed as financially material, the Commission believes that it is appropriate to introduce a graduated approach to the materiality of the different classes of information to be reported. As information on operational expenditure is considered to be less significant in assessing the sustainability of company activities than information on turnover or capital expenditure, non-financial undertakings will not have to report on alignment of operational expenditure if the cumulative turnover of their eligible activities do not exceed 25% of their total turnover.

Scoping

To ensure the accuracy of the key performance indicators ("**KPI**") of financial undertakings, exposures of financial institutions to undertakings (that are not large undertakings) that exceed the average number of 1,000 employees during the financial year will be excluded from the denominator of the applicable KPIs pending finalisation of the Commission's review of the Disclosures Delegated Act.

Simplifying

In addition, the Commission proposes to simplify and shorten a number of Taxonomy reporting templates. The specific reporting templates relating to performance and exposures to fossil gas and nuclear activities will be significantly reduced by the removal of general reporting duplications as well as by simplifying the "do no significant harm" criteria for pollution prevention and control related to the use and presence of chemicals. The Delegated Regulation would also adjust the green asset ratio for banks, by excluding exposures aligning with the proposed revised scope of the CSRD.

Responses were sought from stakeholders on the CfE by 26 March 2025. On 26 March 2025, the Platform for Sustainable Finance (the "**Platform**") published its response to the consultation. Once the Commission adopts the Delegated Regulation it will trigger the official four-month scrutiny period by the Parliament and the Council.

(c) *Platform recommendations on Taxonomy simplification*

On 5 February 2025, the Platform published a report setting out recommendations to the Commission to simplify and improve the effectiveness of taxonomy reporting.

The report comes within the Platform's mandate to advise the Commission on the usability of the EU taxonomy under Article 20 of the Taxonomy

The report makes a number of proposals to simplify taxonomy reporting including:

- Reducing the corporate reporting burden by more than one-third, including through making the operational expenditure KPIs mandatory for research and development costs only but voluntary for other types of operational expenses, establishing a materiality threshold for the calculation of KPIs in all non-financial company reporting, and simplifying reporting templates.

- Introducing a lighter "do no significant harm" ("**DNSH**") compliance assessment process, reviewing all DNSH criteria and introducing a "comply or explain" approach for DNSH assessment for the turnover KPI, as a temporary measure.

The report is based on two years of market observations, pilot projects and stakeholder feedback, and builds on the Platform's previous work, including its recommendations on data and usability and a compendium of market practices. The report also contains recommendations for the Platform's next mandate. The Platform's recommendations have been considered by the Commission in the preparation of its CfE on the Disclosures Delegated Act (*outlined at (b) above*).

On 8 January 2025, the Platform on Sustainable Finance published a recent draft report for a call for feedback on preliminary recommendations for the review of the Taxonomy Climate Delegated Act and the addition of activities and technical screening criteria to the EU Taxonomy Regulation (EU) 2020/852.

The draft report contains a review of the criteria and analysis for the Taxonomy Climate Delegated Act under SFDR. The call for feedback does not represent an official Commission consultation.

(d) *ESMA final report on EU green bond RTS and implementing technical standards ("**ITS**") (This is a further update to sections 3.6(b) and 4(a) of the quarterly report covering the fourth quarter of 2024)*

On 14 February 2025**,** ESMA published its final report on the technical standards for the Green Bonds (EU) 2023/2631 Regulation.

Following consultation, ESMA has revised the draft regulatory technical standards and implementing technical standards based on feedback received.

The draft RTS and ITS have been submitted to the Commission for adoption and will be subject to non-objection by the European Parliament and Council. The RTS and ITS are set to apply to ESMA-registered external reviewers from 21 June 2026, while compliance on a 'best efforts basis' is expected during the transitional period.

(e) *Platform report on transition plans*

On 22 January 2025, the Platform, published its latest report on corporate transition plans entitled *'Building trust in transition: core elements for assessing corporate transition plans* (the "**Report**").

The Report identifies core elements for evaluating corporate transition plans, offering recommendations to the Commission for enhancing the effectiveness of its policy framework and supporting the market to provide and access transition finance while addressing risks of greenwashing.

Key takeaways from the Report include practical guidance for financial institutions to assess corporate transition plans based on four key elements:

i. science-based and time-bound targets;

ii. key levers and actions to achieve these targets;

iii. financial planning; and

iv. governance of the plan and its implementation.

Section 2 of the Report provides a summary of existing EU requirements relating to transition plans.

The Report notes that for the purposes of transition finance, corporate transition plans have become essential in helping turn high-level climate and environmental targets into actionable strategies and investment plans that can be clearly communicated to financial market participants.

(f) *FSB publications on transition plans*

On 14 January 2025, the FSB published the following on transition finance:

- report on the *'Relevance of transition plans for financial stability'*; and
- paper on *'Assessment of Climate-related Vulnerabilities'*.

Both FSB publications address the role of transition plans as prudential tools for financial stability and encourage the broader adoption of transition plans and continued efforts towards their standardisation.

(g) *Platform updated handbook on benchmarks' ESG disclosures.*

On 28 March 2025, the Platform published an updated handbook on climate benchmarks and benchmarks' ESG disclosures with updated from its data science hub. The Handbook focuses on EU Paris-Aligned Benchmarks and EU Climate Transition Benchmarks, with its recommendations also applying to derived concepts.

(h) *Central Bank climate observatory report (This is a further update to section 4.1(o) of the quarterly report covering the fourth quarter of 2023)*

On 14 January 2025, the Central Bank published the latest edition of its Climate Observatory report providing an annual update of climate-related metrics for the economy and financial sector.

Part A addresses global trends in the progression of climate change, mitigation and impact. Part B provides certain insights into climate risks for banks, insurers and funds using climate-aligned financial sector data. The report concludes with an overview and a timeline of the European sustainable finance regulations that have come into effect over the last 12 months.