

# Global Policy Outlook 2024

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# Global overview



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As we look to 2024, we must first recognize the profound impact that the events of 2023 will have on our outlook for the year ahead. As they say, “The past is prologue.” But even more fundamentally, events from the previous year serve as the framework that gives shape to the year to come. We saw this clearly in 2022 when the advent of both the war in Ukraine and persistent inflation shaped much of the geopolitical and economic conversation in 2023. Today, global economic and political uncertainty promises to play a prominent role in 2024 as the Israel-Hamas conflict escalates, the US and China settle into their new “competitive cooperation,” and the war in Ukraine drags on.

## These questions are top-of-mind as 2024 comes into view

- **The Middle East.** Will the US be able to continue to walk the tightrope of firmly aligning itself with Israel and its right to defend itself by attacking Hamas while also acting as a restraint on how Israel conducts its attacks to minimize Palestinian casualties and prevent a wider war?
- **Elections.** As the economy appears to be slowing down, how might this impact elections in the US, UK, and elsewhere? What are the key factors to watch to see if the expected rematch between former President Donald Trump and President Joe Biden materializes?
- **Ukraine.** Can Biden keep the US commitment to Ukraine on track, or will the US support for Ukraine go off the rails even before a potential Trump return to the White House? Does Europe’s decision to begin accession talks with Ukraine mean their resolve in the conflict remains strong?
- **US-China relations.** Will the US and China turn their improved dialogue into concrete cooperation, or are the local politics of each country too opposed to allow this? Will elections in Taiwan temper or exacerbate the situation? Where does the rest of the world line up in the tech/Artificial Intelligence (AI) “competition” between China and the US?

While no one can answer all of these questions right now with total certainty, we have clues on the direction of travel for some of them and will keep you updated as more data informs us.

For now, we endeavor to provide you with a framework for thinking about 2024. We explore potential political changes across multiple regions, provide fiscal and geopolitical outlooks, and dive a little bit deeper into policy and regulatory developments in AI, fund liquidity and ESG. While there are some common themes across regions, there are also areas of great divergence and as we know, such divergence, can create room for both opportunity and risk.



**Jennifer Flitton**  
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## Political outlook: Political year of change

- Beyond the House speaker fight, Washington has turned squarely to the 2024 elections, and both parties have reason for optimism and cause for concern. In general, Senate Republicans are feeling optimistic, given the caliber of their candidates. With several Democratic-held seats in Republican-leaning states up for grabs (West Virginia, Ohio, and Montana), Senate Minority Leader Mitch McConnell (R-KY) and his lieutenants have convinced many of their top recruits to jump in the water. Sen. Joe Manchin (D-WV) has announced he's retiring, which puts that seat squarely in GOP sights and leaves Sen. Jon Tester (D-MT) increasingly vulnerable as the number one incumbent target for Senate Republicans.
- On the other side of the Capitol, House Republicans talk openly about the likely prospect of taking control of the Senate while again losing the White House and the House. Conventional wisdom is that prior House Republican gains in blue states like California and New York will reverse in a presidential election cycle, and they will struggle to make up ground elsewhere.
- While it is too soon to predict an election wave on behalf of either party, we're already seeing some eyebrow-raising results at the polls with the 2023 off-year state elections. This October, Attorney General Jeff Landry successfully flipped the Louisiana governorship from Democrat to Republican. However, in November, Democrats had an impressive election night, re-electing Democratic Governor Andy Beshear (D-KY), securing abortion rights in the Ohio constitution with a strong vote on an Ohio ballot referendum, and fully retaking control of the Virginia General Assembly after two years of divided power.
- With President Joe Biden's favorability numbers suffering, recent head-to-head polls are showing former President Donald Trump leading Biden with registered voters. The national polling, as well as specific battleground state polling, is exposing the public discontent with Biden's job performance a year out from the 2024 election.

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## Fiscal outlook

- Prior to the November 17 deadline, the House and Senate were able to agree on a clean continuing resolution that keeps the government running while the two chambers negotiate on final appropriations bills for FY2024. Democrats in the House and Senate were able to accept newly elected Speaker Mike Johnson's "ladder" approach to passing final appropriations bills: Four appropriation bills (agriculture, military construction/veteran's affairs, energy and water, and transportation-housing and urban development) would be funded until January 19, with the other eight appropriation bills, including defense, funded until February 2. This laddered approach potentially sets up two shutdowns two weeks apart in Q1 of 2024.
- On October 20, the Biden administration requested a \$106 billion package of emergency aid for Israel and Ukraine, as well as funds for the southern US border and other humanitarian needs. The request includes the following:
  - \$61.4 billion in aid for Ukraine for military equipment and intelligence.
  - \$14.3 billion for Israel for air and missile defense and bolstering the security of embassies in the region.
  - \$9.15 billion for the State Department to provide humanitarian assistance to Ukraine, Israel, and Gaza.
  - \$13.6 billion to address migration at the southern border. That includes \$6.4 billion for border operations (such as holding facilities), \$3.1 billion for additional border agents, \$1.4 billion for migrant shelters and services, and \$1.2 billion to counter fentanyl.
  - \$2 billion to counter China's financing efforts in developing countries and another \$2 billion to bolster security in the Indo-Pacific.
- A bipartisan group of senators is working on the legislative language for this aid package. The immigration policy language that House and Senate Republicans are demanding to include will take time to negotiate. Therefore, a mid-December agreement seems like the best-case scenario for this supplemental bill.



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## Geopolitical outlook

- The horrific October 7 terrorist attack on Israeli civilians by the Palestinian militant group Hamas instantaneously upended what was already a very complex and fragile geopolitical environment. As Israel intensifies its offensive in northern Gaza, US Secretary of State Antony Blinken has been working to mitigate the war's potential spillover in the Middle East. Blinken's "shuttle diplomacy" has included visits to Israel, Qatar, Jordan, Bahrain, the United Arab Emirates, Saudi Arabia, and Egypt.
- While the conflict has the potential to reshape the international order in the long term, especially in the Middle East, there are several potential short-term implications to consider.
  - The United States will continue to support Israel. Secretary of Defense Lloyd Austin has already declared that the US "will make sure that Israel has what it needs to defend itself." The Pentagon has moved two aircraft carrier strike groups into the eastern Mediterranean and has sent additional Air Force fighter jets into the region to deter escalation from Iran and Lebanese Hezbollah.
  - Depending on how the conflict unfolds, the question may become what kind of support the US is able to provide. Some domestic munitions stockpiles are reportedly running low due to US support for Ukraine in its war with Russia, though the weapons that the US would send to Israel may differ from those being sent to the Ukrainian front lines. The bigger question regarding Ukraine is how the war in the Middle East will impact Congress's willingness to continue to provide resources to Ukraine at the same rate it has been.
  - Should the scope of the conflict in Israel grow, the United States' role may grow accordingly. National security officials are paying close attention to Iran, Lebanese Hezbollah, and other proxies that could escalate this conflict rapidly.
  - A significant humanitarian crisis and displacement of millions of Palestinians will increase security and stability concerns in neighboring Egypt and Jordan.
- Ukraine has been able to overcome Russia's firepower advantage with Western support. With Israel now at war, Ukraine no longer has the world's undivided attention. Additionally, some Congressional Republicans had already begun to look at additional aid to Ukraine more critically and have failed to pass an additional Ukraine supplemental aid package this fall, despite direct pleas from Ukrainian President Volodymyr Zelensky, the Biden administration, and the US Senate. One silver lining for Ukraine is that fighting is likely to slow through the brutal winter months and provide some time for the conflicts in Israel and the US House of Representatives to play out. The US political dynamics surrounding additional funding for Ukraine are precarious as US public support for the war effort abroad wanes. Some Republicans in the House and Senate are demanding specific US border policy reforms in exchange for Ukraine funding. A bipartisan group of Senators is negotiating legislative language to address these conditions specifically aimed at asylum policies that could stem the flow of illegal immigration at the southern border. The intention is to find agreement and send a bipartisan bill to the House by mid-December.

- Middle East turmoil aside, managing the strategic relationship between the United States and China continues to be a top priority for the White House and lawmakers in Congress. On October 17, the Commerce Department announced that it would update a rule released last year that places restrictions on the types of semiconductor technology and advanced manufacturing equipment that can be exported to China. The new guidance will specifically target chips used in artificial intelligence and advanced computing systems. The announcement comes as lawmakers have pressured the Biden administration to tighten rules surrounding semiconductor production to make it as challenging as possible for China to take advantage of US technology for military applications. In a recent letter to the Biden administration, House Foreign Affairs Committee Chairman Michael McCaul (R-TX) and Select Committee on the Chinese Communist Party Chairman Mike Gallagher (R-WI) requested that the administration reevaluate its semiconductor export restrictions and close loopholes that they claim Chinese companies have exploited.
- On November 15, President Biden met with Chinese President Xi Jinping at the Asia-Pacific Economic Cooperation Summit in San Francisco for the first time in almost a year. While there were not high expectations for the meeting, it did seem to ease some of the tensions that have escalated over the past several months. Most notably, the meeting led to the renewal of high level military talks that China suspended in August 2022. President Biden made it clear at the meeting that in the months ahead, the US will continue to preserve and pursue high level diplomacy with China to keep the lines of communication open.

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## Policy and regulatory outlook:

### Artificial intelligence

- Artificial intelligence (AI) has become the hot topic of the moment – not just in Washington, DC, but across the globe. Although technology companies have been working to develop different kinds of AI for years, including many technologies that we've already been using, OpenAI's launch of ChatGPT in November 2022 seemed to open the lid on a slate of new AI tools overnight. Soon after, Microsoft announced its plans to invest billions of dollars in OpenAI; Amazon and Google launched their own generative AI tools; TikTok introduced AI-generated profile pictures for users; Elon Musk announced his intention to create "TruthGPT;" and China's Alibaba and Huawei released their own versions of AI chatbots, AliChat and HiBot.
- The meteoric rise of AI, however, has also generated a healthy dose of caution and concern among tech leaders, researchers, governments, and experts in the field. In March 2023, more than 1,000 tech leaders and researchers penned an open letter warning about the "profound risks to society and humanity" posed by AI. Congress and the Biden administration are now taking measures to examine and mitigate these risks, as well as to gain insight into how this technology can be used for the benefit of American society.
- In October 2022, the White House Office of Science and Technology Policy (OSTP) introduced the Blueprint for an AI Bill of Rights. It highlights five principles that should be used to guide the design, use, and deployment of AI to protect Americans' civil rights: Safe and effective systems, algorithmic discrimination protections, data privacy, notice and explanation, human alternatives, consideration, and fallback.

# United States

The Securities Exchange Commission is reportedly strategizing on AI-specific regulation, as are other financial services regulators. On November 16, the Commodities Futures Trading Commission chair said that the agency will soon be launching an internal AI task force.

- In June, Senate Majority Leader Chuck Schumer (D-NY) announced a series of three all-Senators briefings focusing on the current state of AI, where the technology is headed in the future, the national security implications it presents, and how it's being used by US adversaries. Schumer also unveiled his SAFE Innovation Framework – a blueprint for a bipartisan policy response with five central policy objectives:
  1. **Security:** Safeguard US national security with AI, determine how adversaries use it, and ensure economic security for workers by mitigating and responding to job loss.
  2. **Accountability:** Support the deployment of responsible systems to address misinformation and bias, support US creators by addressing copyright concerns, protect intellectual property, and address liability.
  3. **Foundations:** Require that AI systems align with US democratic values, protect US elections, promote AI's societal benefits while avoiding potential harms, and stop the Chinese government from writing the rules of the road on AI.
  4. **Explain:** Determine what information the federal government needs from AI developers and deployers to be a better steward of the public good and what information the public needs to know about an AI system, data, or content.
  5. **Innovation:** Support US-led innovation – including innovation in security, transparency, and accountability – that focuses on unlocking the immense potential of AI and maintaining US leadership in the technology.

On November 15, a bipartisan group of Senators who sit on the Senate Committee of Commerce, Science, and Transportation introduced the Artificial Intelligence Research, Innovation and Accountability Act, which would direct federal agencies to create standards aimed at providing transparency and accountability for AI tools. The bill would take a light touch approach to regulating AI: Setting standards for critical use applications while relying on industry self-reporting for other applications of the technology. This proposal is notable as it is the first comprehensive bill to be introduced, and such a prominent group of bipartisan Senators gives it a strong chance for Senate consideration.

- The recent innovation in generative AI has sparked both fascination and concern across Washington, DC, and foreign governments alike. As competition with China remains at the forefront of federal government discussion, there is bipartisan agreement for the United States to be a leader in the development of new AI technologies and the global regulatory framework and best practices to mitigate risks. As the shiny new toy in Washington, AI is expected to lead major policy conversations in Congress and the Biden administration for months and, likely, years to come.

## Fund liquidity

- The Security and Exchange Commission's Open-End Fund Liquidity Risk Management Programs and Swing Pricing proposal has drawn a good amount of pushback from the market. On November 2, 2022, the SEC issued a proposed rule on open-end fund liquidity risk management programs and swing pricing. The proposal would:
  1. Modify how open-end funds classify the liquidity of their investments and require a minimum amount of highly liquid assets of at least 10% of net assets.
  2. Require open-end funds to use swing pricing and implement a "hard close" to operationalize this pricing and to improve order processing.
  3. Provide for more frequent, timelier, and more detailed public reporting of fund information, including information about funds' liquidity and use of swing pricing.
- The proposal came in response to the market disruptions experienced in March 2020, when many investors sought to redeem their open-end fund investments. The SEC advanced the proposed rule by a 4-1 vote. The proposal, particularly the hard close requirement, has drawn significant pushback from the financial industry, as well as investor advocates concerned with the potential impacts on retail investors.
- While the majority of comments focused on the swing pricing and hard close provisions, the Loan Syndications and Trading Association (LSTA) raised concerns about the impact of the liquidity risk management section of the proposal. Their comment letter highlights that open-end funds have been able to meet redemptions in a timely and non-dilutive manner in multiple stressful conditions, including the 2008 financial crisis and the March 2020 market disruptions.
- On September 5, a bipartisan group of 36 members led by Reps. Ann Wagner (R-MO) and Brad Sherman (D-CA), senior leaders of the House Financial Services Committee, called on the SEC to withdraw the proposal citing the potential harm it could do to mutual fund investors. A bipartisan Congressional letter calling on an agency to withdraw a rule is rare, and it is likely the result of the barrage of negative comment letters received by the SEC from across the ideological spectrum.
- The comment period on the proposal closed on February 14, 2023, and a final rule is expected in the first half of 2024.

# United States

## Environmental, social, and governance (ESG)

- On October 26, in a speech to the US Chamber of Commerce, SEC Chair Gary Gensler said the Commission is considering changes to its climate disclosure proposal to ensure it would not affect private companies. He stated that the SEC was working to ensure “that we don’t indirectly sort of do what we can’t do directly – we don’t regulate non-public companies.”
- Gensler acknowledged concerns that the Scope 3 (indirect) emissions requirement, which directs companies to report emissions throughout their supply chain, could lead to public companies passing the burden of estimating emissions to their suppliers. Gensler made clear that he would like to avoid such a situation.
- While Gensler suggested the SEC will make changes to its Scope 3 proposal, his comments indicate that the controversial provision will likely remain in the final rule in some form. It had been speculated that the SEC could remove the Scope 3 requirement entirely in order to avoid litigation. Gensler reiterated that investors are demanding Scope 3 information, as it will help them to assess companies’ climate risk.
- On the state level, California has enacted new laws mandating Scope 1, 2, and 3 climate emissions disclosure for all companies, both public and private, that make more than \$1 billion in annual revenue per calendar year and do business in the state. California is the world’s fifth-largest economy by GDP and is home to many global corporate companies, including Google, Microsoft, and Apple. The new California law goes further than the SEC’s proposed rule. Similar to the SEC rule, a litigation challenge is possible.



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## Political outlook: Political year of change

- With European elections scheduled for June, polls are predicting that the centre-right European People's Party (EPP) and the centre-left Socialist and Democrats Group (S&D) will retain their respective positions as the two largest political groups in the European Parliament, though potentially with smaller representations.
- However, while a grand coalition comprising the EPP, S&D, and centrist Liberal Democrats (Renew Group) currently commands – and is expected to continue to command – a strong, pro-EU majority in the European Parliament, there are projections of significant gains for right-wing and Eurosceptic parties at the expense of the liberals and left-wing Green group.
- Such a shift to the right would have implications for the European Parliament's contributions to the EU's legislative process, in particular in areas such as sustainability, defence, and migration, but also in the appointment of the next European Commission and the formation of the EU's policy agenda for the 2024-2029 political cycle.
- While campaigning for the European elections will only ramp up in the coming months, further indications on the likely direction of travel are expected to come from the various national and regional elections set to take place across the bloc in the interim period, with voters in Finland, Lithuania, and Portugal among those expected to go to the polls in the first half of the year.

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## Fiscal outlook

- With the resumption of the bloc's Stability and Growth Pact in 2024, the EU is looking to update fiscal rules with the aim of reinstating economic discipline, sustainability, and growth following almost four years of budgetary overspending. However, despite agreement among Member States on the overarching objective, achieving fiscal prudence while overcoming sustained global economic and geopolitical headwinds will prove a significant challenge.
- As a means to facilitate a return to a more sustainable fiscal footing in the medium term, the EU is considering incorporating flexibility into its policy guidance in two key areas. First, the EU is mulling providing member states with larger budget deficits some additional flexibility to tackle the deficit first before requiring national debt-to-GDP ratios to be reduced, but with continued and more stringent deficit reduction measures in place – on top of debt reduction measures – once budget deficits have fallen below 3% of GDP.
- Second, policymakers are considering further exemptions from the EU's fiscal framework, including "productive" co-financed EU projects and, notably, increases in defence spending. While such exemptions would, of course, ease budgetary pressures for some Member States, they would also usefully reduce the likelihood of the European Commission launching excessive deficit procedures – including potential fines – against those countries that have increased defence spending in order to support Ukraine.

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## Geopolitical outlook

- EU leaders remain fully committed to providing continued political, military, and economic support to Ukraine. However, given the challenging economic environment, and the conflict in the Middle East diverting leaders' attention, the EU's ability to provide such support is stretched.
- Indeed, significant political capital is being expended in Brussels to progress a EUR 50 billion funding facility to be delivered to Ukraine through 2027. With Germany calling for cuts in EU spending elsewhere to fund the facility, Italy is threatening to block progress, with the support of other Mediterranean member states, unless additional funding is provided to tackle migration issues in the region. Meanwhile, concerns persist regarding the potential for a Hungarian veto on the facility, in particular following the recent meeting between Hungarian Prime Minister Viktor Orbán and Russian President Vladimir Putin.
- Meanwhile, the European Commission has recommended commencing accession negotiations with Ukraine despite the country having only partially fulfilled the EU's criteria for opening discussions. While the recommendation represents a significant show of support for Ukraine's potential EU membership, the accession process is lengthy, and with the upcoming European elections in June, initial progress is expected to be slow.

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## Policy and regulatory outlook:

### Artificial intelligence

- With European policymakers racing to get to grips with emerging opportunities and risks presented by artificial intelligence (AI), the EU is moving at pace to finalise legislation that both supports the development and use of AI while safeguarding against inherent risks. The EU AI Act, which policymakers hope to formally adopt before the European elections in June, would regulate AI systems used in the EU and their providers using a risk-based approach.
- In short, the greater the risk posed by an AI system, the more stringent the rules that would apply, with an ultimate prohibition on systems deemed to pose an "unacceptable risk" (e.g., systems that may exploit individuals' physical or cognitive vulnerabilities). Notably, however, policymakers may be exempt from the legislation AI systems that pose low or minimal risk, or which have been developed exclusively for military purposes.
- The new regulatory framework, which is anticipated to come into application in the first half of 2026, would be overseen and enforced by a newly established European AI Board made up of national supervisors, with member states encouraged to establish AI regulatory sandboxes to support innovation where they have not already done so.

# European Union

## Fund liquidity

- With the political leg of the EU's fund regulation review complete, attention will turn to implementing the agreed changes to the bloc's AIFMD and UCITSD frameworks, including updates to the open-ended fund liquidity risk management ruleset and the introduction of a bespoke pan-EU framework for loan originating (i.e., direct lending) funds.
- Regarding open-ended fund liquidity risk management, the EU is harmonising the availability across the bloc of a number of anti-dilution and so-called quantity-based tools that fund managers will be able to deploy as a means to ensure that the liquidity (and dealing) profile of the funds they manage reflects that of the underlying assets. While the European Markets and Securities Authority (ESMA) will take forward this work, we expect forthcoming EU rules to be aligned with the International Organization of Securities Commissions' recently updated guidance on the same topic.
- ESMA will also set out its expectations regarding the criteria that fund managers must fulfil in order to operate open-ended loan-originating funds. These criteria will be supplemented by a new risk retention requirement for such funds, as well as new leverage and investment concentration limits. Loan-originating funds launched prior to the introduction of the new framework will be given a number of years to demonstrate compliance and may, under certain conditions, be exempted from aspects of the regime.

## Environmental, social, and governance (ESG)

- While the European elections in June may represent somewhat of a pause in the EU's legislative process, there remains much to do, both for policymakers and for companies, from an ESG- and sustainability-related perspective.
- From a policymaker perspective, there will be a focus on implementing the requirements of the EU's Corporate Sustainability Due Diligence Directive, which will oblige certain large EU and non-EU companies to demonstrate how they consider and address adverse impacts in relation to human rights and sustainability in their operations and corporate governance.
- Officials will also continue technical work on a possible legislative review of the EU Sustainable Finance Disclosure Regulation, which is expected to be published once the new political layer of the European Commission has been appointed and its agenda set. Meanwhile, ESMA has signalled that it will push ahead in publishing guidelines for funds using ESG or sustainability related terms in their names.
- Finally, over the course of 2024, some of the EU's largest companies will need to consider how they will meet their obligations next year to report on the impact of their activities on climate change and vice-versa, as well as their Scope 3 greenhouse gas emissions, in line with new European Sustainability Reporting Standards.





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## Political outlook: Political year of change

- 2024 will almost certainly be the year of the next general election in the UK. Technically, the latest possible date for the next general election is 28 January 2025, but our base case assumption remains that a mid-to-late Autumn 2024 election is most likely.
- We expect the Labour Party will continue to lead in opinion polls throughout the year. While historical trends suggest their lead should narrow in the run-up to the election, Labour will continue to benefit from divisions within the Conservative Party over issues such as fiscal and immigration policy. The dramatic fall in support for the Scottish National Party and voters' willingness to consider voting tactically to oust the Conservatives will also play in their favour.
- Consequently, the Conservatives will likely suffer another bruising round of local councillor losses in the local elections that will take place on 2 May 2024. The last time such elections were held was in 2021, in the aftermath of the pandemic, when the Conservatives made significant gains.
- For the Labour Party, as the prospect of a return to government becomes more immediate, we expect Sir Keir Starmer and Rachel Reeves to continue de-risking Labour's policy programme, particularly in relation to policies that require additional spending or government borrowing.

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## Fiscal outlook

- The current government is set to preside over the biggest aggregate tax rise over a single parliament since the middle of the last century, and tax as a percentage of national income is due to rise to its highest sustained level ever.
- The government's fiscal room for maneuvering ahead of the general election is limited, combined with a forecast for weak growth prospects, higher debt, and higher debt interest payments.
- However, given the forthcoming political contest, and despite having met his fiscal rules at the March Budget by the narrowest of margins, any headroom created by higher-than-forecast tax receipts is likely to be "spent" by the chancellor on tactical targeted tax cuts for both businesses (e.g., making full expensing permanent) and sections of society.
- With no additional money set aside to deal with future inflationary pressures, the outlook for departmental spending after the election will remain bleak, with departments outside the National Health Service, defence, and overseas aid all penciled in to take real-terms cuts to their budgets.

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## Geopolitical outlook

- UK-EU relations have thawed since the February 2023 agreement of the Windsor Framework ended the regular friction points over the implementation of the Northern Ireland Protocol. The framework has enabled greater cross-Channel cooperation, with UK and EU officials meeting in October for the first UK-EU financial regulatory forum and finally agreeing to the terms on which the UK will rejoin the Horizon and Copernicus scientific research and earth observation programmes.
- However, the positive momentum from 2023 could stall as the EU reaches the end of its current political cycle ahead of the European Parliamentary elections scheduled for June. As such, further opportunities to significantly strengthen UK-EU relations at the political level may be scarce for much of 2024, leaving 2025 – the year scheduled for a review of the Trade and Cooperation Agreement – as the next major window.
- Despite the appointment of former Prime Minister David Cameron as foreign secretary, we do not expect any significant shift in the UK's policy towards China. The UK government will continue to take measures to protect critical national infrastructure and businesses from Chinese influence while at the same time seeking to pursue a positive trade and investment relationship.

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## Policy and regulatory outlook:

### Artificial intelligence

- Fresh from hosting the world's first AI Safety Summit and having succeeded in coordinating the Bletchley Declaration – an international agenda for addressing "frontier" AI risks – the UK has made clear that, unlike the EU, it will not be proposing legislation to regulate AI at this stage.
- Instead, the UK plans to establish a non-statutory framework requiring regulators, within their own areas of competence, to supervise against five core principles designed to guide and inform the responsible development and use of AI in all sectors of the economy: safety, transparency, fairness, accountability, and contestability.
- In this regard, regulators are expected to publish guidance on how they will apply the UK's proposed principles-based framework, while the government will also unveil plans for a new AI sandbox to complement sector-specific initiatives already taken forward by the Information Commissioner's Office and the Financial Conduct Authority (FCA).
- Thereafter, the UK will monitor and evaluate the continued appropriateness of its non-statutory approach to AI regulation and will assess whether the legislation would be more effective or whether the principles-based approach should be maintained.

# United Kingdom

## Fund liquidity

- Following the international agenda on liquidity risk management in open-ended funds, we expect UK authorities to update the existing framework governing fund managers' use and calibration of anti-dilution tools (such as swing pricing) in order to encourage their use and the consistency with which they are deployed across the sector. This may also extend to increasing managers' regulatory reporting and investor disclosure requirements. The FCA has also stated that it will convert the European Markets and Securities Authority's guidelines on liquidity stress testing into domestic rules and guidance.
- In addition, we expect UK authorities to take forward some of the Financial Stability Board's recommendations on money market fund (MMF) reform, in particular by proposing to increase MMFs' liquidity buffers and, potentially, by removing the regulatory link between the weekly maturing assets and net daily redemption thresholds, and the potential application of liquidity fees or redemption gates.
- More broadly, the Bank of England will progress its novel System-Wide Exploratory Scenario (SWES) through which it seeks to understand how the financial system, including managers of open-ended funds, would respond to an adverse hypothetical systemic shock. This will focus, in part, on the effectiveness of fund managers' liquidity risk management frameworks in stressed market conditions, with the findings of the SWES likely to form the basis of future policy options to enhance the functioning and resilience of the financial system.

## Environmental, social, and governance (ESG)

- Progress on key items of ESG-related regulation stalled during much of 2023, reflecting the government's wider reappraisal of key policies for reaching its target of Net Zero GHG emissions by 2050.
- Following these delays, we expect 2024 to form the 12-month implementation period for the FCA's new Sustainability Disclosure Requirements and fund sustainability labels, with final rules expected to be published by the end of 2023 and a likely go-live date of 1 January 2025.
- In addition, we expect HM Treasury to consult on its much-delayed plans to introduce a UK Green Taxonomy during the first half of 2024, setting out the purpose and use case for the taxonomy, as well as how it could support the transition to Net Zero. However, given the electoral timetable, it is unlikely the taxonomy would actually be introduced until after the forthcoming general election.
- We also expect the government to publish more detail on how it intends to introduce corporate sustainability disclosures, modelled on the standards developed by the International Sustainability Standards Board. Such disclosures are seen as important in providing investors with consistent, comparable, and decision-useful sustainability data.
- Finally, we also expect the government to announce it will legislate to bring ESG ratings agencies within the FCA's regulatory perimeter – paving the way for the FCA to develop a regulatory regime for such providers, following the development of a voluntary code of practice in 2023.





**Iris Zhang**

Senior Legal

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## Political outlook: Political year of change

- Taiwan presidential and parliamentary elections are scheduled to be held on 13 January 2024. Besides Lai Ching-te of the ruling Democratic Progressive Party (DPP), the candidates include Hou Yu-ih of the main opposition Kuomintang (KMT), Ko Wen-je, a former Taipei mayor and president of the Taiwan People's Party, and Terry Gou, the founder of iPhone assembler Foxconn, who is running as an independent. DPP's candidate maintains a slight lead in the latest opinion polls. The winner of the 2024 presidential election is scheduled to be inaugurated on 20 May 2024.
- China announced abrupt shake-ups of high-level leadership in the second half of 2023 without any clear explanation offered to the public. Qin Gang was removed as foreign minister in July 2023, and Li Shangfu was removed as defense minister in October 2023. Both were also dismissed from the State Council, China's cabinet. While the lack of transparency in decision-making on personnel change was questioned, it is unlikely that the leadership changes will affect China's political stability.
- Prime Minister Lee Hsien Loong in Singapore has said that he will hand over leadership of the People's Action Party (PAP) to Deputy Prime Minister Lawrence Wong by 21 November 2024 "if all goes well" and that Wong would lead the party into the next Singapore general elections, due no later than November 2025.
- In Thailand, although the Move Forward party won the general election in May 2023, it was unable to obtain approval from the conservative Senate. A new 11-member coalition government, which includes two military-backed parties, was ultimately formed by election runner-up Pheu Thai. Pheu Thai's candidate, Srettha Thavisin, was appointed as prime minister. Pheu Thai founder and ousted prime minister Thaksin Shinawatra returned to Thailand after 15 years of self-exile, and it is speculated he may receive a reduced jail term or a royal pardon under the new administration.
- Presidential elections in Indonesia are scheduled to be held in February 2024. Incumbent President Joko Widodo is ineligible to run for a third term, and some argue that his high approval ratings may allow him to interfere in the elections, with analysts closely watching which candidate will receive his backing. The current indications are that his support is leaning toward Defence Minister Prabowo Subianto.

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## Fiscal outlook

- China reported strong GDP growth of 4.9% in Q3 on a year-by-year basis, signaling a return of momentum in economic recovery and a higher likelihood of achieving the country's 5% annual GDP growth target. China will issue 1 trillion RMB special sovereign bonds in Q4 2023 and Q1 2024, bringing the fiscal deficit ratio up from 3% to 3.8%. The funds will be transferred to local governments to support disaster relief and prevention. Following the release of economic data indicators and policy announcements, the International Monetary Fund increased its 2024 growth forecast for China, up from its October projection of 4.2% to 4.6%, but warned that the sluggish property sector will remain a drag on the economic outlook. The likelihood of "bazooka" style stimulus in the next few months is low, although there is still room for further use of fiscal and monetary policies to stabilize economic growth.
- The Bank of Japan (BOJ) adjusted its yield curve control (YCC) framework in July by increasing the upper limit of the 10-year Japanese government bond yields from 0.5% to 1% and further discarded the 1% ceiling in October in response to a widening gap between Japanese interest rates and other markets and a weakening of the yen. BOJ's governor has said that increasing flexibility in the conduct of YCC would allow long-term interest rates to be formed smoothly in response to future development. The BOJ also increased its core inflation forecast for fiscal years 2024 and 2025, indicating a higher likelihood of the end to negative rates and to the YCC policy in the coming months. Japan's Cabinet approved a fiscal stimulus package worth over 17 trillion yen, including income tax deductions to overcome high inflation. The package will likely be approved by the National Diet of Japan by the end of 2023.
- South Korea's government has proposed to slightly increase its fiscal expenditure for 2024 by 2.8%, which is the smallest increase in nearly two decades. This reflects the government's inclination towards fiscal discipline amid weakening government income and elevated national debt. More funds will be allocated to targeted sectors, including health care, social welfare, and employment.

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## Geopolitical outlook

- Frequent diplomatic meetings, including the recent meeting between US President Joe Biden and Chinese President Xi Jinping and the establishment of bilateral working groups, are positive signs of improving ties between the two nations. We do not expect major breakthroughs in US-China relations in the next few months, given the disagreements and policy differences on fundamental issues between the two economies. The US presidential election in 2024 also introduces uncertainty into the trajectory of US-China relations.
- Confrontation over the Taiwan Strait is expected to persist in the region, and any negative developments could impact US-China relations. A war is unlikely, but China may continue to utilize military exercises as well as political and economic tools to pressure Taiwan. The tension could escalate if the currently leading pro-independence DPP wins in the 2024 Taiwan presidential elections.

# Asia Pacific

- There have been intensifying territorial disputes between China and the Philippines in the South China Sea. While the deliberate actions of China and the Philippines have fallen short of the threshold for warfare, there is a risk that miscalculation by either side could lead to further escalation and bring the US, an ally of the Philippines, directly into the conflict with potentially serious consequences on a global scale. While some had hoped that the Association of Southeast Asia Nations (ASEAN) might help find a diplomatic solution, ASEAN has largely proven ineffective due to internal disagreement on how to resolve the conflict.

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## Policy and regulatory outlook:

### Artificial intelligence

- China is moving rapidly ahead of other jurisdictions in Asia in terms of putting in place a robust and prescriptive regulatory framework governing the AI industry. In 2023, China published specific rules covering deep synthesis and generative AI together with draft rules on ethical review of scientific and technological activities. These rules (along with the 2022 AI algorithm rules, which aim to regulate internet information service providers that use algorithm recommendation technologies) will be the key AI regulations in China in the near future. According to the State Council's Legislative Work Plan, a more comprehensive AI law will go through legislative review in 2023, and we expect that a draft of the AI law will be released for public consultation in early 2024.
- Japan, Singapore, and Hong Kong do not currently have AI-specific legislation, although government bodies in these jurisdictions have published guidelines and frameworks promoting the innovation and development of AI. There are also guidelines issued by specific industry regulators and data protection offices aimed at guiding the responsible use of information and AI technology. It remains to be seen whether formal legislation will be introduced in these jurisdictions, especially Japan, which has historically adopted a more lenient approach toward formal AI regulation. Meanwhile, South Korea is in the process of passing the first comprehensive AI statute, which, once enacted, will replace its currently fragmented AI regulations.

### Fund liquidity

- The Monetary Authority of Singapore (MAS) published an informal information paper that sets out the regulator's expectations for effective liquidity risk management practices for funds managed by asset managers. MAS also highlighted areas that need to be improved based on their liquidity inspection findings, including senior management oversight of liquidity risk, range and reliability of liquidity metrics, and execution of stress testing.

## Environmental, social, and governance (ESG)

- Following the release of International Sustainability Standards Board (ISSB) standards for sustainability and climate-related disclosures, we expect a wide adoption and integration of the global baseline ISSB standards into local requirements across Asia. Regulators in various jurisdictions, such as Japan, Hong Kong, Singapore, and Malaysia, have announced plans to implement the ISSB standards in their local disclosure regimes. Both Hong Kong and Singapore are considering mandatory ISSB-aligned climate disclosures for listed companies from 2025. Japan has announced that it will issue its own sustainability information disclosure standards that are in line with the ISSB standards.
- The Australian government is currently consulting on the phased introduction of a mandatory climate-related financial disclosure regime, with the first group of reporting entities expected to publish disclosures for the financial year 2024-2025. While it is proposed that disclosure requirements will align closely with the ISSB's new global standard for climate-related financial disclosures (IFRS S2 climate-related disclosures), the disclosure framework may expand to include other sustainability topics, such as biodiversity over time.
- Greenwashing continues to be an enforcement priority for both the Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC). To date, ASIC has issued 11 infringement notices targeting greenwashing. ASIC received additional funding for 2023-2024 to continue its greenwashing surveillance and enforcement work, with plans to increase surveillance of the superannuation industry and wholesale green bond market.
- More Asian jurisdictions are seen to be on course to adopt green taxonomy frameworks. The Hong Kong Monetary Authority has concluded consultation for a "prototype" of taxonomy, which will be developed in phases initially covering four sectors. The Green Finance Industry Taskforce in Singapore has carried out four consultations on the green taxonomy for Singapore financial institutions and expects to release the final version by the end of 2023 or in 2024. The ASEAN Taxonomy Board also published Version 2 of the ASEAN Taxonomy, which supports the transition towards sustainable finance.
- China is expected to relaunch the long-awaited Chinese Certified Emission Reduction (CCER) Scheme after a six-year hiatus. The CCER will introduce a carbon credit system that has the potential to be an influential carbon offset standard. However, CCER still could face obstacles, such as the need for multi-departmental coordination and technical standards, and CCER's success could depend on whether it is able to adopt international standards and practices.
- Japan committed to start preparation work for seven public pension funds representing 90 trillion yen to become signatories to the Principles for Responsible Investment (PRI) at the United Nations PRI conference held in October. Japan also plans to issue 20 trillion yen in climate transition bonds to support investments in climate solutions and high emitting sectors.



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