Financial Regulation Monthly Breakfast Webcast

9 September 2026

LATHAM & WATKINS

Today’s Topics

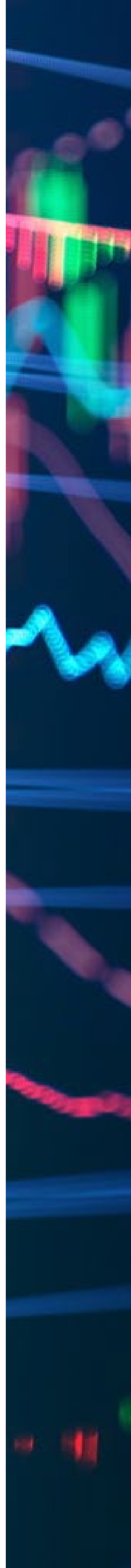
FCA expectations on frontier AI and cyber resilience	Becky Critchley
The FCA’s latest wholesale markets reforms	Becky Critchley
Primary Market Bulletin 65	Nicola Higgs
Proposals to reform UK AIFMD	Jonathan Ritson-Candler
The FCA’s consultation on revising its remuneration code for solo-regulated firms	Rob Moulton

FCA expectations on frontier AI and cyber resilience

Becky Critchley

FCA expectations on frontier AI and cyber resilience

- Multi-firm review on firms' use of frontier AI in the context of cybersecurity and resilience
- The "*capabilities [of frontier AI models] can outpace existing regulation and risk management practice, so firms using them should apply extra caution around consumer protection, governance and oversight*."
- Publication specifically aimed at:
  - Operational resilience leaders
  - Technology leaders
  - Risk leaders
  - Cyber-resilience professionals



FCA expectations on frontier AI and cyber resilience (cont.)

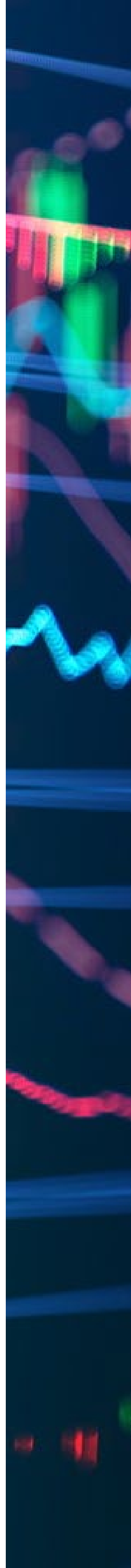
- Five main themes reported during the review:
  1. Vulnerability discovery is accelerating faster than firms' ability to respond
  2. Frontier AI is becoming a test of organisational resilience, not just a tool
  3. The value of frontier AI depends on the firm's operating environment
  4. Frontier AI is making foundational cyber and operational resilience more important
  5. Effective governance and human judgement remain critical
- List of key questions firms should consider in relation to each of:
  - Harness engineering
  - Preparing for a vulnerability wave
  - Effective cyber and operational resilience
- Next steps:
  - Are relevant people within the institution aware of this review?
  - Does the institution know whether it uses frontier AI and how does it identify it?
  - Where relevant, assess the current framework against the list of key FCA questions

The FCA’s latest wholesale markets reforms

Becky Critchley

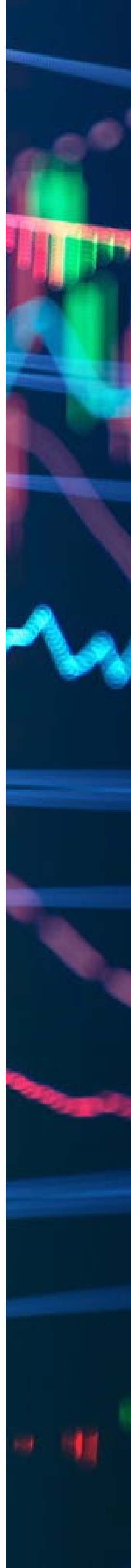
Transaction Reporting Reforms

- FCA Policy Statement (PS26/15) issued on 3 August 2026
- FCA largely proceeding as consulted on (November 2025), with some adjustments following feedback
- Implemented via new MAR chapters 13, 14, 15
  - Annex 1 to the Policy Statement contains a detailed provision-by-provision mapping table
- Further consultation expected October 2026 (draft schema, validation rules, guidance, transitional provisions)
- Changes take effect 3 April 2028, with a flexible supervisory approach to certain elements immediately
  - Set out in Chapter 6 of the Policy Statement



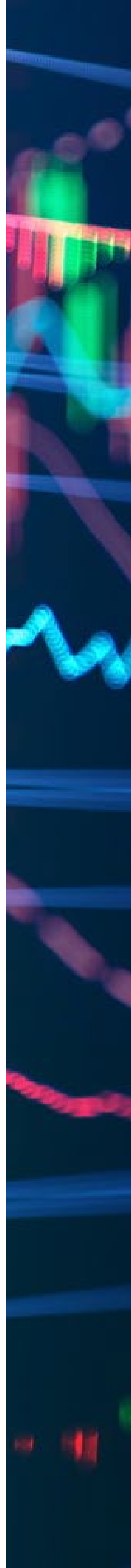
Transaction Reporting Reforms – key changes

- Back Reporting
    - Period reduced from 5 to 3 years (immediate effect)
    - Ad hoc ability retained: up to 5 years for serious failings
    - Firms must keep records for 5 years
    - Transparency on ad hoc requests via Market Watch
- Geographic Scope
    - Limited to instruments tradeable on UK trading venues only
    - No enforcement for not reporting EU-only venue instruments during implementation
    - FCA considering removing EU instruments from FCA FIRDS before April 2028 (update October 2026)



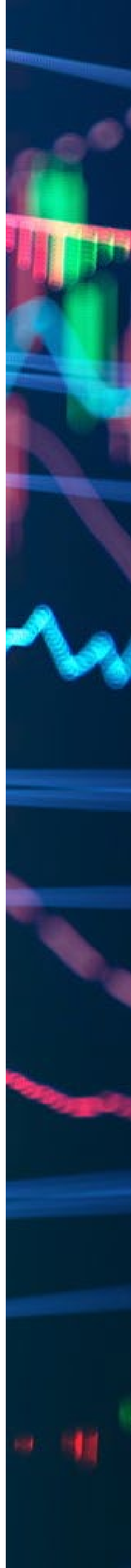
Transaction Reporting Reforms – key changes (cont.)

- Reporting Fields
  - Reduced from 65 to 52 fields
  - No enforcement action for non-reporting during implementation period
  - Further amendments to certain fields
- FX Derivatives
  - Removed from scope (full respondent support)
  - UK EMIR reporting a better data source for FX
  - Data gap re UK branches of third-country firms to be addressed via UK EMIR restatement
  - Firms subject to UK EMIR not required to report FX under MiFIR during implementation



Equity Market Structure Reforms

- Consultation Paper (CP26/30) published on 31 July 2026
  - Comments by 16 October 2026
  - Policy Statement expected H1 2027
- Builds on earlier Wholesale Markets Review reforms



Equity Market Structure Reforms (cont.)

Post-Trade Transparency
- Extend exclusion for non-price-forming OTC transactions to equivalent transactions reported to trading venues. Delete NPFT and TNCP flags

Reference Price Waiver
- Reformulate to enable integration of midpoint dark orders within transparent limit order books. Seeking views on identification mechanism

Back Reporting
- Maximum 3-year period for post-trade transparency (equities, bonds, derivatives). New flags/fields need not be applied retroactively

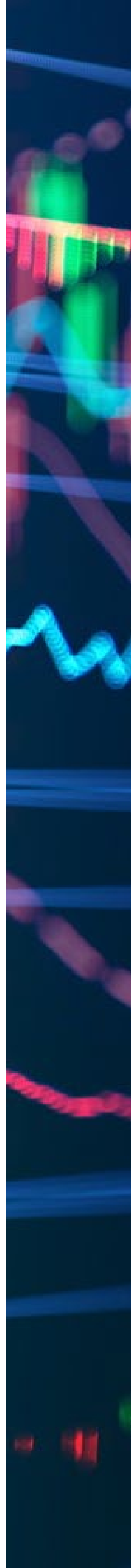
Equity SIs
- Require publication of quotes showing price and volume up to and including standard market size

Algo Trading Market Making
- Remove requirement for market making agreements with trading venues by revoking RTS 8 in entirety

Equity Swaps
- FCA considering whether public reporting should extend to certain equity swap activity

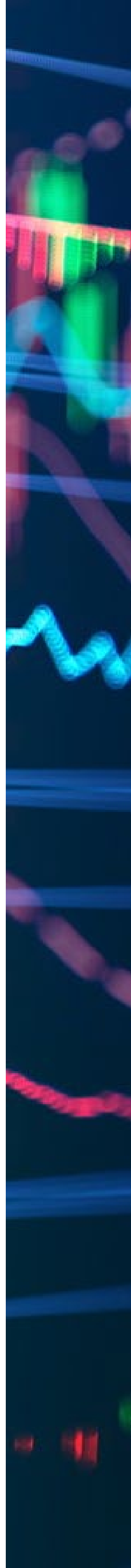
Equity Market Structure Reforms (cont.)

- Future FCA market monitoring
  - Quantitative and qualitative indicators to track market structure health:
    - Value of trading by execution mechanism
    - Order book spreads and depth
  - Potential intervention options if market structure evolves detrimentally:
    - Steer order flow to CLOBs
    - Re-examine bilateral execution framework
- Market Outages Guidance
  - New guidance in a new chapter - MAR 16
  - Informed by IOSCO's good practices on trading venue outages
- Retail Participation
  - Retail clients receive price improvement on consolidated BBO but sometimes worse than CLOBs
  - Significant proportion of retail trades executed not on tick
  - No proposals yet but the FCA is seeking views on market structure issues and introducing a retail flag



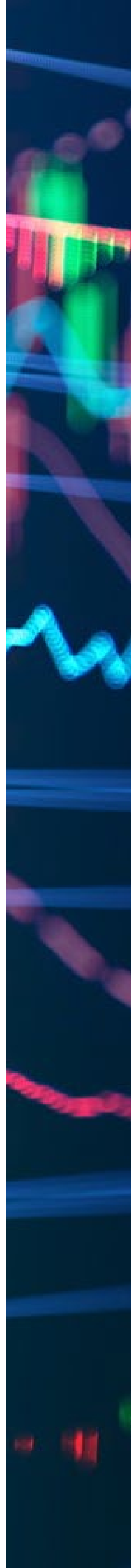
UK Equity Consolidated Tape

- Consultation Paper (CP26/31) published on 31 July 2026
- Includes final rules for the introduction of the equity CTP as well as a consultation on further aspects of the regime
- Key aspects of the final rules:
  - For the tape's first five-year contract period, the CT will include both post-trade data and pre-trade data of the best bid and offer
  - Instruments: shares, ETFs, depositary receipts, certificates and similar
  - Scope will be reviewed two years after launch
  - No mandatory consumption
  - No requirement for CTP to provide free data after 15 minutes, there will be a simple licensing process
  - Near real-time updates (~200ms latency)



UK Equity Consolidated Tape (cont.)

- Further consultation on including attributable best bid and offer for SIs, closes 16 October 2026
  - Shown separately from venue quotes, i.e. not commingled?
  - Reflects growing share of bilateral trading and FCA's view that SI quotes contribute to price formation
- Call for input on the CTP's contractual terms, closes 18 September 2026:
  - How income sharing with data contributors should work in practice
  - The CTP's operating hours

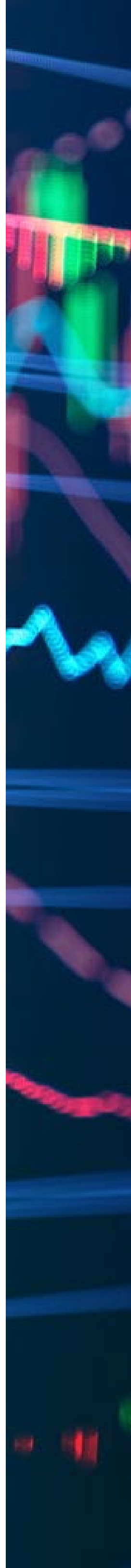


Primary Market Bulletin 65

Nicola Higgs

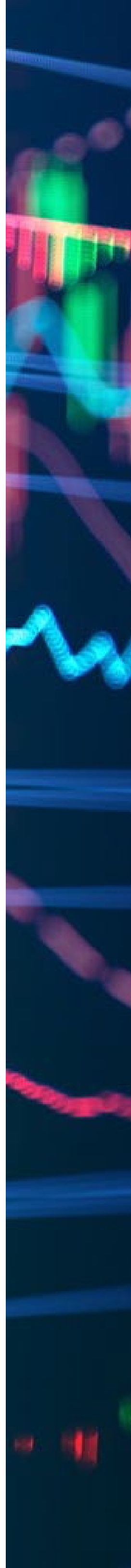
Language in Regulatory Announcements (1)

- FCA has concerns about “a growing trend of potentially misleading statements by issuers in regulatory announcements that contain language which is vague, exaggerated and flamboyant”
- Announcements should contain regulated information and not marketing material
- The FCA Handbook defines “regulated information” – as all information which an issuer is required to disclose under the DTRs, or Articles 17 to 19 of UK MAR, or the UKLRs. It includes, but is not limited to:
  - Periodic financial reporting (DTR 4)
  - Various information requirements for issuers of shares and debt securities (DTR 6.1R)
  - Notification of board changes and directors’ details (UKLR 6.4.6R)
  - Public disclosure of inside information (UK MAR Article 17)
  - Managers’ transactions (UK MAR Article 19.3)



Language in Regulatory Announcements (2)

- Specific concerns:
  - Issuers have released regulatory announcements more frequently than appears justified by their content
  - Announcements are marked as containing inside information when they almost certainly do not
  - The announcements are released against a backdrop of very significant spikes in the issuers' share prices



Language in Regulatory Announcements (3)

- Examples of issuers' statements in regulatory announcements that risk misleading investors include:
  - An issuer providing unnecessary minor updates regarding the progress of commercial agreements and ventures which have previously been announced
  - An issuer providing repeated and detailed updates on possibly favourable macroeconomic and political conditions, which are already in the public domain
  - Issuers using broad, publicly available, sector-wide commentary to provide support for their projects, without enough detail to inform investors of the direct material implications of these developments for the issuers' projects
  - An issuer claiming support for their project from a public figure when (as the issuer explained in response to our enquiry) this claim was solely based on a passing and immaterial comment made during a meeting
  - Issuers using sensationalist language in regulatory announcements, of the type normally reserved for promotional activity

Delayed disclosure of inside information notifications

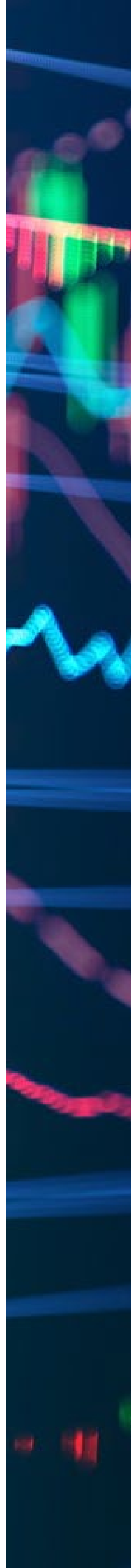
- FCA has continued to review DDII notifications and followed up where notifications appeared to be outliers
- While it has not identified any widespread failings, it has observed some inconsistent practices. Key observations include:
  - Unusually lengthy delays and anomalies were sometimes caused by inconsistent practices in classifying and handling inside information. These include taking a blanket approach to assessing information (particularly financial reporting information), not re-evaluating whether information remains inside information (including when price sensitivity diminishes), and misunderstanding what constitutes inside information.
  - In some cases, misclassification of information was compounded by automated or semi-automated processes. The FCA stresses that RegTech solutions should be used with appropriate controls, governance and oversight
  - FCA does not consider it necessary to file a DDII notification when an issuer experiences an unexpected development and requires a short period to clarify the position before making a complete announcement. In the FCA's view, this fulfils the obligation to disclose "as soon as possible" under Article 17(1) of MAR, and so should not be classed as a delay

Proposals to reform UK AIFMD

Jonathan Ritson-Candler

CP26/28: FCA’s consultation on updating the UK AIFM regime

- 20 February 2023: FCA Discussion Paper: Updating and improving the UK regime for asset managers
- 7 April 2025: FCA Call for Input: Future Regulation of alternative fund managers
- 14 July 2026: FCA CP26/28 (UK AIFM regime), FCA CP26/26 (Fund Reporting for Asset Management Entities (FRAME)) and draft updated statutory instrument (SI) published
  - Comments on draft SI by 14 October and on FCA CPs by 22 October 2026
  - Comments on certain discussion chapters in FCA CP26/28 (removing the AIFM business restriction and the depositary regime for unauthorised funds) by 18 September
- H2 2026: Further FCA CP due considering the feedback to CP26/28 and will cover reforms to authorised fund regimes (e.g., NURS, LTAF and QIS)
- 2027: Final Policy Statements and revised SI due
- 2028: New AIFM regime and FRAME due to take effect



Updates to the SI and FRAME

- Updated SI will:
  - Use powers in FSMA 2023 to replace assimilated EU law i.e.,: (i) replace current UK implementing legislation for AIFMD; and (ii) replace transposed EU level 2 legislation
  - Most firm facing requirements will move into consolidated FCA Handbook sourcebook – ALTS
  - Remove thresholds and size tiers and transfer power to FCA to determine these for AIFMs and the rules associated with each
  - Simplify portfolio company disclosures
- FRAME CP26/26:
  - Set up essential reporting requirements for UK AIFMs for each fund under £500m NAV and enhanced requirements for £500m+ NAV

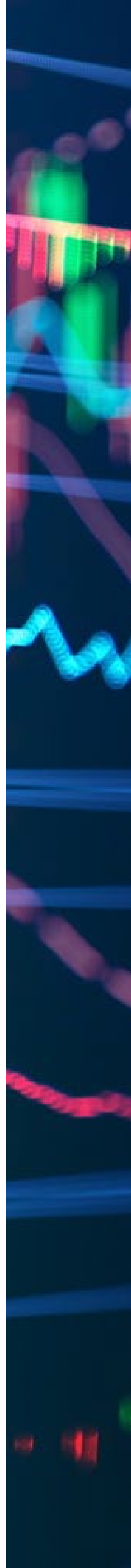
What will the further CP cover?

- CP26/28 sets out a number of discussion topics to be covered in the further CP
  - Prudential regime for AIFMs
  - Removing the business restriction on all UK AIFMs (e.g., limited MiFID top-up permissions available)
  - Retain requirement that UK AIFMs marketing non-UK AIFs plus medium and large UK AIFMs marketing UK AIFs must appoint a depositary
  - Considering reforms to rules on appointment, use and diligence of prime brokers by UK AIFMs
- Notable that AIFMD II came into force in the EU on 16 April 2026 and UK reforms will come into effect in 2028. Amendments under each represent material divergence. In particular, UK reforms will simplify how UK AIFMs calculate leverage, but no AIFMD II leverage limits will apply in the UK for loan originating funds

Key changes: UK AIFM size tiers

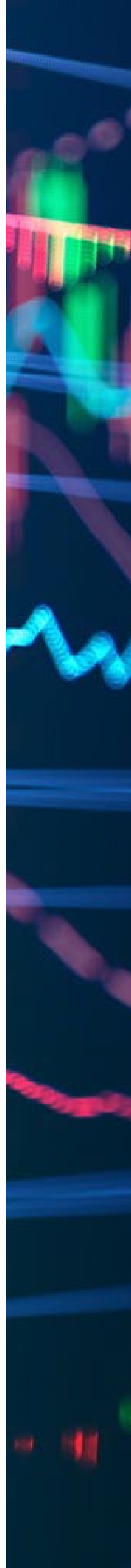
- HM Treasury planning to revise SI to remove size thresholds and give FCA power to determine AuM thresholds that will determine the rules to which UK AIFMs are subject

<table>
<tr><th rowspan="2">Category</th><th colspan="2">AuM threshold
(NAV (assets - liabilities calculated using valuation rules) rather than leverage)</th><th rowspan="2">Comments</th></tr>
<tr><th>Call for Input</th><th>CP 26/28</th></tr>
<tr><td>Small</td><td>Below £100m</td><td>Below £750m</td><td rowspan="3">▪ To calculate size, UK AIFMs aggregate the mean NAV of all AIFs under management averaged over last quarter
> Include CIS and non-CIS AIFs + any residual (non-AIF, non-UCITS) CIS
▪ If a firm crosses a size threshold, it has 6 months to comply with new threshold's rules
▪ If a depositary is newly required, appoint within 12 months
▪ No approval requirement – only notification ex-post</td></tr>
<tr><td>Medium</td><td>£100m to £5bn</td><td>£750m to £5bn</td></tr>
<tr><td>Large</td><td>£5bn or more</td><td>More than £5bn</td></tr>
</table>



Key changes: marketing, investor disclosure and delegation

- Marketing:
  - NPPR maintained for non-UK AIFMs marketing AIFs in the UK
  - UK AIFMs can notify FCA when marketing UK AIFs and can market immediately (no 20 BD waiting period)
- Investor disclosure for unauthorised AIFs and residual (non-AIF, non-UCITS) CISs:
  - Proportionate regime for professional investors and more granular regime for retail investors
- Delegation:
  - No FCA pre-approval required for delegation of portfolio or risk management
  - Prohibition on delegating PM to unregulated UK firm
  - No such prohibition where delegation to non-UK firm
  - Stricter rules for oversight of delegation of valuations, regulatory compliance and marketing, and fewer obligations for delegations of AIFM ancillary activities



Key changes: risk management and valuations

- Risk management:
  - Baseline diligence requirements for investments for all UK AIFMs
  - Additional rules for medium UK AIFMs that manage AIFs other than solely closed-ended unleveraged AIFs e.g., establish separate risk function, independent from PM, risk management policy, risk limits
  - For large UK AIFMs, retain current Level 2 requirements but in ALTS e.g., active risk monitoring, increased reporting to board, plus additional safeguards for conflicts between risk management and PM
- Valuations:
  - Remove unlimited liability applicable to external valuers
  - Diligence requirements on UK AIFMs engaging external valuers
  - External valuers can feed into valuation of specific assets or entire portfolio
  - For small and medium AIFMs, valuation function does not need to be fully autonomous. Instead rules stipulate management of conflicts of interest

FCA's findings on asset managers' financial crime controls

- FCA surveyed 2,500 asset management firms (87% of which responded) on their financial crime systems and controls, most of which fell within scope of the MLRs 2017
  - Firms are reminded to ensure that their policies, procedures, systems and controls can adequately identify high risk customers and apply EDD where necessary – particularly in respect of private market assets where CDD may be more difficult (complex and/or offshore structures) and the assets harder to value
  - Ensure adequate PEP, sanctions and adverse media screening
  - 20%+ of firms did not have financial crime risk assessments in place
  - Risk assessments should also be reviewed regularly and revised in light of updated UK National Risk Assessment, changes to the MLRs etc.
  - Inadequate customer risk assessment to inform level of CDD
  - Ensure sufficient oversight of outsourced service providers for CDD
  - Check adequacy of MLRO function (time, shared responsibilities)

The FCA's consultation on revising its remuneration code for solo-regulated firms

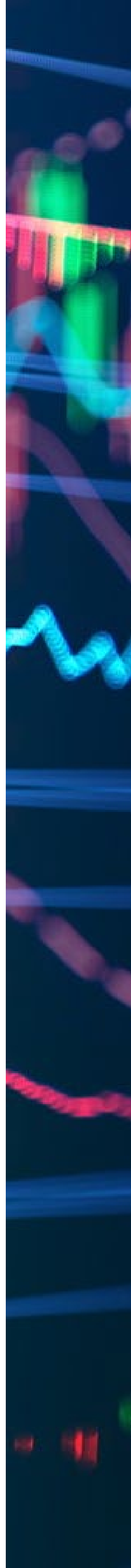
Rob Moulton

Why is the FCA consulting?

- “The framework derives from banking regulation and EU reforms following the 2008 global financial crisis…and, over time, these remuneration requirements were also applied to non-bank firms…even though their business models, risks and incentives are different”
- “Feedback from stakeholders, alongside our own experience, suggests the rules are difficult to apply and impose unnecessary burden, particularly for firms that don’t pose systemic risk”
- “Feedback also suggests that this approach is unusual internationally”

Solo-regulated firms – scope

- The FCA proposes removing all SNI (small and non-interconnected) firms
  - They will have freedom to structure remuneration arrangements in their commercial interests
- Non-SNI – all “staff” will be included in the scope of the remuneration rules
  - Awkward definition, to include secondees and employees of other group entities who provide services to the firm
- Narrower definition of a “material risk taker” to whom additional rules apply
  - Must have a material impact on conduct in relation to its clients and investors, interests of investors/AIFs/UCITS, or compliance with regulatory obligations
- One remuneration rulebook
  - Regime for AIFs and UCITS scrapped in favour of a single regime based largely on MiFID firms

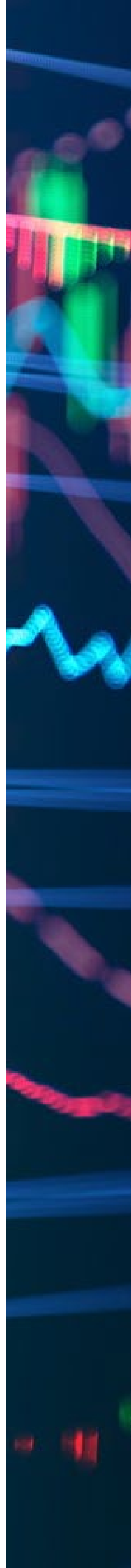


Solo-regulated firms – detailed requirements

- Deferral of variable remuneration
  - Management body can decide whether this is appropriate and what the structures and duration should be
  - No specific requirements for particular periods, minimum percentage requirements, or cash and instruments split
  - FCA also considering a threshold-based deferral rule (we think this unlikely)
  - Firms should consider whether malice and clawback should form part of the approach
- Guaranteed variable remuneration
  - Permitted under specific circumstances in the context of hiring, or to compensate for new employees forfeiting remuneration on joining (time limited, no ongoing entitlements)

Solo-regulated firms – detailed requirements (cont.)

- Governance
  - FCA will remove prescriptive governance and reporting requirements
  - No need to have a remuneration committee
  - No need for annual remuneration reviews
- Reporting
  - FCA will revoke the MIF008 remuneration reporting template
  - FCA notes Certification Regime is also under review



Recent Thought Leadership

- FCA Confirms Changes to UK MiFID Transaction Reporting Regime
- Reshaping the UK's Alternative Investment Fund Manager Regime
- FCA Proposes Reforms to Remuneration Codes
- UK Financial Regulators Report on Growth and Competitiveness

Monthly London Webcast Materials

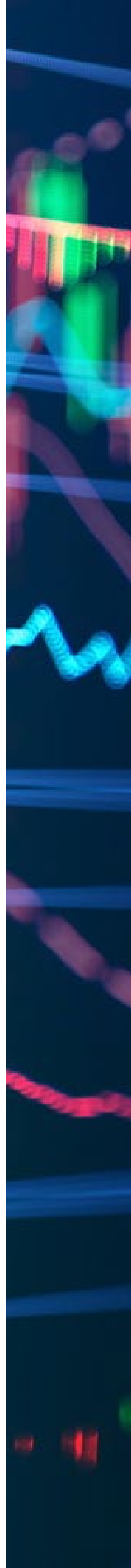
Each month the UK and European Financial Regulatory lawyers at Latham & Watkins host a presentation and discussion covering recent changes to financial services regulation.

VIEW

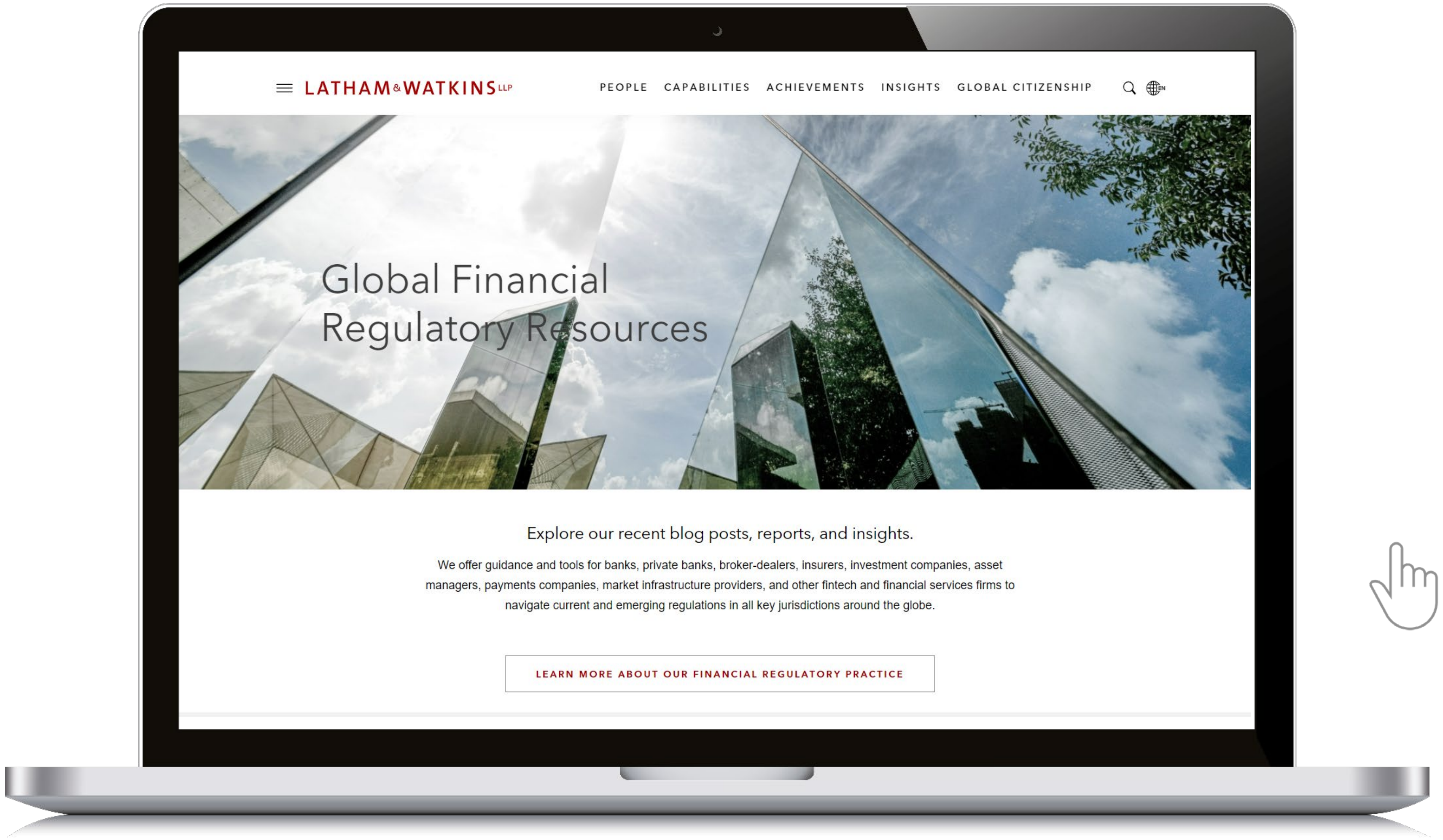
The AI Revolution: Navigating the Regulatory Landscape in UK Financial Services

In this report, we examine the government's and regulators' positions on AI and how they have developed over time, and outline practical steps that firms can take now to ensure they are well positioned to address the regulatory compliance challenges presented by the use of AI.

Click the laptop to read the report



Our Global Financial Regulatory Resources Page



Click to Access Latham's Global Financial Regulatory Resources