CLIENT BRIEFING

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EU Market Integration Package

Key points from the asset management and settlement finality-related proposals

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1 Introduction

On 4 December 2025, the European Commission published a set of legislative proposals which have collectively been labelled the "**Market Integration Package**" or "**MIP**". As the name implies, the MIP legislation has the overall objective of further integrating EU financial markets by breaking down barriers to cross-border business and encouraging greater capital flows. This forms part of the EU's broader Savings and Investments Union initiative, which resulted from the September 2024 report by Mario Draghi on the Future of European Competitiveness.

In this briefing, we set out a high-level summary of some of the key points contained in the MIP proposals, focusing on two particular aspects:

1. The proposals that are relevant to EU AIFMs and UCITS managers; and
2. Proposed changes in the EU settlement finality framework, which are likely to be of interest to financial market infrastructures (**FMIs**).

As the proposals form a wide-ranging package, this briefing does not cover changes other than those identified above. However, the legislation amends at least 18 different EU legislative acts and therefore the proposals will also be of interest to a wide range of market participants.

2 What are the MIP proposals?

The MIP proposals consist of three separate texts which contain a raft of amendments to existing EU financial services directives and regulations, as follows:

- The "**Master Regulation**" proposal, amending a wide range of EU regulations, including (among others) the Cross Border Distribution of Funds Regulation (**CBDFR**) and MiFIR.
- The "**Master Directive**" proposal amending AIFMD, the UCITS Directive and MiFID; and
- The **Settlement Finality Regulation** proposal, which would introduce a new regulation governing the EU settlement finality framework, while also repealing the existing Settlement Finality Directive and making targeted amendments to the Financial Collateral Directive.

At this stage, the MIP texts are only legislative proposals. They will therefore need to be agreed by the European Council and Parliament via the EU legislative process before they become binding law. As a result, they may be amended (possibly significantly) before they are enacted, assuming that legislative agreement is eventually reached at all.

3 What is the expected timeframe for the MIP proposals to enter into effect?

The expected application date of the MIP legislation is currently unclear and varies between the different texts. Broadly, the Master Regulation and Master Directive changes will take effect between 12 and 24 months after those pieces of legislation enter into force. The Settlement Finality Regulation would repeal the existing Settlement Finality Directive as soon as it enters into force, but will have certain transitional provisions that would apply for the first 5 years.

In the respective legislative statements, the Commission provides the following expected implementation timelines:

- For the Master Regulation and Directive proposals, implementation involving a "**start-up" period between mid-2027 and mid-2029**, with full-scale operation thereafter.
- For the Settlement Finality Regulation proposal, implementation with a **"start-up" period in 2028**, with full-scale operation thereafter.

However, these timings would be subject to the speed with which the proposals pass through the EU legislative process, as well as the possibility of the EU legislators amending the relevant application dates.

4 Which firms would be affected by the MIP proposals?

Given that the changes introduced by the MIP proposals would affect multiple pieces of EU financial services legislation, they are potentially relevant to a wide range of participants in the EU financial markets. In relation to the elements of the MIP proposals that are the focus of this briefing, the key entities that would be affected include:

- AIFMs;
- UCITS managers;
- central securities depositaries;
- central counterparties; and
- payment system operators.

5 What are the key headline points for asset managers?

MARKETING AND PRE-MARKETING BY EU AIFMS AND UCITS MANAGERS

- The CBDFR will be amended with the **aim of removing existing barriers to cross-border marketing of AIFs and UCITS** funds by EU AIFMs and UCITS managers.
- As part of this process, the **existing provisions in AIFMD governing pre-marketing and marketing by EU AIFMs and the provisions in the UCITS Directive governing marketing by UCITS managers are being deleted** and moved into the CBDFR, in some cases with some additional amendments. However, the provisions governing marketing by non-EU AIFMs under the national private placement regimes of individual EU Member States are not being changed.
- Existing **notification and de-notification requirements for marketing and pre-marketing are being streamlined**, with shorter processing times for national authorities. There will be an updated, dynamic central data platform for the exchange of marketing information and documentation to make processes more efficient.
- Member States will be **prohibited from applying national "gold-plated" requirements in relation to the content and format of marketing communications used by EU AIFMs and UCITS managers**. There will also be new restrictions to prevent Member States from requiring additional information or documents in connection with the exercise of marketing passport rights other than those expressly stated in the legislation.
- There will be a **significant simplification of the current pre-marketing requirements for EU AIFMs**. For example, the existing rule that any subscription by professional investors within 18 months of an EU AIFM having begun pre-marketing in a jurisdiction is considered to be the result of marketing (and therefore subject to marketing notification procedures) is being deleted.
- The Commission will be empowered to draft a **delegated act specifying the scope of what constitutes a marketing communication, as well as content and format requirements for such communications**. It is unclear whether this would largely formalise requirements in existing ESMA CBDF guidelines or whether the Commission might adopt a different approach. It appears that this relates only to communications that are prepared or made available by AIFMs or UCITS managers (and therefore may not extend to distributors operating under MiFID, which would retain the current position that marketing materials in a distribution chain involving both an AIFM or UCITS manager and a MiFID firm would need to comply with similar, but not identical, regimes).
- ESMA will also carry out a **review of fees and charges imposed by Member States in relation to marketing of funds by EU AIFMs and UCITS managers in their jurisdictions**, although it will have 3 years in which to undertake this. The proposals do not provide for any specific consequences based on ESMA's findings, so it is unclear what potential impact this might have in practice.

- However, **ESMA will also have the right to charge fees to AIFMs and UCITS for costs relating to the marketing passporting and de-notification procedures set out in the CBDFR**. The Commission will be empowered to adopt delegated acts setting out the arrangements for applying and collecting these fees.
- ESMA will also have **new powers to suspend the cross-border marketing of funds in certain limited circumstances** where it identifies that there is deficient supervision of the passporting requirements. This would only occur after ESMA engaged with the relevant national Member State regulator(s) and presumably would be limited to exceptional cases.

CROSS-BORDER MANAGEMENT OF AIFS AND UCITS FUNDS

- **Processing times** for Member State regulators to transmit cross-border management passporting documentation for AIFMs and UCITS managers **will be reduced** with the aim of making it faster to exercise passporting rights.

DELEGATION REQUIREMENTS

- There will be **new streamlined requirements for delegations by an AIFM or UCITS manager** to an authorised EU AIFM, UCITS manager, MiFID investment firm or credit institution **within the same group** as the manager.
- Where an AIFM or UCITS manager relies on another authorised EU AIFM, UCITS manager, MiFID investment firm or credit institution within its group to perform one of the AIFM or UCITS management functions, or to provide any of its permitted MiFID "top-up" activities, **this will not be treated as a delegation** (although the manager will still need to notify its home regulator of these arrangements).

DEPOSITARY REQUIREMENTS

- The ability of **EU AIFMs of closed-ended private equity-style AIFs to appoint "depo-lite" depositaries** (i.e. depositaries that provide their services as part of their professional activities, which are subject to mandatory professional registration) will no longer be subject to Member State discretion. As a result, this option **would become available to all such AIFMs**.
- EU AIFMs would also be permitted to **appoint a depositary for an AIF in a Member State other than the AIF's home Member State**, provided that the depositary is an authorised MiFID investment firm or credit institution and has been authorised to provide services in other Member States. This would potentially allow the appointment of a single EU depositary and is described by the Commission as a **"depositary passport"**.
- Similarly, UCITS managers would be permitted to **appoint a UCITS depositary in a Member State other than the UCITS fund's home Member State** if the depositary is an authorised EU credit institution which has been authorised to provide services in other Member States.

INVESTOR DISCLOSURES AND REPORTING

- The provisions on **AIF annual reporting are being updated so that they refer to a fixed list of content requirements**, rather than specifying that AIFMs must disclose "at least" that information. It appears that the intention is to clarify that Member States should not have discretion to "gold-plate" the reporting obligations in the legislation by requiring additional content, although the legislative drafting is somewhat unclear.
- The provisions governing the **content of UCITS prospectuses and half-yearly reports are being updated** in a similar way.

OPERATING REQUIREMENTS

- New references to "**rules of conduct" and "prudential rules" are being added to the ongoing obligations that are applicable to EU AIFMs and UCITS managers**. These may potentially expand upon existing concepts such as the general principles for AIFMs and UCITS managers, and the requirements for AIFMs relating to adequate human and technical resources. ESMA will be empowered to adopt guidelines to provide further detail on these, but it is unclear whether these will merely codify existing obligations or could result in expanded requirements.

UCITS INVESTMENT LIMITS

- A number of the provisions in the UCITS Directive relating to the **investment limits applicable to UCITS funds** are currently subject to Member State discretion about whether a higher limit can be used. These provisions are generally being amended to **require Member States to allow UCITS funds to use the relevant higher investment limits** where the conditions specified in the legislation are met.

SUPERVISION OF EU ASSET MANAGEMENT GROUPS

- Within 12 months of the Master Directive entering into force, ESMA would be required to **identify each group of EU AIFMs and UCITS managers** that meets both the following conditions:
  - The aggregate **EU-wide net asset values of AIFMs and UCITS managers within the group exceed EUR 300 billion**. We presume the reference to "net asset values" is meant to refer to the assets under management of such entities calculated by reference to the NAV of the relevant EU funds they manage and/or market, although the text itself does not set out the exact nature of the calculation; and
  - the AIFMs and UCITS managers within the group are **established in more than one EU Member State or manage or market AIFs and UCITS funds in more than one EU Member State**.
- For any of these identified large EU asset management groups, ESMA will be required to carry out an **annual review of the supervisory approaches applied by the relevant national regulators under AIFMD and the UCITS Directive**. ESMA will then report back on whether it has identified any "diverging, duplicative, redundant or deficient" supervisory practices and may issue recommendations for corrective action.
- In its Q&A accompanying the MIP proposals, the Commission is at pains to emphasise that this will not result in ESMA becoming a direct supervisor of any asset management groups, but it does open up the possibility of **ESMA indirectly influencing how large groups are supervised in practice**.

OTHER LEGISLATIVE INITIATIVES AFFECTING EU ASSET MANAGERS

The EU legislative landscape for asset managers is becoming increasingly fragmented and complex. By way of summary, the following changes (or potential changes) are currently in the pipeline:

- **AIFMD II changes:** These will take effect on 16 April 2026 and introduce a range of new or amended requirements for AIFMs and UCITS managers. These will particularly affect open-ended AIFs and AIFMs that manage AIFs which originate loans, but include other requirements in areas such as liquidity management and delegation. The MIP legislative texts amending AIFMD and the UCITS Directive assume that the AIFMD II amendments to those texts are already in effect.
- **EU Retail Investment Strategy:** This is currently being negotiated, although there is no guarantee that it will ultimately be adopted. Among other changes, this would introduce new requirements on inducements and would create new "value for money" requirements as part of the product governance rules applicable to EU manufacturers and distributors. It also contains a mild liberalisation of the EU rules on opting-up clients to elective professional status, although in practice, the relevant changes do not go as far as the industry would have liked.
- **MIP proposals:** These are the subject of this briefing and are summarised above.
- **Further proposals on EU growth:** We currently expect that there may be further legislative proposals affecting the EU financial services sector in or around Q3 2026 with the aim of encouraging further economic growth.

6 What are the key headline points for FMIs under the Settlement Finality proposals?

The existing EU Settlement Finality Directive (**SFD**) framework will be replaced with a new EU Settlement Finality Regulation (**SFR**). This is designed to address perceived inconsistencies in the implementation of the SFD across different EU Member States by substituting a directly applicable framework through a regulation.

The SFR will also introduce some changes from the existing SFD framework, which we explain in further detail below.

UPDATES TO ACCOMMODATE TECHNOLOGICAL CHANGES

- The SFR will update the EU settlement finality framework to **accommodate systems which use distributed ledger technology (DLT)** or other emerging technologies. To achieve this aim, it is proposed to **amend certain key definitions** (such as the definition of an "account") to ensure that they are capable of wider application in the context of further technological innovation.

- The Commission will also be **empowered to amend certain definitions** (for example, the definition of a "transfer order") **to cater for further technological or market developments in the future**.

APPROACH TO DESIGNATION OF SYSTEMS

- Unlike the existing SFD (but in a similar way to the current UK approach), the SFR would **specify conditions that would need to be met** before national designating authorities would be allowed **to designate a securities settlement system, clearing system or payment system**.
- Some of the specified conditions **lack clarity and may result in legal uncertainty as to their scope and effect**. For example, one of the proposed designation conditions is that there must be "no apparent conflicts" between the rules of the system and the law that governs it, but there is no further detail on what this means in practice.
- However, ESMA (in the case of securities settlement systems and clearing systems) and the EBA (in the case of payments systems) are each empowered to **develop regulatory technical standards to expand on the relevant conditions** (in each case, cooperating closely with the European System of Central Banks (**ESCB**)). Therefore, these future Level 2 measures may provide further details on how to interpret and apply the relevant conditions in practice.
- The SFR will also include an **express power for a designating authority to withdraw the designation of a system** where any of several specified conditions is met, such as where the system operator made false statements to obtain the designation or where there have been serious or systematic infringements of the SFR requirements.

OVERALL RESPONSIBILITY FOR OPERATION OF THE SYSTEM

- The SFR will require that the **operator of a designated system is responsible for ensuring that the system complies with the SFR requirements at all times**, including where the system is DLT-based.
- Where the operator is structured as a **network of nodes operating under a common governance framework**, there **must be a single undertaking that is legally accountable and responsible** for the operation of the system, and which will be liable as a result.

REQUIREMENT TO SPECIFY THE MOMENT OF FINAL SETTLEMENT

- The SFR introduces a new requirement that the **rules of each designated system must specify the moment when settlement is final** (in addition to the moment of entry and moment of irrevocability of a transfer order). It appears that this new final settlement requirement may be designed to reflect the requirements of Principle 8 (Settlement finality) in the Principles for Financial Market Infrastructures issued by the Committee on Payment and Settlement Systems and IOSCO.
- As with the designation conditions (see above), ESMA and the EBA (again, in each case, in close cooperation with the ECSB) will each be **empowered to draft regulatory technical standards** to specify rules for determining:
  - the **moment of entry** of a transfer order;
  - the moment that a transfer order becomes **irrevocable**;
  - the moment of **final settlement**; and
  - how each of the above should work in the context of a **DLT-based system**.

THIRD-COUNTRY SYSTEMS

- The SFR sets out the EU regime for **registering non-EU systems as "registered systems"** for the purposes of the legislation.
- A non-EU system will be permitted to be registered in an EU Member State **only if it meets a number of conditions specified in the SFR**. These include:
  - having **common rules and procedures for the settlement, clearing or execution of transfer orders** between participants;
  - being **authorised or supervised** in the **country in which it is established** or in the country **under which law the system is governed**;
  - being governed by law which "**upholds the principles of settlement finality**";
  - clearly **identifying in its rules** and procedures the **moment of entry**, **moment of irrevocability** and **moment of final settlement**;

- being **adequately structured and financed**; and
- complying in all material respects with the **Principles for Financial Market Infrastructures**.

OTHER ELEMENTS OF THE PROPOSED EU SFR

- Broadly speaking, subject to the points identified above, the content of the **SFR is similar to the existing SFD framework in relation to the protections it will confer on securities settlement systems**, clearing systems or payment systems from the risks arising from insolvency law applicable to a system participant.
- This includes:
  - requiring each designated system to determine when a participant or third party is **unable to revoke a transfer order**;
  - **disapplying any retroactive effects from insolvency proceedings on a participant's rights and obligations** in connection with their participation in the system and preventing the unwinding of any netting arrangements as a result;
  - ensuring that the **rights of system operators or participants to collateral** provided in connection with the system are **not affected by insolvency proceedings**; and
  - setting out **conflicts of laws provisions** to determine which law will govern the rights and obligations of participants in relation to their participation in the system, and rights to any relevant collateral that is legally recorded in a ledger (including a distributed ledger), account or centralised deposit system in any EU Member State.

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