

The background of the slide is a complex, multi-layered visualization of financial market data. It features a dark blue and black color palette with various data series. There are several candlestick charts in shades of green and red, overlaid with multiple moving average lines in blue, red, and white. The lines and charts are semi-transparent, creating a sense of depth and complexity. The overall aesthetic is that of a high-tech financial dashboard or data analysis tool.

Financial Regulation Monthly Breakfast Webcast

17 June 2026

LATHAM & WATKINS

Today's Topics

The Financial Services and Markets Bill, including consumer credit and ring-fencing reforms

Rob Moulton and
Becky Critchley

An AI update

Becky Critchley

The FCA's consultation on simplifying climate-related reporting for investment products

Nicola Higgs

Sanctions systems and controls: FCA findings

Nicola Higgs

Amendments to the AIM Rules

Rob Moulton



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The Financial Services and Markets Bill, including consumer credit and ring-fencing reforms

Rob Moulton and Becky Critchley

Overview

- Bill sets out a variety of unconnected regulatory reforms
 - Connected by the need to make a legislative change before a rule change can follow
- Currently awaiting Committee Stage in the House of Lords
 - A surprising degree of controversy is leading to fuller scrutiny
- Intention is to enact it during this Parliamentary year



SMCR

- Removal of Certification Regime from legislation
 - A key indicator of FCA's appetite for risk will be its approach to the new flexibility on this point
- Specifying circumstances in which SMFs can be appointed without approval
- Potential simplifications to Statements of Responsibilities
- Repealing provisions on notification of conduct rule breaches, and training staff



Bank Ring-Fencing

- Proving particularly controversial in Parliament
- Gives power to PRA to make rules in this area
- PRA will be able to waive ring-fencing rules if the objectives of the regime are met by other requirements
- Increase the focus on outcomes other than insolvency for any failed non-ring-fenced bank



Overseas Recognition Regimes

- HMT will be able to make secondary legislation on ORRs
- Envisages granting recognition to other jurisdictions (to replace inherited EU equivalence regimes)
- Ignores the basis upon which most international regimes operate, which is very different, and not set up to permit equivalence
- HMT will be required to consult with PRA and FCA before recognising a regime

Appointed Representatives

- Regime will be amended so that authorised firms will need permission to act as a principal for an AR
 - Makes it easier for FCA to deal with principals it considers unsuitable
- Legislative requirements on AR agreements will be removed
 - FCA will set out the appropriate requirements instead
- SMCR and FOS will be extended to ARs
- Note: FCA prevailing relatively hostile attitude to AR industry



Changes to statutory deadlines

- New firm authorisation
 - Four months (not six months)
- Variations of permissions
 - Four months (not six months)
- SMCR approval
 - Two months (not three months)
- Financial promotion approval
 - Two months (not three months)



Financial Ombudsman Service

- Recalibrating the fair and reasonable test
 - Firms will have acted fairly and reasonably if they meet their FCA rule obligations
- Formal referral mechanism between the FOS and the FCA
 - Gives FCA a chance to step in on what might otherwise become mass redress events
- Absolute time limit of ten years for complaints before the FOS



HM Treasury Confirms Reforms to the UK Consumer Credit Regime

“People need to be able to make informed choices when applying for and using credit. The Consumer Credit Act was written for a different era — we are creating a flexible regime fit for the digital age.”

— Rachel Blake, Economic Secretary to the Treasury

- 8 May 2026 - HM Treasury published its Policy Statement on reforming the Consumer Credit Act 1974 (CCA)
- No further Phase 2 consultation

Consumer Credit Act - Key Reforms

01 Information Requirements

Repeal prescriptive CCA requirements; FCA to develop flexible, outcomes-focused rules aligned with Consumer Duty

02 Sanctions Regime

Removal of automatic/draconian sanctions (unenforceability, disentitlement of interest) — FCA powers, FOS, and Consumer Duty deemed sufficient

03 Criminal Offences

Criminal offences retained as deterrents (canvassing off trade premises, circulars to minors)

04 Small Agreements Exemption

Removed (under £50 threshold) to align with upcoming BNPL regulation

05 Additional Provisions

To be repealed/recast without Phase 2: withdrawal rights, cancellation rights, early settlement, voluntary termination, credit card and securities provisions

06 Retained Provisions

Complex provisions (including s75 liability and unfair relationships) retained in legislation for now, subject to amendments; HMT to update in due course

Next steps

- FCA will consult on replacement rules underpinned by the Consumer Duty
- Transitional provisions to be introduced separately
- Firms will need to carefully monitor for future consultations and implementation timescales





An AI update
Becky Critchley

Financial Stability Board Consultation - Sound Practices for Responsible Adoption of Artificial Intelligence

- Why?
 - Rapid AI adoption may amplify or introduce risks that need to be identified and managed appropriately
 - Responsible AI adoption reduces risks to financial stability
- What?
 - Use cases and benefits of AI in the financial system
 - Risks and implementation challenges of AI adoption for financial institutions
 - 12 sound practices to help all types of financial institutions navigate benefits and risks responsibly as they adopt AI
 - Case studies drawn from actual AI implementation practices by financial institutions
- Responses by 22 July 2026

Financial Stability Board Consultation - Sound Practices for Responsible Adoption of Artificial Intelligence (cont.)

- The practices are intended to complement existing international standards and promote cross-border coordination and information-sharing, rather than impose prescriptive requirements or create new regulatory obligations
- Financial institutions' boards and senior management are encouraged to consider these practices when shaping strategy, technology adoption and risk management

Financial Stability Board Consultation - Sound Practices for Responsible Adoption of Artificial Intelligence

Organisation-wide AI governance

Sound Practice 1

Strategic direction and oversight

- The board and senior management align AI adoption and governance with the financial institution's business model risk appetite and strategy

Sound Practice 2

Governance and accountability

- Financial institutions define clear roles and responsibilities and maintain an appropriate governance framework to enable responsible AI adoption

Sound Practice 3

Incorporation of AI risks into risk management framework

- Financial institutions define clear roles and responsibilities and maintain an appropriate governance framework to enable responsible AI adoption

Sound Practice 4

Organisational adaptability

- Financial institutions learn, adapt and adjust their oversight, governance, risk management practices, and capabilities as AI evolves

Financial Stability Board Consultation - Sound Practices for Responsible Adoption of Artificial Intelligence

Risk management and mitigation across the lifecycle of AI development and deployment

Sound Practice 5
Materiality and risk assessment

Sound Practice 6
Selection

Sound Practice 7
Data governance

Sound Practice 8
Explainability and transparency

Sound Practice 9
Performance Management

Sound Practice 10
Human Oversight

- Financial institutions implement an effective and systematic approach to assess the materiality and risk of AI use cases at the inception stage and thereafter

- When selecting AI models or systems, financial institutions consider business objectives, operational and technical needs, as well as the materiality and risks of AI use cases

- Financial institutions establish appropriate data governance to maintain data that is fit-for purpose for training, testing, and using AI (i.e. accurate, complete, consistent, reliable, secure)

- Financial institutions understand differences in the explainability of various types of AI. If appropriate and feasible, financial institutions adopt more explainable AI, or consider compensating controls. Financial institutions also provide appropriate transparency tailored to different stakeholders

- Financial institutions evaluate the performance of AI use cases proportionately to their materiality and risk, including through performance assessments, testing, and ongoing monitoring

- Financial institutions implement appropriate and effective human oversight relevant to the materiality, risk, autonomy, complexity, and explainability of different AI use cases.

Financial Stability Board Consultation - Sound Practices for Responsible Adoption of Artificial Intelligence

Management of AI-related cyber, information and communication technology, and third-party risks

Sound Practice 11
Cyber and ICT risk management

- Financial institutions manage AI-related cyber and ICT risks, including, where appropriate, by incorporating AI cyber and ICT risk scenarios into tests and exercises, sharing relevant information, and using AI tools in cyber and ICT risk management

Sound Practice 12
Third-party AI risk management

- Financial institutions appropriately manage risks from AI third-party use with a focus on performance, transparency, data quality, supply chain and concentration risks, and business continuity

CMORG: Firm guidance for frontier AI

- 9 June 2026 guidance bringing together industry and regulatory thinking on frontier AI resilience
- National Cyber Security Centre (“NCSC”) described frontier AI as the most advanced artificial intelligence systems in development
- Sets out a structured approach across governance, protection, response, automation and resilience
 - Key firm takeaways
 - Lists of questions for firms to ask themselves
- FCA has previously stated that firms should keep up with relevant publications in this space by CMORG
- Existing practical guidance from NCSC on how firms should consider and manage the risks from frontier AI

Rachel Reeves at the AI Adoption Summit

- *“I firmly believe that [AI] adoption is where the biggest gains lie. That’s why I want the UK to be the fastest adopter of AI in the G7”*
- FCA received a record number of applications to join the second supercharged sandbox AI cohort
- HM Treasury will publish the Financial Services AI Adoption Plan at Rachel Reeves’ Mansion House speech on 14 July 2026

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The FCA's consultation on simplifying climate-related reporting for investment products

Nicola Higgs

CP26/17: UK investment products – climate reporting

- Recap
 - TCFD-based product-level disclosure rules for asset managers, life insurers, and FCA-regulated pension providers were introduced in 2021
 - **August 2025:** FCA completed a post-implementation review and found that product-level reports were often too complex for retail investors and not widely used
 - Firms reported that the TCFD rules were too granular and burdensome, particularly given overlapping obligations under the separate Sustainability Disclosure Requirements (SDR) regime
 - FCA announced it would consider how to simplify and streamline its TCFD-based reporting framework to ease unnecessary burdens, improve decision-usefulness, and promote international alignment
 - **5 June 2026:** CP26/17 published
 - **13 July 2026:** Consultation closes
 - **Autumn 2026:** Rule changes to take effect

CP26/17: UK investment products – climate reporting

- Key proposals
 - Product scope remains the same as existing TCFD (5bn AUM scope threshold)
 - Remove existing product-level TCFD reporting requirements (including prescribed metrics and climate scenario analysis)
 - Replace with more outcomes-based rules giving firms greater flexibility in communicating climate-related information
 - New retail disclosure rule: firms must periodically consider whether climate risks/opportunities are materially relevant to a product's financial performance and, if so, disclose them in communications to retail clients
 - Firms may also disclose material climate risks/opportunities within the Consumer Composite Investments (CCI) product summary where applicable
 - Institutional clients: firms must provide scope 1, 2 and 3 GHG emissions data on request (once per calendar year, per product), but no longer required to publish full reports
 - Entity-level TCFD reporting is NOT changing – proposals focus on product-level only

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Sanctions systems and controls: FCA findings

Nicola Higgs

Sanctions systems and controls

- FCA recognises UK sanctions regime has grown in scope and complexity
- New guidance is relevant to all firms (and their MLROs)
- Most common root causes of reported sanctions breaches were:
 - Weaknesses in due diligence, alert management, transaction and name screening
 - The management of frozen assets and compliance with specific and general licences



Sanctions: Governance & Oversight

Good practice

- Sanctions policies are kept up-to-date and provide staff with clear guidance on business relationships and activities that a firm will not undertake because of sanctions.
- MLRO reports that clearly assess sanctions regulatory developments relevant to the firm's business model and exposure, with details of the firm's responses and any outcomes.
- Role-specific sanctions training that aligns with internal processes, with teams in higher risk control areas receiving enhanced training.
- Firms using internal and external audits to gain assurance on sanctions policies and procedures, and that their control frameworks are effective.

Poor practice

- Sanctions policies that don't consider measures outside asset freezes, such as bans on investment, or don't refer to other key sanctions restrictions (e.g. sectoral or trade measures).
- Firms relying on group entities to provide sanctions risk compliance services, with limited oversight of these services in policies and procedures.

Sanctions: Management information

Good practice

- Firms collecting and monitoring data on customer exposure to high-risk jurisdictions and/or industries through regular MI.
- MI containing both quantitative and qualitative analysis to allow for understanding of inherent risks, controls and outcomes, and commentary on relevant trends.

Poor practice

- Insufficient MI on overseas branches and offices to check their compliance with UK sanctions.
-



Sanctions: Risk assessments

Good practice

- Business risk assessments clearly considering financial sanctions, trade sanctions and proliferation financing risks, assessing the components of the firm's risk and the effectiveness of its systems and controls.
- Firms using business risk assessments effectively to find, prioritise and remediate sanctions control gaps, with clear ownership, documented actions and clear evidence that weaknesses identified through the business risk assessment are resolved.

Poor practice

- Sanctions exposure or risk quantified without documented and supporting rationale.
-



Sanctions: Due diligence and ongoing monitoring

Good practice

- Firms regularly updating CDD policies and any sanctions-specific information requests and including relevant questions on trade, as well as financial sanctions.
- Firms taking sanctions risk into account when deciding how often to risk-assess particular customers.

Poor practice

- Firms using third parties to carry out aspects of CDD but not adequately demonstrating the oversight, governance, assurance and testing arrangements in place over the controls used by these third parties.
- Firms not recording EDD for high-risk and/or PEP customers, nor defining monitoring or periodic review frequencies. This could lead to breaching requirements of the MLRs.

Sanctions: Screening

	Good practice	Poor practice
Screening policies	<ul style="list-style-type: none">▪ Firms maintaining clear, up-to-date sanctions screening policies that define screening scope, frequency, escalation thresholds and governance arrangements.▪ Formal governance processes for approving and reviewing screening exclusions.▪ Using mitigating controls where certain data is excluded from automated screening.	<ul style="list-style-type: none">▪ Firms not embedding screening policies into day-to-day operational practice.▪ Excluding categories of sanctioned names without appropriate rationale/evidence.▪ Relying on historic vendor settings without reassessment and appropriate oversight.
List management and data fields	<ul style="list-style-type: none">▪ Primary screening lists supplemented with additional internal and external data sources to mitigate data gaps, including for identifying entities owned or controlled by sanctioned people.▪ Using intelligence to enhance internal watchlists for customers linked to trade sanctions evasion.▪ Clear contractual and operational arrangements with vendors, setting out update frequencies, data quality standards, and escalation processes.	<ul style="list-style-type: none">▪ Firms with limited understanding of how lists were ingested into screening systems.▪ Insufficient controls to ensure updates to the screening systems lists were complete and effective.

Sanctions: Screening (2)

	Good practice	Poor practice
Calibration, configuration and assurance testing	<ul style="list-style-type: none">▪ Fuzzy matching logic that remains effective even where titles or additional name elements are present.▪ Validation or periodic testing of screening solutions, including after material list or system changes.	<ul style="list-style-type: none">▪ Insufficiently calibrated and/or poorly designed screening systems which limited their ability to detect obfuscated, variant names or those that aren't in the Latin alphabet.▪ Limited understanding of how vendor screening logic or configurations operate.
Alert management and resourcing	<ul style="list-style-type: none">▪ Internal documentation that clearly defines escalation policies and standard team practice that embeds them.▪ Periodic testing and quality assurance of alert investigations.	<ul style="list-style-type: none">▪ Failure to meet internal SLAs for alert management and/or not operating effective quality control procedures.▪ Firms relying on external or intermediary screening solutions without sufficient internal oversight or assurance, leading to delays or failures in escalating potential sanctions matches for review.

Sanctions: Alert management and resourcing

Good practice

- Internal documentation that clearly defines escalation policies and standard team practice that embeds them.
- Periodic testing and quality assurance of alert investigations.

Poor practice

- Failure to meet internal SLAs for alert management and/or not operating effective quality control procedures.
- Firms relying on external or intermediary screening solutions without sufficient internal oversight or assurance, leading to delays or failures in escalating potential sanctions matches for review.

Sanctions: Evasion detection and investigation

Good practice

- Staff training which clearly outlines sanctions red flags and evasion typologies, as well as how to spot and escalate suspicious behaviour.
- Firms proactively stress-testing sanctions systems and controls against new sanctions regimes and/or emerging evasion typologies.
- Firms conducting proactive and/or thematic sanctions lookbacks to test control effectiveness, as opposed to only responding to known, or suspected, breaches.
- Firms maintaining an internal repository of trade documentation samples to help detect falsified documentation and technology to identify discrepancies in trade documentation.

Poor practice

- Key sanctions evasion typologies and risks not being adequately reflected in the firms' risk assessments, policies and procedures, or controls design.

Sanctions: Asset freezing and licence compliance

Good practice

- Firms have clear, documented policies that define when to restrict accounts due to sanctions concerns, the types of restrictions to apply, and the escalation and approval routes required.
- Firms have clear policies and controls to ensure compliance with sanctions licences, including when a licence is required or relied upon, and understanding and adhering to licence permissions.

Poor practice

- Unclear or insufficiently documented procedures for freezing assets and blocking transactions.
- Not taking account freezing obligations into account when a client is offboarded due to potential sanctions concerns.

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Amendments to the AIM Rules

Rob Moulton

AIM rules for companies – Shaping the future of AIM review

- Changes to the Main Market rules have sometimes made them more liberal than the AIM rules
- AIM will remove the requirement to have a working capital statement
 - Not required by some major international markets
 - Main Market allows companies to provide qualified working capital reports
 - New requirement is to disclose details of capital resources available, financial obligations of the applicant, and future 12-month fundraising needs
- UK-incorporated AIM companies can use UK GAAP
- Admission documents will permit incorporation by reference
- AIM rules will be amended to make clearer that AIM does not police contractual lock-ins
- AIM companies undertaking an equity fundraise will be able to request a temporary suspension
 - Known as a Capital Access Window
 - Intended to enable AIM companies to approach retail investors

AIM rules for companies – Shaping the future of AIM review

- Acquisition by an AIM company not considered a reverse takeover solely because it exceeds 100% as a class test
 - Will also need a fundamental change to the company's business
- Removal of the automatic suspension on notification of a “reverse takeover in contemplation”
- Permitting non-standard director remuneration if a Nomad is satisfied that there are “reasonable commercial protections for the AIM company”
- Special voting shares will be acceptable on admission to AIM (promoting founder-led businesses)
- Proposal to give AIM companies a “right of reply” to commentary on bulletin boards
- New guidance for Nomads, where status will focus on “the value of the Nomad's public market experience”
- Addition of a specific rule recognising the “buyer beware” nature of this market



Regulatory Initiatives Grid

Some key dates to note from the latest Grid

- FCA CP on the application and requirements of the Consumer Duty, including through distribution chains, due Q2 2026
- Draft SI and FCA CP on the AIFMD expected around mid-2026
- FCA PS on the equity consolidated tape due July 2026
- FCA CP on equity market structure and transparency due July 2026
- FCA CP on review of financial promotion rules in COBS 4 expected September 2026
- FCA CP on simplifying MiFID costs and charges disclosures expected Q3 2026
- FCA “public document” on review of the DTRs expected Q3 2026
- FCA CP on its solo remuneration rules review now due Q3 2026

Some key dates to note from the latest Grid (cont.)

- FCA call for input on review of the IFPR expected H2 2026
- FCA CP on market risk capital requirements for specialised trading firms expected H2 2026
- FCA PS on client categorisation and conflicts of interest expected H2 2026
- FCA PS on transaction reporting expected H2 2026
- PRA CP on ICT and cyber risk management and resilience now due H2 2026
- FCA to complete review of its position on payment for order flow before end of 2026

Recent Thought Leadership

- [UK Government Proposes Legislative Changes to Drive Forward Financial Services Reforms](#)
- [HM Treasury Confirms Reforms to the UK Consumer Credit Regime](#)
- [HM Treasury Publishes Findings of the UK Bank Ring-Fencing Review](#)
- [The Bank, FCA and HM Treasury joint statement on Frontier AI models and cyber resilience](#)
- [UK FCA Consults on Simplifying Climate-Related Reporting for Investment Products](#)



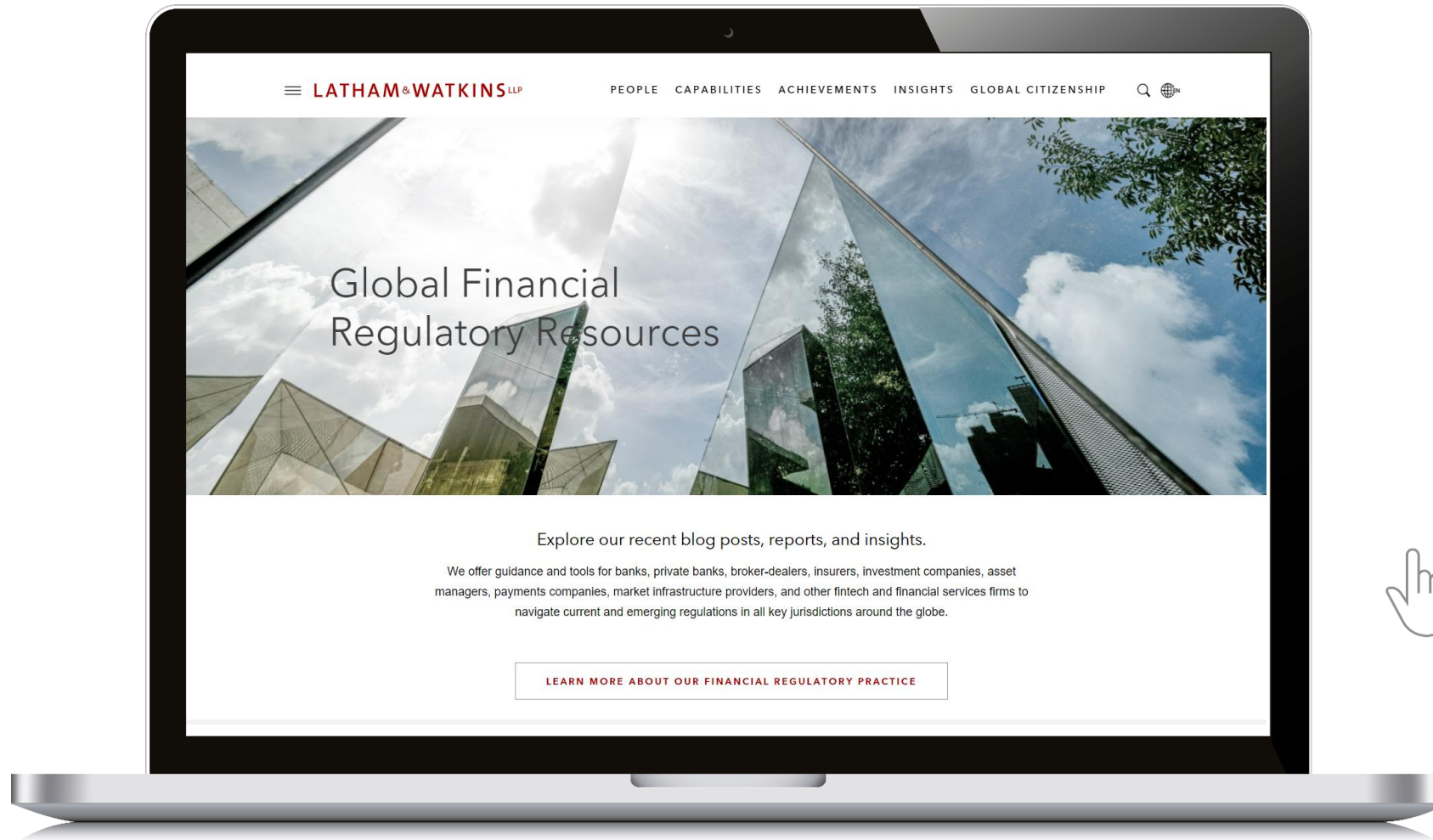
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