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Financial Regulation Monthly Breakfast Webcast

16 July 2025

LATHAM & WATKINS

Today's Topics

The Chancellor's Leeds Reforms speech and the government's Financial Services Sector Plan	Rob Moulton
The FCA's proposed guidance on non-financial misconduct	Jonathan Ritson-Candler
An ESG update, including the UK government consultations on sustainability disclosures and transition planning	Anne Mainwaring
The FCA consultation on the systematic internaliser regime	Rob Moulton
The FCA's final guidance on the treatment of politically exposed persons	Jonathan Ritson-Candler



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The Chancellor's Leeds Reforms speech and the government's Financial Services Sector Plan

Rob Moulton

Background

- Mansion House 2024 set the tone for the new government and established a broadly deregulatory agenda, but contained little in the way of new policy measures
- Speech comes in the aftermath of:
 - An ongoing dialogue between the government and the regulators about the regulators' attitude to risk
 - Government policy paper on cutting administrative costs by 25%, and tackling the complexity and burden of regulation
 - Two very critical reports by the House of Lords Financial Services Regulation Committee
 - FCA dropping its "name and shame" proposals, and both regulators dropping their D&I proposals

Key messages

- “Grow the economy and put more money in people’s pockets”
 - First of many areas heavily influenced by recent House of Lords report
- “Cumulative burden and complexity...is detracting from the UK’s overall attractiveness”
- The various papers benefit from detailed discussions between government, industry and regulators



Key messages (cont.)

- Work with FCA and industry to rollout targeted support by ISA season 2026
 - Industry-led campaign promoting the benefits of retail investments
- Plan involves a series of “continuing to review and reform” measures
 - MiFID
 - Benchmarks Regulation
 - EMIR
- Apparently, competitiveness has recently been boosted by “improving the quality and quantity of investment research in the UK by abolishing the much-criticised unbundling rules”
- Includes a (somewhat more muted than in the past) section on diversity and inclusion in the sector

Strategy – Cross-cutting reforms

- HM Treasury is consulting on targeted reforms to the regulatory framework, including shorter statutory deadlines for the regulators to determine key applications (see table opposite)
- Regulators have committed to certain non-statutory targets, including:
 - FCA variation of permissions applications: 3 months for complete applications / 6 months for incomplete applications, where the permission sought is aligned with the firm’s existing business model
 - 35 day median for FCA Senior Manager applications
 - 45 day median for PRA Senior Manager applications

Table 2.A Proposal for Statutory Deadlines

Application type	Current deadline	Proposed change
New firm authorisations	6 months complete application	4 months
	12 months incomplete application	10 months
Variations of permission	6 months complete application	4 months
	12 months incomplete application	10 months
SMCR approved persons	3 months	2 months

Source: HM Treasury

Strategy – Cross-cutting reforms (cont.)

- Other proposals include:
 - Introducing a requirement for the regulators to produce long-term strategies for how they will advance their objectives, focusing on their top priorities and the outcomes they aim to achieve (similar to the FCA's recently-published 5-year strategy)
 - Rationalisation of how various legislative “have regards” feed into regulator policymaking, along with consideration of how to clarify the interaction between various obligations and duties placed on the regulators
- Consultation closes 9 September 2025
- Other points of note in the consultation:
 - Chancellor has asked the FCA to report by the end of September on how it plans to address concerns about the application of the Consumer Duty for firms primarily engaged in wholesale activity
 - Government to work with the regulators to create a new streamlined authorisation regime for innovative start-ups, and will consult on this in autumn 2025

Capital markets reforms

- Policy Statements published on the UK Public Offers and Admissions to Trading Regime, and Public Offer Platforms Regime
- New UK prospectus regime proposes measures to make the capital raising process more efficient and increase retail participation, including:
 - Increasing the threshold for when a prospectus is required for further capital raising to 75% of issued share capital (from 20%)
 - Shortening the period (3 days, down from 6) for the prospectus to be made public prior to IPOs with retail
 - Streamlining disclosure for non-equity issuances to promote lower denomination issuances
 - Making it easier to include protected forward-looking statements in prospectuses by introducing a definition and a less strict “recklessness” standard of liability for forward-looking information
 - Including specific requirements and guidance around sustainability disclosures
- FCA plans to consult on further Technical Notes and guidance during the remainder of 2025, before the regime goes live in January 2026
- Digitisation Taskforce has published its final report, outlining a staged plan by which paper share certificates will be eliminated and all shareholders will hold through the intermediated securities chain

Bank capital reforms

- PRA consultation on adjustments to the Fundamental Review of the Trading Book element of Basel 3.1, pushing implementation date for this element back to 1 January 2028
- PRA confirms the implementation date for the Strong and Simple capital regime as 1 January 2027 (meaning the Interim Capital Regime will no longer be required)
- PRA to publish a Discussion Paper on Internal Ratings Based Models mid-summer 2025
- PRA confirms final policy on MREL, including raising the indicative thresholds from £15-25 billion to £25-40 billion
- PRA consultation on raising the Resolution Assessment threshold from firms with £50 billion in retail deposits to £100 billion in retail deposits
- HM Treasury papers confirm the legislative approach for implementing Basel 3.1 in the UK and revoking the remainder of the CRR, including its approach to the development of Overseas Recognition Regimes, and the restatement of certain key CRR definitions
- FPC to undertake a “major review” of bank capital requirements
- Linked to “meaningful” reform of ring-fencing regime e.g. ability to provide more products and services and share resources

SMCR consultations

- HM Treasury will delete Certification Regime from legislation
 - But PRA and FCA will incorporate and then amend it in their rules
 - A “second stage” consultation will be undertaken by the FCA/PRA on this regime
- FCA and PRA have both launched consultations on other aspects of the regime
 - PRA follows FCA’s proposals with one alteration

SMCR – FCA

- FCA not proposing at this stage to reduce the number of SMF roles (but may do later in phase 2)
 - FCA is considering a two-tier approach to approval, where only some roles will require prior approval from the FCA
 - Others will be approved by the firm and notified to FCA (similar to previous Approved Persons Regime)
- Criminal record check validity period to be extended from 3 to 6 months
 - No change for overseas criminal records, despite acknowledging it “may be harder” to do
- 12-week temporary period
 - FCA accepts this is too short
 - Has been forced into forbearance which can “lead to inconsistent approaches”
 - FCA will change the rules such that the 12-week period is to submit an application rather than get a decision on it

SMCR – FCA (cont.)

- SMF 7 – guidance rather than changes
 - Guidance on relationship between Group CFO and Entity CFO
 - Also extended to controllers who are not part of the same group (e.g. PE owners)
- Thresholds for becoming Enhanced are being updated in line with inflation
- Statement of Responsibility submissions
 - Firms must keep them up to date
 - But only need to submit revisions every six months
- New guidance on when to give a qualified regulatory reference if an employee leaves while under investigation
 - Important guidance for HR teams
 - New rule SYSC 22.5.2G(3)(4) and 22.5.4G(4)
 - Includes the statement “references should not be based on unproven allegations or mere suspicions”
- PRA does not propose to follow the FCA in reducing the period in which a reference must be provided to four weeks

Redress framework

- Proposals to reform the Financial Ombudsman Service, following November 2024 Call for Input
- Intends to address in particular the issues consumers and the industry face as a result of mass redress events, and the criticisms that the FOS has become a “quasi-regulator”
- HMT is even contemplating making the FOS a subsidiary of the FCA
- The “fair and reasonable” test is abandoned (despite the papers saying otherwise) because the FOS will be required to find that conduct is fair and reasonable if it complies with the FCA’s rules
 - FOS will be required to seek a view from the FCA and the FCA will be obliged to respond

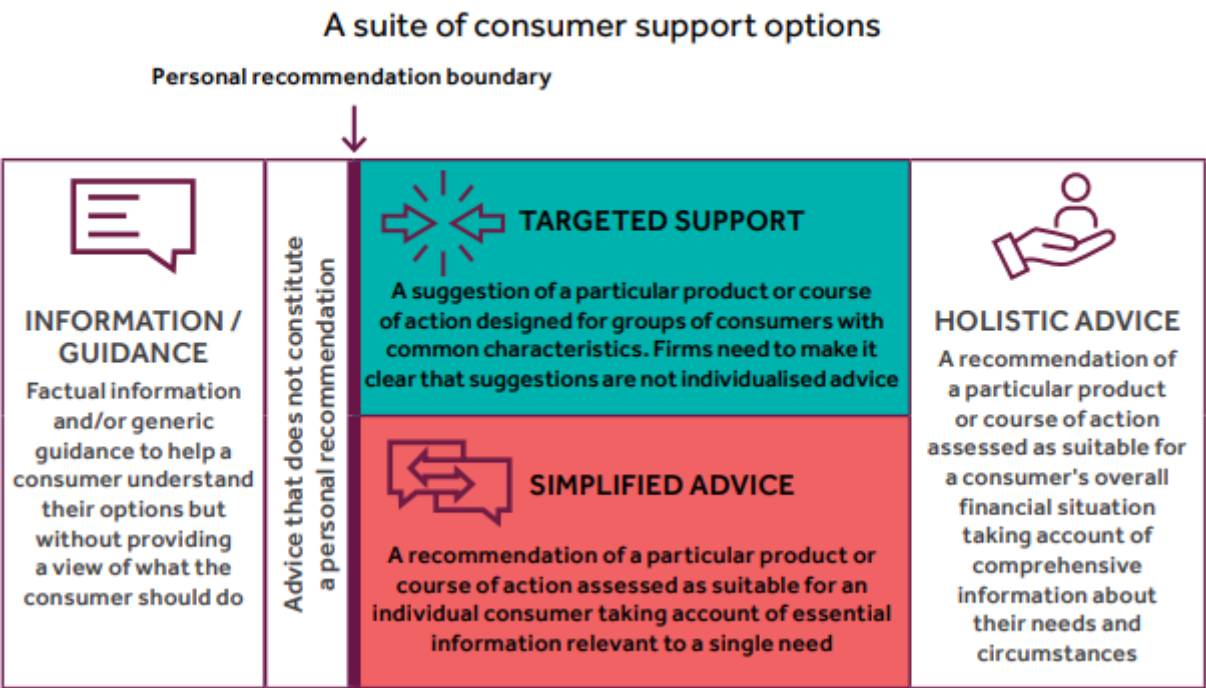
Redress framework (cont.)

- FOS will be obliged to refer wider implications of mass redress events to the FCA (who will have a more flexible framework to respond to such events)
- Legislation to be amended to make it easier for the FCA to “call” a mass redress event
- Absolute time limits for FOS complaints of ten years
- New standard interest rate on compensation awards (which will generally be a cut from the current 8% as it will be base + 1%)
- Easier for FOS to dismiss cases that should be heard in court

Advice Guidance Boundary Review

- FCA consultation on proposals for targeted support in pensions and retail investments in CP25/17
 - Consultation closes 29 August 2025
- Scope of activities as follows:

Figure 1: Providing firms and consumers with a range of support options



Source: FCA

Advice Guidance Boundary Review (cont.)

- Targeted support:
 - New regulated activity to be introduced – targeted support will be a type of regulated advice, but subject to lighter-touch regulatory requirements
 - Firms to pre-define situations to provide targeted support and consumer segments to provide it to, with ready-made suggestions in these scenarios
 - New set of outcomes-focused conduct standards
 - Retail only
 - Consumer Duty also applies
 - Can be offered free of charge – cross subsidisation is permissible
 - Access to the FOS – FOS and FCA alignment is key
 - Direct marketing rules as a potential barrier
- HM Treasury policy note and draft SI published setting out proposed legislative changes to implement targeted support
- Policy Statement on targeted support planned for December 2025

Advice Guidance Boundary Review (cont.)

- Simplified advice:
 - FCA plans to consult in January 2026 on amendments to COBS 9/9A to create a clearer distinction between simplified and more holistic advice
 - Currently no plan to progress proposals for a bespoke simplified advice regime, as was originally discussed in FCA DP23/5
- Future update to improve existing guidance on the advice boundary

FCA annual report data

- **Enforcement data**

- The number of open enforcement operations decreased from 188 as of 31 March 2024 to 130 as of 31 March 2025
- During this period, the FCA issued 37 Final Notices (an increase from 21), secured five criminal convictions, imposed fines exceeding £186 million (up from approximately £42.5 million), and cancelled the authorisation of 1,456 firms (an increase from 851)
- As of 31 March 2025, 75 cases were related to financial crime, while 32 related to wholesale markets
- The FCA initiated 23 operations in 2024/25, compared to 25 in 2023/24, with 17 of these related to financial crime. The FCA closed 81 operations in 2024/25, compared to 60 in 2023/24

- **Secondary International Competitiveness and Growth Objective report**

- Annex 1 includes information on progress against 50 measures to further growth set out by the FCA in its January 2025 letter to the Prime Minister

Looking further ahead

- FCA will review its client categorisation rules, focusing on the elective professional client categorisation, and will update on next steps in Q4 2025
- FCA Consultation Paper on reforms to the transaction reporting regime expected Q4 2025, with final rules in 2026
- FCA review of the securitisation rules to identify areas it can simplify and remove barriers to issuing and investing expected Q4 2025, with final rules due H2 2026

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The FCA's proposed guidance on non-financial misconduct

Jonathan Ritson-Candler

Consultation Paper and Policy Statement

- On 2 July 2025, the FCA published its long-awaited feedback on CP23/20 from September 2023. Comprises:
 - Policy Statement on amendments to COCON for non-bank SMCR firms; and
 - Consultation Paper on proposed guidance on COCON and FIT
- Note that on 12 March 2025, the FCA and PRA announced that they were not taking forward proposals in CP23/20 aimed at improving DEI in regulated firms (e.g., target setting and data reporting on diversity within firms to the FCA/PRA)
 - Not indicative of a change in approach in this area
 - Rather, regulators consider these changes will be covered in other, forthcoming developments, so wish to reduce duplicative burden on firms
- Therefore, primary change at this stage is clarifying the scope of COCON for non-bank SMCR firms to make clear that serious non-financial misconduct (NFM) such as bullying, harassment and violence is a matter of regulatory concern
- New NFM rules will apply from 1 September 2026. Changes will not apply retrospectively

Changes to scope of COCON for non-bank SMCR firms

- New rule from 1 September 2026: COCON 1.1.7F
- Means NFM towards fellow employees is relevant under COCON
- Includes NFM that is unwanted and directed to these persons which:
 - Has the purpose or effect of:
 - Violating their dignity; or
 - Creating an intimidating, hostile, degrading, humiliating or offensive environment for them; or
 - Is violent
- New COCON 1.3 will then provide further scoping guidance which clarifies that NFM for the purposes of COCON does not cover private or personal life (*different from FIT*)
- The NFM must take place in connection with the firm's SMCR financial activities
- COCON 1.3.4 sets out factors to consider when determining if this is the case
- Table at COCON 1.3.7 provides "yes" or "no" examples of in-scope NFM

Proposals for consultation on additional guidance to COCON and FIT

- Paper asks whether there is support for further guidance on NFM under COCON and FIT
- If feedback indicates guidance is worthwhile, FCA intends to finalise it by the end of 2025
- **COCON:**
 - How instances of NFM to colleagues interact with Individual Conduct Rule 1 (acting with integrity) or Individual Conduct Rule 2 (acting with due skill care and diligence), and provides guidance on when such conduct is likely to breach these rules *i.e.*,:
 - It is “serious” (repeated, duration, impact on subject, seniority etc.); and
 - 2 key factors: (i) the subjective perception of the subject of the NFM (such that if they do not feel their dignity to have been violated, no misconduct); and (ii) is it objectively reasonable that the NFM has the effect of making the subject feel violated, intimidated etc. Note that if the NFM is violence, these factors do not apply

Proposals for consultation on additional guidance to COCON and FIT (cont.)

- Guidance makes clear that assessing whether NFM is a breach of COCON is the focus of the guidance and that this is separate from firms' consideration of which breaches require internal disciplinary action
- **FIT:**
 - Bullying and similar misconduct both at work and in a person's private life are relevant to FIT assessment (new FIT 1.3.15)
 - Guidance clarifies, however, that:
 - Firms do not need to actively monitor employees' social media or personal lives
 - Firms can rely on formal findings (such as criminal convictions, findings of a court, arbitrator etc.) when assessing whether wrongdoing in a person's private life has taken place
 - If a firm becomes aware of information which, if substantiated, would impact a person's F&P, firm should have an approach for assessing the impact

Proposals for consultation on additional guidance to COCON and FIT (cont.)

- **FIT:**

- Where there is little or no risk of misconduct being repeated at work, FCA has revised guidance to reiterate that such conduct may nevertheless remain relevant to a person's F&P if the misconduct shows a willingness to:
 - Disregard legal or ethical obligations
 - Abuse a position of trust
 - Exploit others' vulnerabilities
- With respect to social media:
 - In principle, a person can lawfully express their views in their personal or private life, even if those views are controversial or offensive and even if work colleagues are upset by them, without calling into question that person's F&P
 - However, if a person's social media activity indicates a real risk that they will breach the requirements of the regulatory system, then this will be relevant to F&P (e.g., threats of violence or clear involvement in criminal activities)

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An ESG update, including the UK government consultations on sustainability disclosures and transition planning

Anne Mainwaring

Government sets out next steps for UK sustainability reporting framework

- On 25 June 2025, the UK government published a package of three consultations relating to the UK sustainability reporting framework
- Marks the first step towards creating a long-term UK framework and will impact a range of entities, including regulated financial institutions and listed companies
 - UK Sustainability Reporting Standards (UK SRS)
 - Transition Plans
 - Oversight Regime for Assurance of Sustainability-Related Financial Disclosures

UK SRS

- The UK SRS consultation seeks views on the exposure drafts of UK SRS, which are based on the International Sustainability Standards Board (ISSB) Standards that were published in June 2023
- The UK SRS will serve as the foundation for the UK's future sustainability disclosures regime and the consultation is the culmination of the UK's process to assess the suitability of the ISSB Standards for use in the UK
- The consultation proposes six minor amendments to the ISSB Standards, to reflect their use in a UK context

UK SRS (cont.)

- Following the analysis of responses to the consultation, the UK government will make a final decision on whether to endorse the drafts of UK SRS S1 and UK SRS S2 for use in the UK and make final versions available for any entity to use on a voluntary basis. If endorsed, the government aims to publish the final UK SRS S1 and UK SRS S2 in autumn 2025
- The decision on whether to introduce any mandatory reporting obligations in relation to UK SRS will be assessed separately. The FCA has stated that it plans to consult on how to adjust its current TCFD-aligned reporting requirements for listed companies to reference UK SRS later this year, while the government will consider whether to introduce sustainability disclosure requirements for economically significant entities outside the FCA's regulatory perimeter "in due course"

Transition plans

- The transition plan consultation published by the Department for Energy Security and Net Zero seeks views on the government's manifesto commitment on the theme of transition planning
- The government is considering whether to introduce:
 - A “comply or explain” regime
 - A mandatory regime
 - An obligation on entities to take future actions consistent with their transition plan disclosures
- The government indicates that the focus of any new requirements it introduces will be on economically significant entities and small to medium-sized companies are not expected to be in scope. However, it notes that the FCA has independent powers to apply rules to the entities it regulates
- The FCA intends to consult on strengthening its expectations for listed companies' transition plan disclosures, with reference to the TPT Disclosure Framework, as part of its consultation on the adoption of UK SRS by listed companies

Oversight Regime for Assurance of Sustainability-Related Financial Disclosures

- Focuses on providers of assurance over sustainability related financial disclosures
- The government is seeking views on a proposal to introduce a registration regime operated by the Audit, Reporting and Governance Authority (ARGA) once established. This will form part of the government's work to strengthen audit and corporate governance
- The regime would recognise assurance providers as being capable of assuring information disclosed against UK SRS, European Sustainability Reporting Standards (ESRS) and any jurisdictional standards that are aligned to the ISSB Standards

UK Green Taxonomy

- UK government announced on 15 July 2025 that it will not proceed with creating a UK Green Taxonomy
- Government received 150 responses to its November 2024 consultation
- Overall, respondents presented mixed views on the value and use cases of a UK Green Taxonomy, with 55% giving mixed or negative views
- Concerns largely centred around real-world application, given experiences of working with other taxonomies
- A third of respondents highlighted that other policies would be more impactful in achieving the two core objectives – channelling investment and tackling greenwashing

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The FCA consultation on the systematic internaliser regime

Rob Moulton

Introduction

- PS24/14 “Improving transparency for bonds and derivatives markets” removed pre-trade transparency from SIs in bonds and derivatives
 - Few requirements remain, so the FCA is consulting on whether to retain them
- FCA plans to remove SI regime for bonds and derivatives, along with structured finance products and emission allowances, entirely
- FCA intends to remove the prohibition on investment firms operating an MTF from executing their clients’ orders on a matched principal basis on the MTF
- FCA wants to permit venues using the reference price waiver to use a broader set of prices
- No firm proposals yet on equity markets, but this CP starts the consultation process

Feedback on PS24/14

- FCA will remove the need for trade flags to replace “SINT”
- FCA believes there will be “no negative consequences” if a single entity can operate both an SI and an OTF, or an OTF can connect to an SI, so this will be permitted
- Knock-on transaction reporting consequences are deferred for the forthcoming TR consultation
- FCA believes there are no implications for best ex if firms are not identified as SIs for bonds and derivatives
 - “Whether a firm is an SI or not when responding to an RFQ is not determinative to establish if a best execution obligation is owed”

UK equity market – discussion points

- No rule changes at this stage, but the FCA is seeking views for a future consultation in 2026
- Partly driven by the falling proportion of trading conducted on central limit order books
- FCA intends to retain the SI regime for shares and ETFs
 - Could have gone further (?)
 - Looks likely it will disapply the regime for depositary receipts, certificates and similar instruments
 - Looking for a simpler way to define liquidity – for example, inclusion in a major index

UK equity market – discussion points (cont.)

- Price improvement
 - No clear agreement on what counts as a valid justification for price improvement
 - One option is therefore to remove the current rules
 - Another is to “clarify when price improvement is acceptable”
- SI quote sizes
 - 99% of UK shares have a minimum quote size of EUR 1,000
 - Most SI trades are much larger
 - FCA might set a fixed minimum size (£10,000)
 - FCA might require SIs to quote in sizes that reflect the trades they undertake
- FCA working on establishment of an equity consolidated tape, which is likely to include quotes provided by SIs
- FCA considering obligation on exchanges, SIs etc. to publish standardised monthly report on the quality of their executions
 - This would need to be “narrowly focused and carefully calibrated”

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The FCA's final guidance on the treatment of politically exposed persons

Jonathan Ritson-Candler

FCA confirms updates to its guidance on the treatment of PEPs

- On 7 July 2025, the FCA published FG25/3, effectively confirming the proposed amendments to FG17/6 consulted on in GC24/4
- Recap: FSMA 2023 amended MLRs 2017 such that in-scope firms are still required to perform EDD on all PEPs, but the starting position for risk rating UK PEPs is that they present a lower degree of risk compared to a non-UK PEP, subject to the outcome of the EDD. Amendments in GC24/4 were to reflect amendments to MLRs and some minor improvements following FCA's review
- FG25/3 therefore completes the FCA's work in this area, making minor amendments to the guidance on the treatment of PEPs:
 - Reflecting changes to UK v non-UK PEPs
 - Clarifying the NEDs of civil service departments should not be treated as PEPs
 - Non-MLRO senior managers can sign off PEP relationships (albeit MLRO retains oversight and responsibility for all PEP relationships)

Recent Thought Leadership

- [FCA Sets Out Next Steps on Its Approach to Non-Financial Misconduct](#)
- [Government Sets Out Next Steps for UK Sustainability Reporting Framework](#)
- [Digitisation Taskforce Unveils the End of Paper Share Certificates](#)
- [The New UK Prospectus Regime](#)



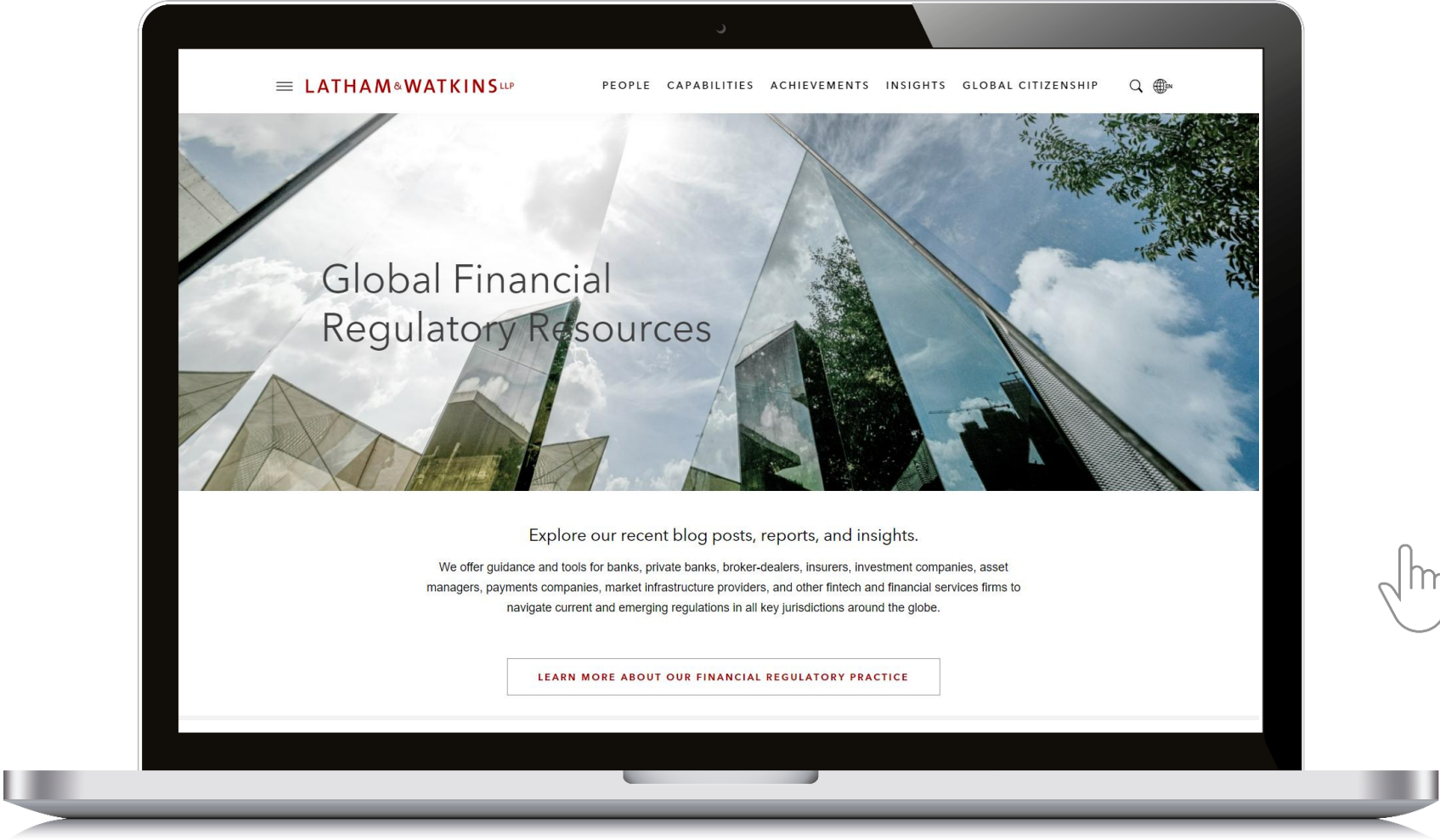
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