Financial Regulation Monthly Breakfast Webcast

15 July 2026

LATHAM & WATKINS

Today's Topics

The Chancellor's 14 July Mansion House speech	Rob Moulton
An enforcement update	Rob Moulton
The FCA's consultation on scope and proportionality under the Consumer Duty	Nicola Higgs
The latest from the regulators on AI	Ella McGinn
The FCA's proposals to simplify costs and charges disclosures	Rob Moulton

The Chancellor’s 14 July Mansion House speech

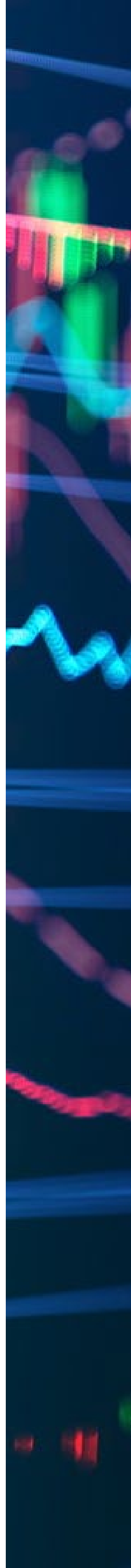
Rob Moulton

Mansion House speech 2026

- Rachel Reeves' third (and presumably final) Mansion House speech as Chancellor
- A speech of reflection more than vision, with a focus on emphasising the changes achieved to date: "This Government has made huge strides in delivering on the promise of change"
- Key publication is the Policy Paper "One Year On: Delivering the FS Growth and Competitiveness Strategy" – sets out achievements in the first year
- Also reiterates many of her previous messages: "Financial services remains the crown jewel in the UK economy and a shining example of our potential as a nation"
- Will anything change under a new Chancellor?

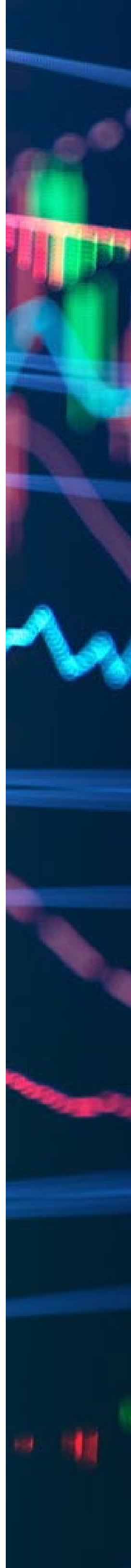
Key announcements / publications

- **Ring-Fencing**: Next steps in the ring-fencing review, as previously announced (HM Treasury consultation on the operation, level, and scope of the growth allowance and other reforms to allow ring-fenced banks to provide more products and services to businesses; PRA consultation on providing firms with flexibility to share operational services across the ring-fence)
- **AI**: Announcement of Financial Services AI Adoption Plan, setting out recommendations for the government, the regulators, and industry to help accelerate safe adoption
- **CTP Regime**: Designation of four global Cloud Service Providers as Critical Third Parties
- **AIFMD**: FCA and HM Treasury consultations on reforms to UK AIFMD
- **Remuneration**: FCA consultation on reforming the Remuneration Codes for solo-regulated firms



Key announcements / publications (cont.)

- **Trade:** Announcement of enhanced Free Trade Agreement with Switzerland, which covers trade in financial services
- **Digital Markets**: First report from the Wholesale Digital Markets Champion, setting out a framework for the UK financial sector to drive tokenisation of wholesale financial markets
- **Dematerialisation**: Dematerialisation Market Action Taskforce implementation plan for removing paper share certificates from the UK shareholding framework
- **UK-US Collaboration**: Recommendations of the Transatlantic Taskforce for Markets of the Future to advance UK-US financial services collaboration on digital assets and capital markets
- **Skills**: Formal launch of Financial Services Skills Compact, which asks signatories to commit to four actions to reduce skills gaps
- **Payments**: Consultation on modernising payment services regulation



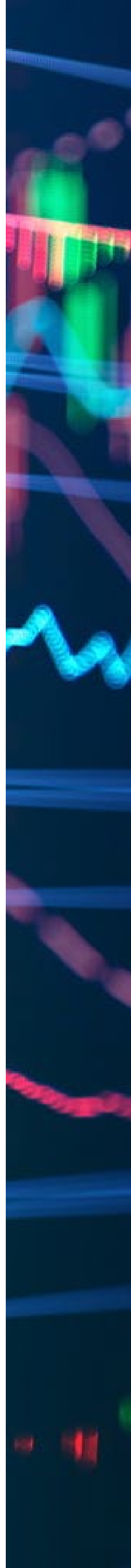
A enforcement update

Rob Moulton

A sea change in regulatory investigations and enforcement

Speech by David Chaplin, Head of Enforcement and Litigation at the Bank of England, on how behaviour in regulatory investigations is evolving

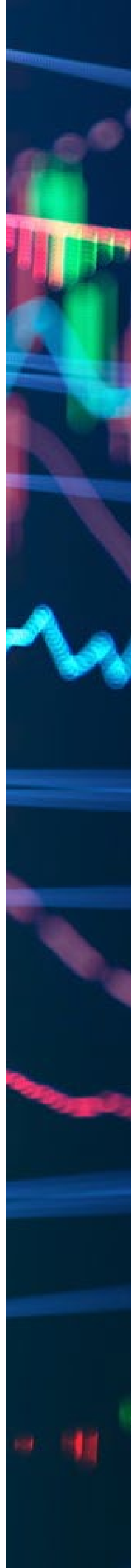
- Highlights a growing trend towards earlier engagement by firms under investigation, supporting faster and more efficient enforcement – the Early Account Scheme forms a key part of this
- PRA is starting to see an increasing number of enforcement investigations involving early admissions
- The PRA’s steady number of enforcement outcomes is expected to continue
- Highlights that every PRA enforcement case to date where rule breaches have been found has been resolved by settlement, and no PRA enforcement case has been contested at the Enforcement Decision Making Committee or the Upper Tribunal



Beyond the headlines: the unseen fight against financial crime

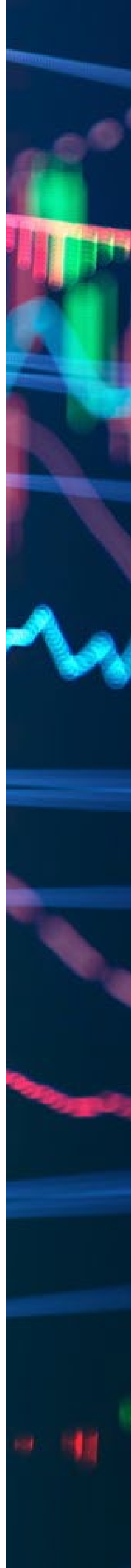
Therese Chambers speech on enforcement

- FCA achieved 42 enforcement outcomes in 2024, 38 in 2025, and 18 so far this year (as of 1 June 2026)
- FCA achieved 7 criminal convictions in 2024, 12 in 2025, and 6 so far this year (as of 1 June 2026)
- Since July 2024, 10 investigations have reached a public outcome within 16 months or less
- FCA is making more use of “voluntary outcomes” and driving earlier intervention with supervisory tools, market oversight, and proactive detection
- Emphasises that early interventions are not separate from enforcement work, even if they are not as visible



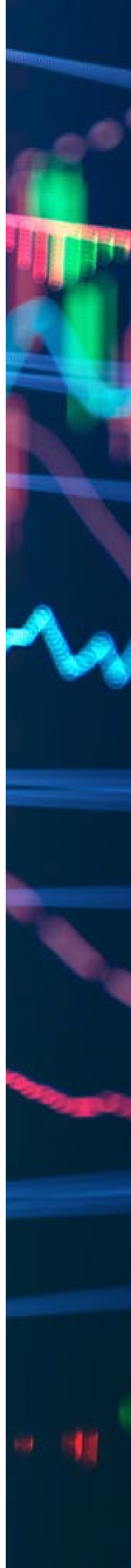
FCA enforcement data 2025/26

- FCA achieved 25 financial penalties in 2025/56, totalling £129,012,328
- As at 31 March 2026, FCA had 127 open operations in respect of 218 individuals and 108 firms – the vast majority relate to “Fighting financial crime” (including fraud and scams, organised crime, weaknesses in anti-money laundering systems and controls, and market abuse)
- FCA closed 36 operations in 2025/26, compared to 81 in 2024/25
- In 2025/26, Enforcement opened 265 new intervention cases, up from 260 in 2024/25
- The Interventions Team supported 137 outcomes in 2025/26 (124 voluntary (mostly VREQs) and 13 own initiative (mostly OIREQs)), compared to 140 outcomes in 2024/25 (130 voluntary and 10 own initiative)
- Number of whistleblowing disclosures received increased by 20%, more than 40% of whistleblowing disclosures led to direct action



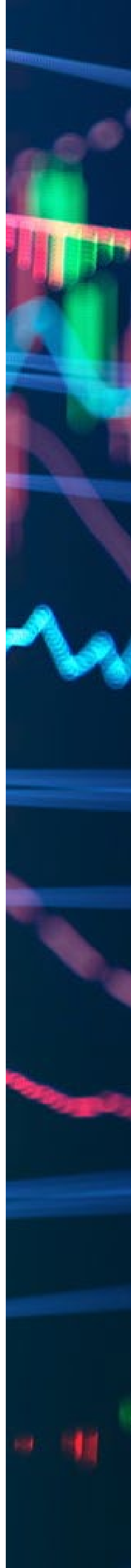
FCA consultation on changes to DEPP

- CP26/19 proposes “targeted” updates to FCA’s penalty and decision-making policies, focusing on penalties for individuals
- Proposals include:
    - Market abuse: raising the minimum penalty for individuals from £100,000 to £150,000 in the most serious cases
    - Deterrence for wealthier individuals: clarifying that the FCA may increase penalties for deterrent effect, having regard to income and assets
    - Relevant income: clarifying treatment of deferred bonuses/pay/shares, in line with recent Upper Tribunal decisions
    - Serious financial hardship thresholds: raising income and capital thresholds
- Comments are requested by 10 August 2026



FCA Enforcement Watch 2

- Focuses on Consumer Duty – FCA has 11 investigations examining potential breaches of the Consumer Duty across various sectors, and has commissioned around 30 skilled person reviews which reference the Duty
- Many of the investigations focus on whether consumers received fair value for a product or service, for example, an investigation into a firm in the wealth management sector where the FCA is concerned about high fees and whether consumers may have paid more than is fair for what they received
- FCA also emphasises how it has been using interventions as a starting point to remedy any issues, for example, inviting a wealth management firm to sign a VREQ preventing it from accepting new retail clients after the FCA identified concerns relating to the Duty



The FCA’s consultation on scope and proportionality under the Consumer Duty

Nicola Higgs

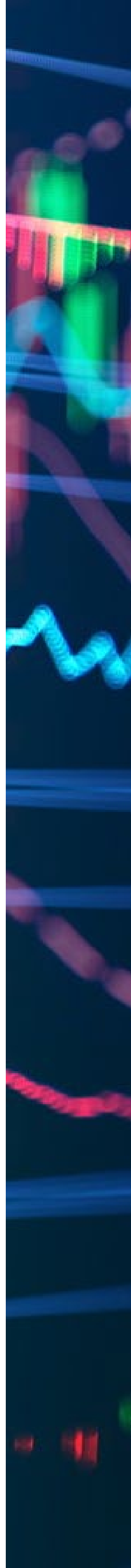
Overview

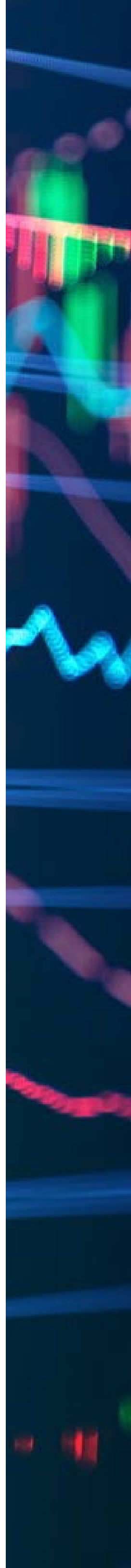
- The Chancellor stated in her July 2025 Mansion House speech that she had asked the FCA to address concerns about the application of the Consumer Duty for firms primarily engaged in wholesale activity
- FCA set out a four-point action plan in September 2025, noting "*We know that some firms have taken steps to comply with the Duty which were driven by uncertainty about our expectations and concern about the consequences of getting it wrong … While many firms have struck an appropriate balance, these factors have led some to go further than we wanted, increasing their compliance costs unnecessarily*"
- FCA published CP26/23 on scope and proportionality under the Consumer Duty on 29 June 2026
- Comments are requested by 18 September 2026, with final rules expected early next year

Clarifying scope

The FCA is proposing a number of clarifications to the scope of the Duty, with the aim of increasing certainty for firms. These include:

- **Application Provisions**: FCA is proposing to make the application provisions clearer by putting them all in one place under a new PRIN 3A. It also intends to clarify a number of key concepts relating to the application of the Duty, such as the definition of “retail market business”
- **Distribution Chains**: The FCA is seeking to clarify which arrangements would bring a firm into a distribution chain for the purposes of the Duty. The FCA also intends to clarify that firms do not need to comply with rules under all four of the Duty’s outcomes if their role does not involve activities relevant to that outcome. Further, it plans to remove references to “co-manufacturing” and replace it with the concept of principal and secondary manufacturers





Clarifying scope (cont.)

- **Exclusions**: The FCA is seeking to add new explicit exclusions from the Duty, such as market making, acting as an indirect access provider, and the provision of derivatives and other products used in a third party's retail product or service. The FCA also plans to restate the exclusion for certain activities linked to financial instruments designed primarily for wholesale investors (i.e., for financial instruments where the minimum investment is £50,000), to clarify that this exclusion cannot be relied upon where investments are aggregated to reach the £50,000 threshold
- **Interaction With Other Requirements**: The FCA intends to clarify how Consumer Duty expectations interact with product governance requirements in PROD 3 and disclosure requirements under the CCI regime

Clarifying accountability

The FCA aims to adapt its rules to ensure that firms operating within distribution chains can apply them in a reasonable and proportionate way. This includes:

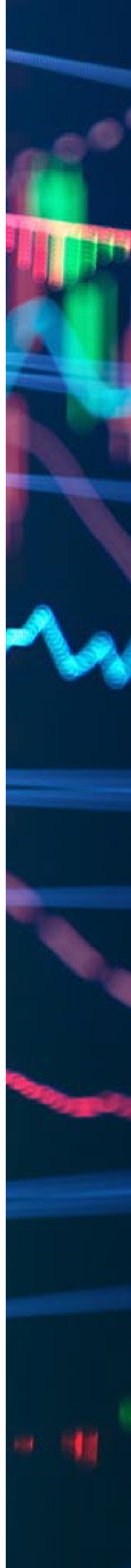
- **Responsibilities Across Distribution Chains**: The FCA proposes to clarify that firms are only responsible for ensuring compliance in respect of their own role and activities, and are not expected or required to oversee the compliance of other firms in their distribution chain. Further, it proposes to make clear that firms can rely on information provided by, or actions carried out by, another firm in the distribution chain
- **Vulnerable Customers**: The FCA is proposing new guidance to emphasise that firms may act differently to support customers in vulnerable circumstances, depending on their role in the distribution chain, their activities, and the risk of harm to consumers. Firms with the closest proximity to customers would therefore have more direct responsibilities

Clarifying accountability (cont.)

- **Obtaining Information**: The FCA is proposing a new rule to support a more balanced approach and allow firms to focus on gathering the most useful information. This approach is centred around what is proportionate based on a firm's role and activities in the distribution chain
- **Board Reports**: The FCA plans to clarify that the extent of a firm's reporting should be proportionate to its role and activities in the distribution chain, and that firms do not need to produce a standalone Consumer Duty board report if the information is covered elsewhere

Narrowing territorial scope

- Under the FCA's proposals, the Duty would not apply when a firm is conducting business exclusively for customers outside the UK (based on their residential address)
- If products are intended for sale to UK and non-UK customers, firms would only need to comply with the Duty in relation to customers in the UK
- However, firms would be able to choose to apply the Duty more broadly across their customer base if they preferred to do so



Consumer Duty – new guidance

- FCA has also published a new webpage on good and poor practices in relation to the products and services outcome under the Consumer Duty
- Reflects findings from a survey of 38 firms conducted in October 2025
- In addition, it has updated equivalent webpages on the other Consumer Duty outcomes to include new examples of good and poor practices – most notably it has included further examples to reflect insights from more recent work on the price and value outcome

Consumer Duty – new guidance on products and services

Topic	Good practices	Areas for improvement
Product and service design, and target market	▪ Beginning the product/service design process by researching prospective customers' needs, characteristics, objectives, and likely behaviour ▪ Using customer impact assessments to test target market compatibility ▪ Making customer journeys inclusive for different customer segments	▪ Overly simplistic or generic target market explanations ▪ Only focusing on how to identify vulnerable customers, rather than adapting products/services to meet the needs of such customers
Monitoring and review	▪ Enhancing MI by also capturing trends in customer behaviour as potential indicators of poor outcomes ▪ Making interventions in response to identified issues	▪ Not using MI to trigger targeted, risk-driven reviews when potential issues emerged in relation to customer outcomes ▪ Not validating the impact of product/service changes
Distribution and third parties	▪ Tailoring distribution strategy to different customer needs within the target market ▪ Structured measures for engagement with distributors ▪ Demonstrating effective processes for identifying and remedying where products/services had been distributed outside of the target market	▪ Providing limited rationales for distribution strategies ▪ Not validating the impact of interventions when products/services were distributed outside of the target market

The latest from the regulators on AI

Ella McGinn

The Mills Review – overview (1)

- FCA Board commissioned Sheldon Mills to review how AI could transform retail financial services by 2030 and beyond (published 6 July 2026)
- Central shift is from human-led, episodic financial activity to AI-enabled, continuous and delegated services – AI will operate inside firms, through consumer interfaces, across markets and within regulators
- AI can address longstanding retail market weaknesses:
  - Advice gap (only 9% use traditional advice); protection gap (only 30% hold life/income protection); low switching; financial exclusion (~900,000 unbanked); suboptimal saving (£300bn in low-interest accounts)
- Report sets out a practical agenda for responsible AI development in retail financial services, enabling growth and innovation while meeting needs of all consumers

The Mills Review – overview (2)

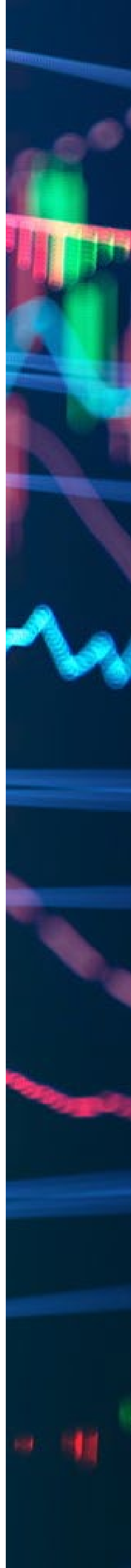
- Seven priority recommendations across four areas: **regulatory frameworks and perimeter; supervision and coordination; foundations and capability; consumer access and outcomes**
- Frames transformation using an "**AI autonomy spectrum**" (Operator, Collaborator, Consultant, Approver, Observer) describing how the human role changes as AI takes on more tasks
  - Helpful Figure 16 of report on where regulation becomes strained along the autonomy spectrum
- Identifies **four systemic shifts by 2030**: (1) transformation of firms; (2) new consumer journeys; (3) reshaped competition landscape; (4) amplified financial crime and cyber risk

System shift 1 – transformation of firms

- Firms have begun deploying AI for specific use cases (broadly keeping humans in the loop) – by 2030 firms could move significantly further along the autonomy spectrum
- Challenges as AI autonomy increases in the future role of human oversight
- AI governance and model risk management will become critical capabilities
- Governance must extend existing model risk management to cover more complex systems and deeper reliance on third-party model/infrastructure providers
  - Note from 13 July Government has designated four major global cloud services and technology providers as Critical Third Parties (CTPs)
- Productivity impact: 59% of institutions report improved productivity from AI, with estimates of up to 30% gains for banking, insurance and capital markets
- Consensus in responses that by 2030 AI could materially change how firms design, operate and support financial services

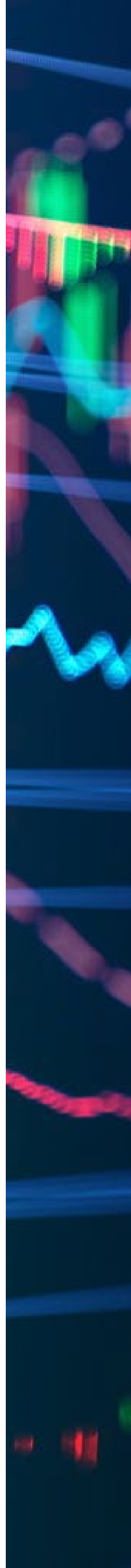
System shift 2 – new, agent-led consumer journeys

- AI will reshape consumer finance journeys – consumers delegating to AI to act on their behalf
- Demand is increasing as 1 in 5 consumers open to AI making decisions for them (rising to 28% among existing AI users)
- Agentic AI could address low switching, advice gaps, low financial capability – acting continuously for consumers
- Hyper-personalisation brings benefits (better product matching) but also risks (bias, opaque pricing, personalised manipulation and deceptive design)
- Access, trust and control will define consumer outcomes and uptake – could widen inclusion gaps
- Strong safeguards needed to protect consumers
- How will consumers challenge outcomes and seek redress?



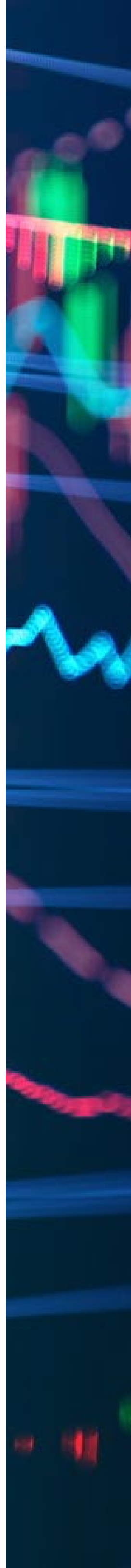
System shift 3 – a reshaped competition landscape

- Competition within the AI supply chain will affect downstream competition between firms and consumer outcomes
- Control of and access to consumer interface models to buy and access financial services gives market power:
  - (1) phone OS-controlled, (2) AI app-controlled, (3) bank app-controlled, (4) third-party aggregator controlled, (5) customer-chosen agent
- Intermediation shifting towards integrating with agents, platforms and data-access layers
- Firm-level AI capability becomes a core competitive advantage
  - Lowering barriers for new/smaller firms
  - Scale advantages in data, trust and vendor access may favour incumbents
- Potential disruption to intermediary markets / brokers
- High fixed costs for firms of investing in AI
- Potential for “hyper-switching”



System shift 4 – amplified financial crime and cyber risk

- AI will amplify fraud and cyber risks by 2030
  - Attacks will become faster, cheaper, more scalable and more persuasive
- Risks cut across the system: firms, platforms, telecoms, payment rails, identity systems, AI/technology providers and jurisdictions
- Whilst AI strengthens detection and resilience, it needs equally strong governance and oversight
- Deepfakes, synthetic identities and personalised social engineering mean weaknesses can be exploited quickly and easily
- Frontier AI models shown able to “exploit systems with weak security posture” – so investment in cyber security is critical
  - FCA, Bank of England and Treasury joint statement on frontier AI models and cyber resilience (15 May 2026)



The Mills Review – priority recommendations

Regulatory frameworks and perimeter

Clear rules, consistent application

Secure and adapt the regulatory perimeter

Ensures the regulatory perimeter remains effective as AI increasingly shapes financial outcomes and consumer interactions.

Monitor the transition to autonomous models and adapt regulatory frameworks

Clarifies how accountability, governance and consumer protection frameworks apply as AI becomes more autonomous.

Foundations and capability

Strong capabilities, trusted infrastructure

Scale up the FCA's AI Lab to support AI models and system innovation in financial services

Builds capability to assess, understand and evaluate AI models and systems used in financial services.

Enable the foundations for agentic finance

Establishes trusted foundations for AI agent participation through identity, authority, accountability and execution frameworks.

Supervision and coordination

Stronger oversight, better system visibility

Strengthen system-wide coordination and oversight

Supports joined-up oversight of cross-market risks, shared dependencies and emerging system-wide issues.

Build and adopt an AI-enabled agentic supervisory model

Enhances firm-level supervision and system-wide oversight through AI-enabled supervisory capabilities.

Consumer access and outcomes

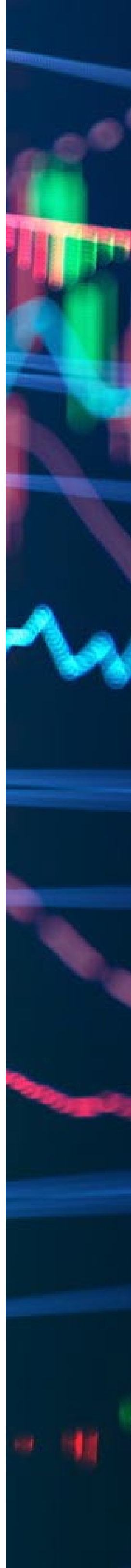
Better outcomes, more trust, greater inclusion

Develop a trusted public-interest AI-enabled financial capability service

Supports inclusive access to t rusted AI-enabled financial guidance, capability and support.

The recommendations are mutually reinforcing

Together they create the conditions for safe innovation, effective oversight and better outcomes in an AI enabled financial system.



Next steps for financial services firms

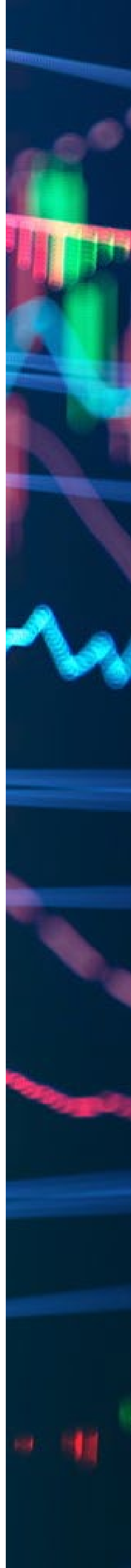
- Strengthen AI governance and model risk management, including auditability, robust testing and effective monitoring
- Clarify human oversight: define what “human in the loop” means at each stage of the autonomy spectrum
- Prepare for Consumer Duty expectations in AI-mediated journeys
  - Evidence consumer understanding, fair value, suitability and informed consent
  - Ensure inclusive design for vulnerable consumers
- Review competitive positioning and interface strategy
- Strengthen fraud and cyber defences: cybersecurity, AI-enabled detection tools, cross-sector intelligence-sharing
- Engagement with FCA – AI Lab
- FCA will launch an AI good and poor practice publication later this year
- Financial Services AI Adoption Plan

The FCA's proposals to simplify costs and charges disclosures

Rob Moulton

Overview

- The FCA published a Consultation Paper (CP26/24) on simplifying MiFID cost disclosure requirements on 2 July 2026
- FCA aims to align the MiFID cost disclosure requirements with the more flexible requirements in the new CCI regime, taking a more outcomes-focused approach underpinned by the Consumer Duty
- Comments are requested by 21 August 2026
- The FCA plans to publish a Policy Statement by the end of 2026



Changes to costs and charges disclosures

- FCA is proposing to maintain the general principle that firms should continue to present the costs of the service and products to their client before they commit to a transaction
- It proposes that firms present consumers with the total of the ongoing product costs and service costs pre-sale, and is proposing limited changes to the treatment of service costs
- One-off product costs and product transaction costs would be disclosed as separate items (although, as under the CCI regime, only explicit transaction costs would need to be included in the figure disclosed)
- Firms would be required to present costs on a personalised and annualised basis, displaying them as a percentage and as a pounds and pence figure based on the consumer’s investment amount
- The FCA also highlights that it is keen for firms to develop dynamic and engaging costs disclosures

Changes to costs and charges disclosures (cont.)

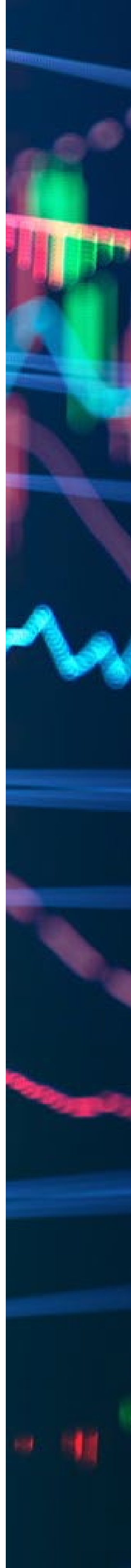
- For post-sale disclosures, the FCA proposes that consumers should continue to be told the total costs incurred across all categories in pounds and pence and as a percentage, including one-off costs and explicit transaction costs
- However, it is proposing to permit a “reasonable estimate of actually incurred costs” if it would require disproportionate effort to obtain exact figures
- Regular post-sale reporting should show how the total costs have impacted the performance of the consumer’s investments over the reporting period, and firms should make this information available to consumers over the lifetime of the service
- The FCA is also proposing to remove any requirement to present personalised forward-looking illustrations of the impact of costs over time in any disclosure. Therefore, it is removing the requirement for firms to provide a cumulative effect illustration pre-sale
- However, firms would still be expected to support consumers in understanding the impact of costs on their returns, especially over a long time horizon

Streamlining disclosures and professional clients

- The FCA plans to consolidate its cost disclosure rules into one new chapter of COBS (COBS 6A)
- Where possible, it intends to remove the distinction between MiFID, non-MiFID, and Insurance Distribution Directive business
- To increase proportionality, the FCA is proposing to only retain a high-level obligation on firms to provide professional investors with transparent information about costs, so that firms can either choose to provide full disclosures in line with those for retail clients, or negotiate a bespoke arrangement
- However, certain detailed disclosure requirements for professional investors would be maintained, namely information about a firm's portfolio management service, compensation information, and CASS information on safeguarding
- Firms would not be required to provide eligible counterparties with detailed disclosures, other than CASS information on safeguarding

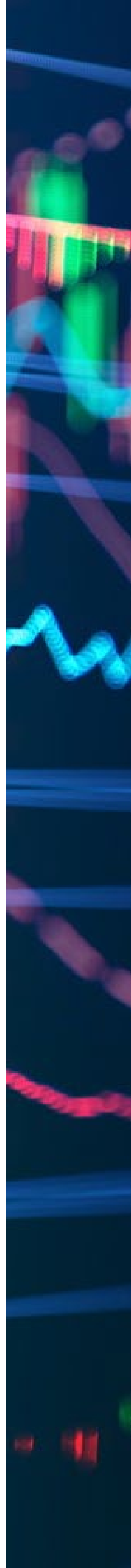
Cash holdings

- FCA is proposing to formalise its existing position on “double dipping”; that is that firms should not retain interest on retail clients’ cash balances in addition to levying a charge on those balances
- It also proposes that firms should clearly explain their approach to interest on cash balances to consumers in a prominent place on their website or platform with their other fees information
- When a consumer puts cash into their account (except for an explicit and immediate investment purpose), they should receive a personalised indication of any fees that will be charged on their cash holdings
- Firms would also be required to tell their customers the interest they earned and the fees they paid on their cash balances in their regular post-sale reporting, in an easy-to-understand format



Transition

- The FCA intends that the rules on costs and charges disclosures will come into force shortly after publication of the Policy Statement, but with an 18-month transition period running until June 2028
- It considers that this will allow firms to coordinate implementation of the CCI product summary (which becomes mandatory on 8 June 2027) with implementation of the wider cost disclosure rules
- The new requirements on cash interest disclosures would take effect in June 2027
- All other rules would come into force around June 2028, to allow firms time to transition



Recent Thought Leadership

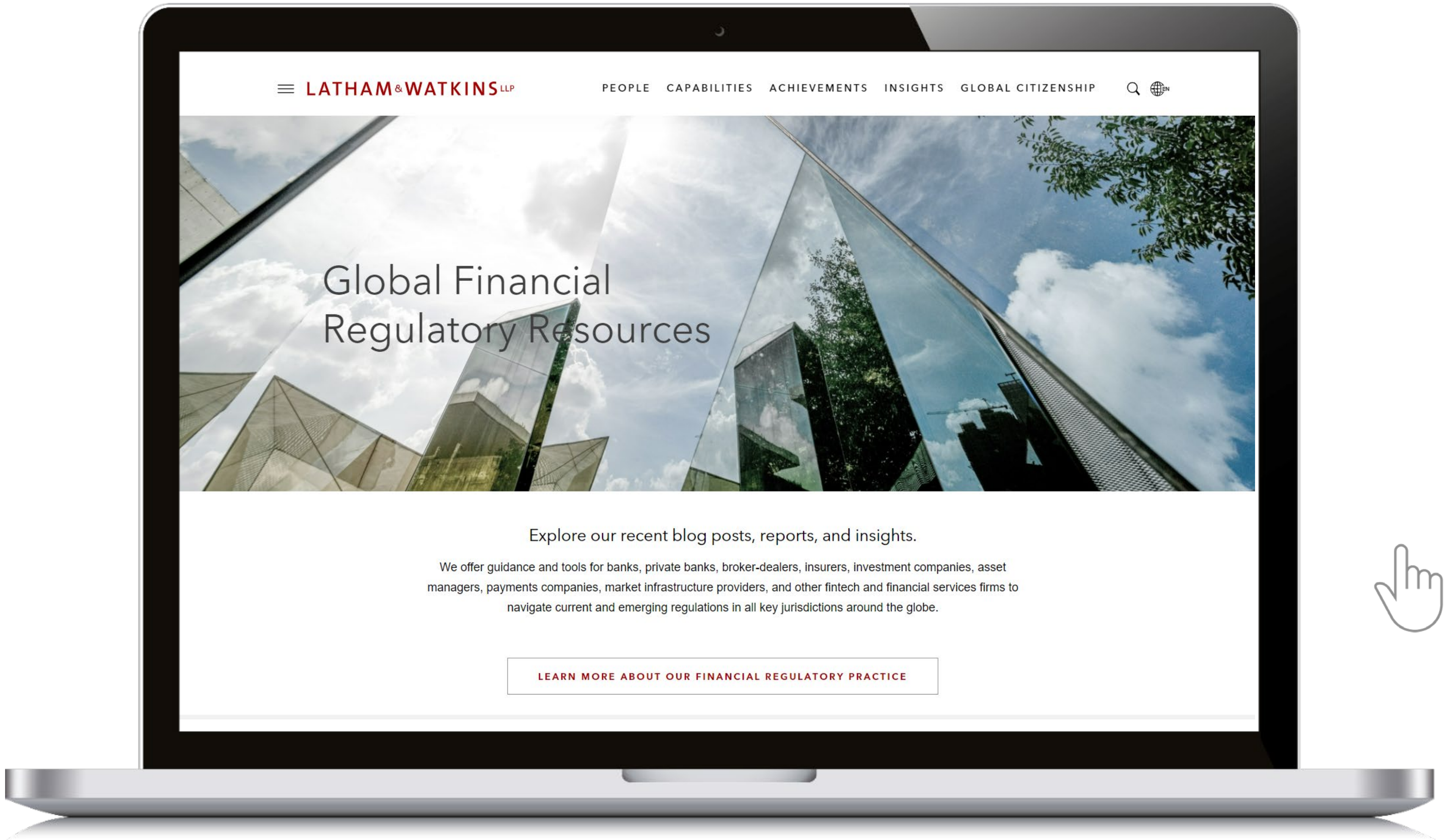
- FCA Consults on Changes to Scope and Proportionality of the Consumer Duty
- CRD VI: Implications of the Licensed Branch Requirement on Lending to EU Borrowers
- Space X's IPO Marks the First Use of the FCA's POP Regime for a UK Retail Market

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.

VIEW

Our Global Financial Regulatory Resources Page



Click to Access Latham's Global Financial Regulatory Resources