

The background of the slide is a complex, layered image of financial market data. It features multiple overlapping candlestick charts in shades of green and red, and several line graphs in blue, cyan, and red. The overall aesthetic is high-tech and data-driven, with a dark blue and black color palette. The text is overlaid on this background.

# Financial Regulation Monthly Breakfast Webcast

11 February 2026

LATHAM & WATKINS

# Today's Topics

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PRA's Supervisory Priorities for Banks in 2026 Rob Moulton

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The FCA's consultation on UK SRS-aligned disclosure rules for listed companies Sara Sayma

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Findings from the FCA's multi-firm review into the distribution of complex exchange traded products Ella McGinn

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AI update Becky Critchley

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# PRA's Supervisory Priorities for Banks in 2026

**Rob Moulton**

# Supervisory approach, and international competitiveness and growth

- PRA moving from one to two-year PSM cycle
  - “will reduce the regulatory burden on firms”
- Further initiatives in the pipeline
  - Accelerating timelines for reviewing: Senior Manager applications; and IRB model change approvals



# Strategic risk management

- Geopolitical risks are a top priority for the BofE / PRA
  - Shifting global trade flows present “opportunities” and “frictions in supply chains and increased credit risk”
  - Focus on risks of trade financing activities as a result
- Private market resilience is in focus in 2026
  - “Not been tested to a severe downturn” historically
- Archegos still looms over PRA’s thinking
  - Counterparty credit risk management continues to be a supervisory focus. Some firms still find it challenging to aggregate the full picture across their businesses
  - Exposures to PE and private capital counterparties highlighted
- Use of AI brings opportunities and seen as “key to a flourishing industry”
  - But AI also brings novel risks, amplifies existing inaccurate data issues, and leads to reliance on a small number of key providers

# Operational resilience

- Firms need to improve operational resilience testing, and prove operational resilience is integrated as a day-to-day part of their decision making
- Cyber attack and geopolitical risks cited as key



## Financial resilience

- PRA notes vast majority of Basel 3.1 due to be implemented 1 January 2027
  - Alongside the Strong and Simple Framework for smaller deposit takers
- ICAAPs in 2026 need to include 3.1 impact assessment
  - or Strong and Simple assessment



## Additional points for international banks

- PRA concerned about risks when banks change business models or booking practices
- PRA wants firms to improve end of day monitoring of exposures and stress testing, given growth of intraday counterparty risk exposures
  - Firms “still have work to do” to get better disclosure from clients



The background of the slide is a complex financial chart. It features a dark blue background with several overlapping data series. At the top, there is a candlestick chart with green and red bars. Below it, there are several line charts in various colors, including blue, red, and white. The lines represent different metrics or trends over time, with some showing significant volatility and others appearing more stable. The overall aesthetic is that of a professional financial analysis or trading interface.

# The FCA's consultation on UK SRS-aligned disclosure rules for listed companies

Sara Sayma

# Background

- TCFD established in 2015 to create global baseline for climate-related reporting
- In 2020, FCA introduced TCFD-aligned climate disclosure rules for listed companies, extended in 2021 and carried over in 2024
- TCFD disbanded in October 2023
- ISSB IFRS S1 and S2 published in July 2023, covering climate plus wider sustainability
- Around 40 jurisdictions introduced ISSB so far
- DBT published draft UK SRS S1 and S2 in June 2025
- DBT published update letter to FCA on 5 January 2026
- **FCA UK SRS consultation published 30 January 2026 (CP25/6)**
- Final UK SRS S1 and S2 currently due February 2026

# Current regime

- “Comply-or-explain” aligned with TCFD
- Covers:
  - **Equity shares (commercial companies)** under UKLR 6
  - **Equity shares (transition)** under UKLR 22
  - **Non-equity and non-voting equity shares** under UKLR 16
  - **Equity shares (international commercial companies secondary listing)** under UKLR 14
  - **Certificates representing certain securities (depository receipts)** under UKLR 15

## FCA's proposals – compliance basis and scope

- Same scope as TCFD-aligned rules, but now with different treatment for secondary listings and GDRs
- For all other categories:
  - Mandatory climate (UK SRS S2-aligned) disclosures, excluding Scope 3
  - Comply-or-explain Scope 3 disclosures
  - Comply-or-explain sustainability non-climate (UK SRS S1) disclosures
- DBT January 2026 Letter: Will remove time-specific references about the application of transitional reliefs contained in final UK SRS S1 and UK SRS S2

## FCA's proposals – transition plans

- No mandatory disclosure
- Pure transparency requirement
- Delete Handbook guidance which refers to TCFD recommendations on transition plan disclosures
- June to September 2025 DESNZ climate-related transition plan consultation: watch and wait



## FCA's proposals – assurance

- No mandatory disclosure
- Pure transparency requirement
- June 2025 government consultation on assurance: watch and wait



## FCA's proposals – secondary listing and depositary receipts

- Transparency around climate and sustainability reporting requirements applicable to companies in their primary listing location or place of incorporation, or any requirements or standards voluntarily applied (including in relation to transition plans)
- Transparency around any assurance undertaken in relation to these disclosures

## FCA's proposals – compliance statements

- Paragraph 72 of UK SRS S1: requirement for companies that comply with all elements of UK SRS to make “an explicit and unreserved statement of compliance”
- FCA has asked for views on the approach to this requirement where firms opt to “explain” rather than comply from a Scope 3 or UK SRS S1 perspective
- FCA considers that meeting the “explain” requirements would make it clear which elements of UK SRS are not being complied with
- DBT January 2026 Letter: Will clarify in final UK SRS S1 how statements of compliance would apply to reporters

# Implementation

- Requirements in force from 1 January 2027, for financial years starting on or after 1 January 2027
- One-year transitional relief for comply-or-explain Scope 3 requirements, expiring for financial years beginning from 1 January 2028 and onwards
- Two-year transitional relief for comply-or-explain UK SRS S1 requirements, expiring for financial years beginning from 1 January 2029 and onwards
- FCA consultation closes 20 March 2026
- FCA rules based on the exposure drafts of UK SRS S1 and UK SRS S2, cannot be finalised until DBT publishes final UK SRS S1 and S2
- Final UK SRS S1 and S2 currently due February 2026
- FCA aiming to publish PS with final rules in Autumn 2026

The background of the slide is a complex, multi-layered visualization of financial market data. It features a dark blue and black background with various colored lines and patterns. There are several overlapping candlestick charts in shades of green and red, suggesting price movements over time. A prominent blue line with a jagged, oscillating pattern runs across the middle. Other lines in red, purple, and white are scattered throughout, some appearing as smooth curves and others as more erratic, noisy paths. The overall aesthetic is technical and data-driven, typical of a financial analysis or trading interface.

Findings from the FCA's multi-  
firm review into the distribution of  
complex exchange traded  
products

Ella McGinn

## FCA multi-firm review of complex ETPs

- Multi-firm review launched in July 2025 on the execution-only distribution of complex exchange traded products (complex ETPs) to retail
- FCA sets out key expectations in relation to each Consumer Duty outcome
- Complex ETPs are exchange-traded funds (ETFs), commodities (ETCs) or notes (ETNs) with complex features:
  - Leverage / short or inverse strategies / daily resetting
- Growing market: Of firms surveyed, there was an increase of 23% in customers trading complex ETPs between July 2024 and July 2025 – at least 3% of UK adults use trading apps
- Critical that consumers understand the features and risks of complex ETPs to make informed decisions
- Links into wider FCA strategy to enable a robust investment culture and promote responsible growth in retail investment markets

# Consumer Duty outcomes

- Consumer Duty expectations in platform and wealth management firms offering complex ETPs to retail on execution-only basis:
  - Products and services – how firms identify their target market for complex ETPs and make sure they are only distributed to the intended target market
  - Price and value – how firms consider whether complex ETPs provide fair value to consumers
  - Consumer understanding – how firms make sure features, risks and costs associated with complex ETPs are disclosed to retail consumers
  - Outcomes monitoring and consumer support – how firms monitor outcomes for consumers trading complex ETPs and their approach to tailoring support

# Consumer Duty – products and services

- Target market and distribution
  - **Key risk:** *Weak target market assessments and poor distribution controls mean consumers outside the intended target market may have access to products that might not meet their needs, which could lead to poor outcomes*
  - **Good:** Clearly defined target market, clear characteristics for negative target market, proactive restriction of access, using manufacturer and firm-level data, regular reviews
  - **To improve:** Reliance on manufacturer's target market, insufficient granularity, insufficient controls, lack of regular reviews to prevent distribution to negative target market
- Appropriateness testing
  - **Key risk:** *Failure to test consumer knowledge robustly means consumers may not understand the risks and features of investing in complex ETPs, potentially leading to poor outcomes and significant losses*
  - **Good:** Product-specific tests for complex ETPs, high thresholds to pass, scenario-based questions, meaningful friction, periodic re-assessments
  - **To improve:** Generic product questions, yes/no questions only, self-declaration of knowledge by customers

## Consumer Duty – price and value

- Fair value assessments
  - **Key risk:** *Firms may fall short of what the FCA expects, if they fail to assess all relevant information when determining fair value, or to take timely action when evidence shows products no longer offer fair value*
  - **Good:** Detailed assessments and regular reviews of fair value, including gathering information from product manufacturers, taking action to adjust pricing or restrict access where poor value is identified
  - **To improve:** Lack of detail in fair value assessments, focusing on distributor service fees rather than product costs and overall impact of costs on fair value, lack of consideration of manufacturers' assessments

## Consumer Duty – consumer understanding

- Communication and risk disclosures
  - **Key risk:** *FCA concerned about whether firm communications do enough to help consumers understand these products. FCA observed some weaknesses in cost disclosures, which risk consumers not fully understanding the overall impact of fees on their investment*
  - **Good:** Clear, plain language risk warnings, in-app pop-ups, alerts and educational materials in customer journey, regular testing, proactive “check-ins” where complex ETPs are held beyond recommended holding periods, communications which enable customers to understand unique features and risks, aggregated costs and charges information
  - **To improve:** Reliance solely on manufacturer KIDs, lack of explanation of key risks e.g. leverage, volatility, tracking errors, bid-offer spreads throughout customer journey, lack of active monitoring of consumer holding periods
- FCA also flags incoming rules on Consumer Composite Investments (PS25/20), which will replace KID/KIID disclosures

## Consumer Duty – outcomes monitoring and consumer support

- Outcomes monitoring and consumer support
  - **Key risk:** *Without effective, product-specific monitoring and intervention, firms risk failing to identify poor consumer outcomes.*
  - **Good:** Regular analysis of MI and KPI (complaints, holding periods, trading patterns), proactive contact with customers holding leveraged ETPs for longer periods, vulnerability controls and support channels
  - **To improve:** Lack of processes in place to take appropriate action on poor outcomes (poor trading behaviour, extended holding periods), reliance on self-disclosure of vulnerability, lack of awareness of data and insights in customer information already held by the firm

## Next steps

- Key themes
  - Proactivity in terms of: (i) monitoring; (ii) communicating with customers; and (iii) acting when poor outcomes are identified
  - Move away from reliance on manufacturers' materials to a more tailored, thorough approach – although they do need to be carefully considered as part of distributors' assessments
  - Granular and detailed approaches in terms of target market, fair value
  - Too much reliance on customers self-declaring / self-reporting
  - Regular reviews in all areas with deficiencies addressed
- Consider and engage with DP25/3: Expanding consumer access to investments, in light of FCA's findings in the multi-firm review
- Responses due by 6 March 2026



**AI update**  
**Becky Critchley**

# UK Parliamentary Committee publishes report on AI in financial services

- On 20 January 2026, the House of Commons Treasury Committee published a report on AI in financial services
- This follows an inquiry that was launched in February 2025, and took evidence throughout the year
- The core question posed by the inquiry was whether the financial services regulators are doing enough to manage the risks to consumers and to financial stability presented by AI in financial services
- Overall, the report is critical of the regulators' approach to AI, which somewhat undermines the regulators' current pro-innovation stance and the careful line the regulators have attempted to tread
- *“Based on the evidence I’ve seen, I do not feel confident that our financial system is prepared if there was a major AI-related incident and that is worrying. I want to see our public financial institutions take a more proactive approach to protecting us against that risk”* (Treasury Committee Chair Dame Meg Hillier)

## UK Parliamentary Committee publishes report on AI in financial services – key findings

- FCA, the Bank of England, and HM Treasury are not doing enough to manage the risks presented by AI
- Specific highlighted risks associated with AI include lack of transparency in AI-driven decision-making, AI financial decision-making leading to financial exclusion, unregulated financial advice from AI search engines that could mislead consumers, heightened cybersecurity vulnerabilities, and operational resilience issues (due to reliance on a small number of US technology firms for AI and cloud services)
- Regulators have a "reactive" approach to AI, stating that this leaves firms with "*little practical clarity on how to apply existing rules to their AI usage*"
- Criticism of the fact that no technology firms have yet been designated under the Critical Third Parties Regime

# UK Parliamentary Committee publishes report on AI in financial services – recommendations

- The report goes on to make three key recommendations
  - By the end of 2026, the FCA should publish comprehensive, practical guidance for firms on: (a) the application of existing consumer protection rules (i.e., the Consumer Duty) to their use of AI; and (b) accountability and the level of assurance expected from senior managers under the SMCR for harm caused through the use of AI
  - The Bank of England and the FCA must conduct AI-specific stress testing
  - By the end of 2026, HM Treasury must designate the major AI and cloud providers as critical third parties for the purposes of the Critical Third Parties Regime

## The “Mills Review”

- On 27 January 2026, the FCA announced a review into the long-term impact of AI on retail financial services – “the Mills Review”
- Input sought by 24 February 2026
- The overall aim of the review is to ensure that the FCA remains prepared for the future of AI in financial services and is able to adapt accordingly
- The review will seek views across four main themes:
  - Future evolution of AI technology
  - Future impact of AI on markets and firms
  - Future consumer trends
  - Future regulatory approach
- Recommendations to be shared with the FCA board this summer, and later an external publication on the findings and recommendations

# Recent Thought Leadership

- [FCA Consults on UK SRS-Aligned Disclosure Rules for UK Listings](#)
- [UK Parliamentary Committee Publishes Report on AI in Financial Services](#)
- [The MiFID II Inducements Regime](#)
- [10 Key Focus Areas for US Bank Regulators in 2026](#)



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## Monthly London Webcast Materials

Each month the UK and European Financial Regulatory lawyers at Latham & Watkins host a presentation and discussion covering recent changes to financial services regulation.

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# 10 Key Focus Areas for UK-Regulated Financial Services Firms in 2026

We explore some of the core focus areas for UK-regulated financial services firms in the year ahead.



## Report



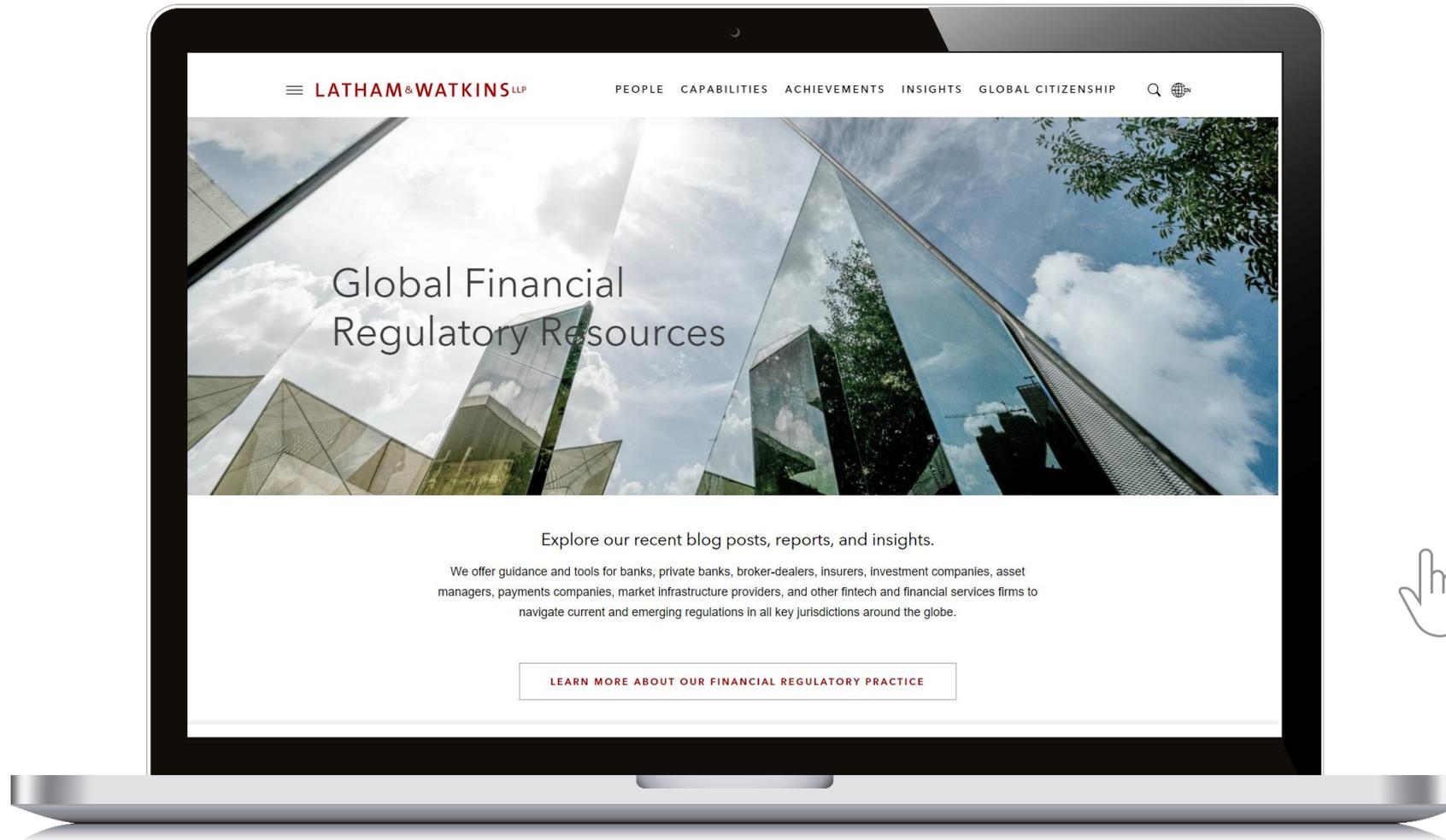
Click the laptop to read the report



## Podcast

In this podcast, London partners Rob Moulton and Nicola Higgs and counsel Becky Critchley discuss the key trends for financial services firms in 2026. Amongst other topics, they discuss the Leeds Reforms, the ESG landscape, and enforcement trends. Click [here](#) to listen to the podcast.

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