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10 Key Focus Areas

for UK-Regulated Financial Services Firms in 2026

Focus Areas

In this publication, we explore some of the core focus areas for UK-regulated financial services firms in the year ahead.

In the wake of a somewhat challenging year for the regulators, firms are navigating a landscape marked by significant regulatory recalibration. The FCA and the PRA faced almost unprecedented criticism from the government in 2025, urging them to align more closely with the government's growth agenda. This pressure has resulted in a strategic shift, with the regulators focusing their efforts on streamlining existing regulations rather than launching new, large-scale initiatives. Meanwhile, ongoing work to repeal and restate assimilated law remains a prominent feature of the regulatory environment.

Key areas of change in 2026 relate to retail markets and prudential requirements. In recent years, these areas saw increasing levels of regulation, but they are now the focus of deregulatory efforts in the pursuit of growth.

Although the government's ultimate aim is to reduce the burden on regulated firms in the longer term, regulatory change is not abating yet. As we move into the new year, financial services firms will need to keep ahead of the various alterations to the rulebook and adjust to the shift in supervisory approach. Firms will also need to navigate complex and challenging areas that are marked by uncertainty, such as ESG-related requirements and applying the existing regulatory framework to the use of AI.

Regulatory change ahead

Key stage in the regulatory change or implementation cycle

Emerging trend

1. Deregulation: Myth or Reality?

The government is frequently characterised as pursuing a deregulatory agenda, yet the more accurate description emerging from 2025 is regulatory recalibration rather than wholesale deregulation. As the City Minister stated in response to a parliamentary question last September, “The government is not aiming to deregulate, but to upgrade the UK regulatory system so that it does not unduly hold back economic growth”. Her language captures a central tension that has defined the past year: how to maintain robust standards while reducing frictions that impede investment, innovation, and international competitiveness. The government’s approach reflects the global mood at present, in the context of deregulation in the US and the EU’s “simplification” agenda.

The Leeds Reforms

The July 2025 Leeds Reforms (see this Latham Client Alert) crystallised the government’s approach more clearly than Mansion House 2024, which largely reprioritised elements of the Edinburgh Reforms rather than announcing new policy. Leeds signalled aspects of regulation where the government and regulators are prepared to be bolder, particularly in areas where regulation has traditionally been more prescriptive. Notably, the Leeds Reforms focus heavily on retail markets and prudential requirements — areas that have typically featured ever-increasing requirements rather than new flexibilities — indicating a willingness to tackle some of the more challenging areas and ask difficult questions about the recalibration of risk appetites.

Key dates

9 January 2026
Government call for evidence on regulators and growth closes

Spring 2026
FCA to start rolling out new financial market reports

By 13 June 2026
Regulators to publish full responses to House of Lords Financial Services Regulatory Committee report “Growing pains: clarity and culture change required”

Mid-2026
FCA and PRA expected to publish Policy Statements on the SMCR

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The current government has supported ambitious and meaningful changes to the listing rules and prospectus regime (which predated it), while also steering more assertive reviews of the SMCR and remuneration rules for banks. The remuneration reforms stand out, as the PRA's final rules introduced more flexibility than the consultation proposals, aiming to ensure the rules do not hold back talent or make the UK an international outlier (see this Latham blog post for more detail). Further, HM Treasury put forward progressive proposals to reform the UK Benchmarks Regulation in late December 2025, indicating an appetite to significantly scale back the regime (see this Latham blog post).

However, these reforms contrast with the approach taken in most other areas. For example, the reforms to the short selling regime largely seek to ease the administrative burden, without questioning any of the fundamental tenets of the regime (see this Latham blog post). Similarly, reforms to the ring-fencing regime have brought tweaks around the edges, but have not really questioned whether the regime itself still makes sense. The regulators seem more reluctant than the government to accept that a reform might involve scrapping a measure that has only marginal benefits, but adds to the cumulative burden of regulation.

Cutting Costs

The government's action plan to ensure regulators and regulation support growth stated that the government would seek to reduce administrative costs for businesses by 25% by the end of the parliament. However, this seems to mean cutting the cost of demonstrating compliance with regulation, rather than reducing the substantive regulatory requirements themselves.

Against this backdrop, the FCA has delivered a steady stream of "quick wins" and small-scale amendments that, while billed as substantive improvements, produced limited practical benefit for firms. Yet these measures are frequently quoted by the FCA in correspondence with the government to emphasise the progress the regulator is making and its support for the growth agenda. Examples include scrapping the expectation for firms to have a Consumer Duty board champion, removing outdated Handbook provisions, and deleting regulatory returns that have limited benefit.

An important question in this debate is how much deregulation the industry genuinely wants. Many firms are both weary and wary of change, having invested heavily in systems, processes, and controls to achieve compliance with complex areas of regulation. They may therefore have little appetite for the short-term costs and disruption caused by regulatory change, even if this results in longer-term improvements.

This creates a challenge for policymakers, as some of their more ambitious suggestions have received a lukewarm reception. Support for reform tends to be stronger when it offers tangible, immediate gains and the reforms align with international norms.

International Outreach

International openness was another theme throughout 2025. Alongside policy reform with a view to boosting the UK's competitiveness, the government and regulators have focused on other measures to attract global business to the UK. The FCA has placed individuals on the ground in key jurisdictions, including the US and Australia, to deepen engagement and accelerate cross-border dialogue, and plans to establish a presence in Singapore shortly. The government has also orchestrated the Berne Financial Services Agreement with Switzerland, securing market access in defined areas from the start of this year. Although the scope is limited, this sets a welcome precedent. Further, the government has established a new concierge function within the Office for Investment: Financial Services to help inbound firms navigate the UK regime. While historically UK policymakers focused closely on their ties with the EU, they are now showing a clear willingness to engage more deeply with their counterparts in a number of other jurisdictions and learn lessons from regimes across the globe.

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Government and Regulator Relations

Relations between the government and regulators have also evolved over the past year. In early 2025, the FCA and the government exchanged a number of letters in which the regulator pressed for clarity on the government's risk appetite in light of the government's expectations that the FCA will take more risk in pursuit of growth. That question remains unresolved and the government seems unwilling to provide the FCA with a definitive stance. Meanwhile, the House of Lords Financial Services Regulation Committee issued two highly critical reports — including "Growing pains: clarity and culture change required" — challenging aspects of the regulatory approach and the way the regulators operate. Surprisingly, this levelled almost as much criticism at the PRA as it did at the FCA. By year-end, however, relations appeared to have improved, and the FCA in particular has aligned itself more visibly with the government's growth narrative.

Outlook

In 2026, firms should expect the language of “rebalancing” to bring about further targeted measures rather than a deregulatory sweep. Priority areas are likely to include continued simplification exercises within the rulebooks, a further reduction in regulatory returns and reporting obligations, and carefully scoped flexibility in retail and prudential rules where consumer protections and financial stability considerations can be preserved. Firms might also expect a more pragmatic approach to supervision by the FCA in particular, which set out in its latest Strategy how it intends to streamline both its day-to-day supervision and its supervisory communications, to reduce the burden on firms (see this Latham blog post). Therefore, flexibility might not only be evidenced in rule changes, but in the broader supervisory approach.

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2. The Enterprise-Level Impact of ESG Developments

The global ESG regulatory and legal landscape continues to evolve at pace, but it is also becoming more fragmented and polarised. Navigating ESG regulation is increasingly complex, with firms needing to engage with both pro- and anti-ESG sentiment to meet investor expectations. Over the past year, political dynamics and investor attitudes have shifted, heightening ESG risk and complicating forward-planning while regimes remain in flux. Firms must also navigate the difficulties of ensuring that they take a consistent approach across jurisdictions, in the face of differing obligations and expectations. Firms will hope to see greater certainty in the year ahead, helping them to pin down obligations and deploy resources appropriately.

UK SRS and Transition Plans

In 2025, the government consulted on the new UK Sustainability Reporting Standards (SRS), which are based on the International Sustainability Standards Board (ISSB) Standards that were published in June 2023 (see this Latham blog post). The government proposed to make limited, UK-specific amendments to the ISSB Standards. Once finalised, they will be available for voluntary use; decisions on whether, and how, to introduce any mandatory reporting obligations in relation to the UK SRS will be assessed separately.

Key dates

11 January 2026
EBA guidelines on the management of ESG risks start to apply (with small and non-complex institutions receiving a further transition period running until 11 January 2027)

January 2026
FCA to consult on aligning its existing TCFD-aligned reporting requirements for listed companies with the UK SRS

By mid-2026
Delegated Act revising the first set of ESRS expected to be adopted

Q3 2026
CFRF to publish its next set of guidance and tools

2 December 2026
Entity-level disclosure rules under the SDR take effect for UK asset managers with over £5 billion in AUM

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The FCA plans to consult this month on aligning its existing TCFD-aligned reporting requirements for listed companies with the UK SRS. The consultation will also propose expectations for listed companies' transition plan disclosures, with reference to the Transition Plan Taskforce (TPT) Disclosure Framework. The government will be responsible for deciding whether to introduce sustainability disclosure requirements for economically significant entities outside the FCA's regulatory perimeter.

The government has also been exploring the design of any future transition planning requirements more broadly, based on the TPT Framework. It consulted on whether to introduce a "comply or explain" regime, or a mandatory regime, in June 2025 (see this Latham blog post). Industry responses to the consultation were mixed, with some supporting mandatory transition plan disclosures, while others raised concerns about litigation risk. As such, the outcome of this consultation remains uncertain. The timeline is also unclear at present, but the government is expected to set out its response this year. The government has further indicated that it intends to provide a roadmap of any future requirements as part of the subsequent phases of consultation on the UK SRS and transition plans, which should help to provide greater certainty.

In addition, the FCA has said that it will consider updating the entity-level disclosure requirements for asset managers under its Sustainability Disclosure Requirements (SDR) regime to reflect the UK SRS and the TPT Disclosure Framework. Further, the FCA is considering how to streamline and enhance its sustainability reporting framework more broadly.

Other UK Initiatives

Recent UK initiatives paint a mixed picture. On the one hand, the regulators announced last year that they would not proceed with proposed new diversity and inclusion reporting and disclosure requirements for larger financial services firms (see this Latham blog post), and the government has decided not to take forward a UK taxonomy.

On the other hand, the FCA and PRA continued to support the Climate Financial Risk Forum (CFRF), which published its latest suite of materials in October 2025. These address topics such as integrating adaptation into finance, guidance on physical risk assessments, case studies on climate scenario analysis, and nature risk in financial services. The PRA also remains focused on the prudential management of climate-related risks by banks and insurers.

In December 2025, it finalised updates to its supervisory expectations in this area, stressing the need for firms to advance their risk management capabilities, while recognising the need for greater clarity on expectations. Banks and insurers are expected to conduct a gap analysis against the PRA's updated expectations by 3 June 2026. The PRA references climate risk frequently across its supervisory publications and expects banks and insurers to continue to build capabilities to assess and act on these risks appropriately.

In addition, a climate disclosure rule for equity offerings has been incorporated into the new UK Public Offers and Admissions to Trading Regime, which takes effect on 19 January (see section 6). Disclosures under this rule must be made in line with minimum information requirements. Such disclosures may be classed as Protected Forward-Looking Statements under the new regime if they meet certain conditions, meaning that companies can describe their transition plans, net zero targets, and other long-term, climate-related ambitions with the threshold for legal liability centred on whether the issuer was reckless or dishonest, rather than negligent. This should give issuers greater confidence to provide more detailed disclosures.

EU Omnibus

Uncertainty has been a hallmark of the EU landscape in the past year. Publication of the Omnibus Package in February 2025 to revise the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD) made the future of these reporting requirements unpredictable (see this Latham article). Prolonged debates over how to recalibrate the obligations created instability. With the revisions now agreed and the scope of the obligations confirmed, stakeholders can look forward to a more predictable year ahead. (See this Latham article.)

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However, the changes have not aligned neatly, adding to challenges for stakeholders. While the “Stop-the-Clock” Directive was promptly agreed and finalised to delay the sustainability reporting requirements under the CSRD for “wave two” and “wave three” companies by two years, “first wave” reporters were required to report in 2025, despite uncertainty over the requirements and lack of implementation measures in EU Member States. It took until almost the end of 2025 for legislation to take effect that made targeted amendments to the application of the European Sustainability Reporting Standards (ESRS), allowing first wave reporters to benefit from certain adjustments and phase-in provisions. Meanwhile, work has been ongoing on simplifying the ESRS, with drafts submitted to the Commission in late 2025.

It is expected that this broader review will be completed by the end of this year, with the revised standards applicable for the 2027 financial year. Further, proposals to amend the Taxonomy Delegated Acts have led to legal uncertainty. Observers might not have been surprised to see that, in November 2025, the EU Ombudswoman found evidence of maladministration in how the Omnibus Package was prepared.

Questions about extra-territorial reach persist, particularly regarding the CSDDD. Several jurisdictions — notably the US — have urged the EU to scrap (or substantially modify) the CSDDD, citing concerns about regulatory overreach.

US Outlook

Global uncertainty has been heavily influenced by developments in the US. At the federal level, the direction of travel has generally been towards relaxing sustainability reporting requirements. This does not always align with the approach of individual states: California, in particular, is currently pressing ahead with its climate disclosure rules. In December 2025, New York State finalised a new mandatory greenhouse gas reporting programme, which will require reporting beginning in 2026 and in some cases with data verification required. Pension funds of both states, which invest in the public and private markets, continue to double down on their focus on climate change, human capital management, and other sustainability topics. Firms with US exposure should also be mindful of continued federal and state “anti-ESG” scrutiny, which may run counter to certain trends in the UK and EU. Balancing these competing legal requirements and risks requires staying abreast of constant legal changes and deliberate and careful forethought and planning. The national political debate has also heightened sensitivities around diversity, equity, and inclusion policies.

3. Changing Priorities in Product-Level ESG Disclosures

At the product level, firms are experiencing similar issues to those seen at entity level (see section 2), with regimes in flux and priorities changing. ESG reporting and disclosure compliance is more challenging than ever against the shifting regulatory landscape. De-prioritisation is emerging as an important theme in some areas, with policymakers choosing to postpone or review requirements in light of implementation challenges or current political sentiment. However, ESG considerations remain a core priority for many investors when choosing products to invest in. Consequently, firms must find a way to steer through the uncertainty and competing demands in the year ahead.

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UK Investment Labelling Regime

The FCA's Sustainability Disclosure Requirements (SDR) and investment labelling regime continued to bed in during 2025, given that the product-level disclosure requirements for funds without a label but using sustainability-related terms only started to apply from the end of 2024 (subject to temporary forbearance that allowed some firms until April 2025 to comply).

Key dates

31 March 2026
FCA consultation on the rules for ESG ratings providers closes for comment

2 July 2026
EU ESG Ratings Regulation to apply

2 November 2026
Deadline for existing ESG ratings providers to apply for authorisation under the EU ESG Ratings Regulation

Q4 2026
FCA Policy Statement on the rules for ESG ratings providers expected

29 June 2028
UK regime for ESG ratings providers to take effect

Changing Priorities in Product-Level ESG Disclosures

Some asset managers have faced challenges in complying with all of the requirements for investment labels, and understanding the nuances of the requirements. An industry report also noted that there has been higher-than-expected use of the naming and marketing rules, creating a "de facto fifth label".

The FCA has acknowledged some of these challenges and took the decision last year that it would not extend the SDR to portfolio management, for the time being at least. It wants to ensure that it learns from the implementation for asset managers and adjusts the regime appropriately, rather than rushing out a further expansion of the regime at this time. Similarly, HM Treasury seems to have paused work on extending the regime to overseas funds. We expect to hear updates on the potential timing for both of these extensions during the course of this year.

EU SFDR

In the EU, the European Commission finally published its long-awaited proposals for revisions of the Sustainable Finance Disclosure Regulation (SFDR) in November 2025 (see this Latham blog post). As expected, the Commission is proposing to introduce three new sustainability-related product categories to replace the existing Article 6, 8, and 9 classifications.

This year, the proposals will make their way through the EU legislative process, with stakeholders watching carefully for whether any important details are changed during negotiations. In particular, a leaked draft of the proposals included a helpful exemption for AIFs made available exclusively to professional investors, so there could be efforts to reinstate that exemption. Negotiations are expected to run for much of this year, if not longer, and so the new regime would be unlikely to apply before 2028 at the earliest. Meanwhile, existing funds must continue to grapple with the complexities of the current regime, and the uncertainty is likely to affect new fund launches.

Greenwashing Risk

Greenwashing continues to be a high-risk area for firms. This risk is increasing as the number of mandated ESG-related disclosures expands, and also because claims can come from a broader range of agencies, not just from financial services regulators. For example, firms need to be mindful of advertising

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and consumer protection standards, as well as financial rules. Further, action by, and the influence of, non-governmental organisations remains common and can pose a reputational and/or litigation risk to financial services firms generally.

ESG Ratings

A key change on the horizon is the regulation of ESG ratings providers. The FCA consulted on its rules for ESG ratings providers under the UK regime in December 2025 (see this Latham blog post), proposing to apply a number of existing FCA rules as well as bespoke requirements tailored to the sector. Final rules are expected towards the end of this year, although the regime will not take effect until mid-2028, so there is some time for ratings providers to prepare for the regulatory uplift. Notably, firms that provide ESG ratings as part of an existing activity already regulated by the FCA are excluded from the scope of the ESG ratings regime, including investment firms producing ESG ratings as an integral part of their investment research.

However, the EU regime takes effect much sooner, with the framework starting to apply from July this year. Ratings providers in scope of the EU regime will need to be ready to submit authorisation applications to the European Securities and Markets Authority by November. The introduction of parallel regimes that do not perfectly align may be challenging for global ratings providers. The FCA has indicated that providers should look to prepare documentation that can satisfy both regimes from the outset. Nevertheless, it clearly is not expecting firms to simply reuse their EU materials when applying for authorisation in the UK. Therefore, global providers applying for EU authorisation this year should be mindful of the expected UK requirements when designing systems, controls, policies, and procedures.

A further challenge in the EU is the fact that the European Commission has indicated it is deprioritising several of the Level 2 measures under the EU ESG Ratings Regulation that it considers non-essential, including regulatory technical standards to specify the content of certain disclosures. It has stated that it will not adopt these acts before 1 October 2027, meaning that affected entities may need to make independent judgements about how best to comply with certain obligations under the Regulation in the absence of detailed requirements.

> “The introduction of parallel regimes that do not perfectly align may be challenging for global ratings providers.

4. Artificial Intelligence – A Regulatory Stabiliser

There remain no immediate plans to bring in specific regulation for AI in the UK financial services sector. Instead, the regulators continue to consider that existing regulation provides adequate protections, acting “not as a brake but as a stabiliser”. The FCA in particular emphasised this point in a number of speeches throughout 2025. Although the regulators are not working on new rules in this area, they are busy working on numerous initiatives related to AI. These have the dual-purpose of helping to assist firms in learning how the current regulatory framework applies to the use of AI (and how they can deploy AI safely and responsibly), and providing the regulators with insight into what firms are doing in practice so that they can keep up with developments. Output from these initiatives will be crucial to firms keeping abreast of developments and regulatory thinking across the sector. The regulators have also highlighted how they are making use of AI in their own operations, so firms should be alive to this possibility when interacting with them.

Regulator Initiatives

AI is a key part of the FCA’s latest Strategy, and it sees AI adoption as an important way to fuel growth. The FCA launched its Supercharged Sandbox in June 2025 and its AI Live Testing Service in October 2025, with a view to providing firms with safe spaces in which they can test out the application of new AI solutions.

Key dates

2 August 2026
Requirements for high-risk AI systems under the EU AI Act become applicable (though could potentially be pushed back under the Digital Omnibus proposals)

By October 2026
FCA to publish an evaluation report on AI Live Testing

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Artificial Intelligence – A Regulatory Stabiliser

While the FCA has been keen to stress that using such services will not result in the regulator blessing or approving certain use cases, it hopes that they will help clarify regulatory expectations and give firms confidence in launching new offerings. Learnings from the testing as part of these services will also help the wider population of regulated firms, as the FCA plans to provide feedback to industry this year.

For example, it intends to publish an evaluation report on AI Live Testing after 12 months. The FCA has also been looking beyond UK borders, and announced a collaboration with the Monetary Authority of Singapore in November 2025. This partnership is designed to enable innovative firms in the UK and Singapore to scale and operate across markets more effectively. A key element of the partnership will be the joint testing of AI solutions, exchange of regulatory insights, and collaborative events to spotlight best-in-class approaches.

The FCA continues to work with other UK regulators as part of the Digital Regulation Cooperation Forum (DRCF). One important focus area for the DRCF this year will be looking into the future ecosystem of agentic AI, to understand how it may develop, and the potential regulatory implications. It launched a call for views in October 2025 and intends to release a publication on its findings this year.

Meanwhile, the Bank of England launched its AI Consortium in May 2025, to gather input from various stakeholders on the capabilities, development, deployment, and use of AI in UK financial services, and ultimately to help inform the Bank's approach to AI. The Consortium, which is also co-chaired by the FCA, continues to meet regularly, and publishes output from its discussions where appropriate. Moreover, the Bank published a document in October 2025 that sets out its approach to AI and the future work it has planned.

Noteworthy initiatives include that the AI Consortium will explore specific challenges and risks (such as the growing reliance on third-party providers, increased use of similar AI models that could amplify systemic vulnerabilities, and the explainability and transparency of AI models), that the Bank will consider further whether AI-specific guidance for firms could be beneficial, and that the Bank will seek views from firms on whether it should do more to ensure that firms are training AI models on high-quality, unbiased input data.

> Many firms remain cautious about deploying AI solutions more broadly beyond the "safer" use cases.

While the regulators take a pro-innovation approach, many firms remain cautious about deploying AI solutions more broadly beyond the “safer” use cases such as internal processes and the detection of financial crime or fraud, although firms are optimistic about being able to deploy AI more broadly in customer-facing scenarios, such as credit decisioning and investment advice, where appropriate human oversight and monitoring is built in. Feedback on the FCA’s AI Live Testing Service proposals also included views and suggestions for how the FCA could further help firms’ safe and responsible AI adoption. Respondents suggested measures such as standardised performance benchmarks for AI, comprehensive AI model assurance, graduated requirements depending on a use case’s risk profile, and shared learnings, including publication of anonymised case studies.

They also advised that firms still face numerous challenges, including navigating the regulatory environment, fully understanding regulatory expectations for compliance, ensuring a comprehensive understanding of the AI systems (both internal and third-party) being used, transitioning from testing to real-world deployment, and effectively identifying and mitigating bias. All of these are reasons why firms are still approaching the use of AI with caution, particularly in a retail and market trading context. Nevertheless, firms clearly see the benefits in terms of cost and efficiency savings, as well as improved client outcomes, that deploying AI more broadly will bring.

Government-Led Projects

On the government side, the Treasury Committee launched an inquiry into the use of AI in financial services in February 2025, which gathered evidence throughout 2025 and is expected to report back this year. The inquiry is examining the risks and benefits of AI, the extent to which AI could jeopardise financial stability, the potential for increased cyber security risks, and what safeguards might be needed to protect consumers. Further, the government’s Financial Services Growth and Competitiveness Strategy announced that an AI Champion will be appointed to focus on how AI can drive growth in financial services, including by improving consumer outcomes.

The Growth and Competitiveness Strategy also mentioned that the government would commission the new Financial Services Skills Commission to produce a report on required AI skills, training, and innovation in financial services, looking into how disruptive technologies are likely to change the financial services workforce, and its skills requirements, over the next five to 10 years. This was launched last autumn, with a deadline of mid-2027 for delivery of the research, although HM Treasury hopes it will be delivered sooner. More broadly, and learning from the successful use of sandboxes in the financial services sector, the government has announced plans to launch AI Growth Labs, to provide sandbox environments in which businesses across the economy can test AI-enabled products and services, and to inform future regulatory reform.

AI in the EU

The EU has taken quite a different approach to AI, bringing in prescriptive regulation with a phased implementation over the course of 2025 to August 2026. The EU AI Act applies to UK firms providing or using AI in the EU, or with an EU establishment, so firms must be mindful of its obligations. The divergence between the pro-innovation approach in the UK and the more prescriptive approach in the EU makes it challenging for firms with footprints in multiple jurisdictions to take a consistent approach.

The EU seems conscious that it could be behind the curve on AI innovation and investment. In November 2025, a European Parliament report called on the European Commission and national regulators to promote "consistent interpretations and proportionate application of current regulations" in order to enable the use of AI in the financial services sector. A particular challenge it highlights is understanding how the EU AI Act interacts with sectoral financial services legislation. The European Banking Authority (EBA) has already taken steps to map obligations under the EU AI Act against existing regulatory requirements. Its mapping exercise found no significant inconsistencies between the two. Therefore, the EBA has not identified any immediate need to introduce any new EBA Guidelines or to review existing Guidelines.

Following the European Parliament's report, the European Commission put forward its Digital Omnibus package, which takes on board some of the issues raised and aims to boost competitiveness more broadly for businesses operating in the EU (see this Latham Client Alert). The Commission proposes several adjustments to the AI Act, including pushing back the application date of the requirements for high-risk AI systems by 16 months (to December 2027).

The Commission is also proposing to make further targeted amendments to simplify requirements and facilitate AI development, clarify the interaction between the Act and other regulation, and facilitate the use of regulatory sandboxes. The Digital Omnibus proposal is at an early stage in the legislative process, and is expected to receive intense scrutiny during its negotiation in the first half of the year.

5. Retail Markets – How the Consumer Duty and Motor Finance Redress Have Reshaped the Landscape

The FCA has been busy with its retail regime reform agenda, and for the first time in many years this involves softening some provisions and adding flexibility, rather than merely introducing further obligations.

Consumer Duty

While firms spent 2023 and 2024 working to implement the Consumer Duty in line with FCA expectations, and the regulator emphasised the cultural shift it wanted to see, 2025 signalled a change in direction. The FCA started the year by removing the expectation for firms to appoint a board champion (see this Latham blog post), and then spent much of 2025 considering how it might streamline rules and reduce some of the burden (see this Latham blog post). Although many of the changes and proposals relate to reducing the administrative burden rather than reducing substantive elements of regulation, they indicate a marked change in approach.

The FCA ended the year by announcing work on the application of the Consumer Duty to wholesale firms and ways in which it will clarify how the Duty applies. Given the regulator's rhetoric when the Duty was being implemented, firms may have been surprised to see Nikhil Rathi write that some firms "appear to have taken an unduly prescriptive or administrative approach" to the Consumer Duty, leading them "to go further than we wanted, increasing their compliance costs unnecessarily".

Key dates

January 2026
Findings from FCA review of risk warnings on investment products to be published

February/March 2026
FCA to publish Policy Statement on its motor finance redress scheme

Q1 2026
- FCA and ICO to provide further clarity for firms on how to meet their vulnerability, data sharing, and data protection expectations
- FCA to consult on simplifying and consolidating its investment advice rules
- FCA to publish Policy Statement on BNPL regulation
- Report from multi-firm review into the distribution of complex exchange-traded products expected

6 April 2026
- UK PRIIPs Regulation to be repealed and new CCI legislation to take effect, subject to transitional measures
- Targeted support regime to be rolled out
- Launch of industry campaign to promote retail investment

Q2 2026
- FCA to consult on changes to rules on the application and requirements of the Consumer Duty, including through distribution chains
- FCA to review financial promotion rules for consumer credit

H1 2026
FCA/FOS Policy Statement on reforms to the FOS expected, to be followed by a further consultation

Mid-2026
FCA to consult on disapplying the Consumer Duty in respect of business with non-UK customers

15 July 2026
Certain BNPL products to come within scope of regulation

Q4 2026
FCA Policy Statements on the application of the Consumer Duty expected

2026
FCA to consult on updates to retail banking disclosure rules

8 June 2027
Full CCI regime to come into effect

Retail Markets – How the Consumer Duty and Motor Finance Redress Have Reshaped the Landscape

While the Duty was initially a piece of flagship policy for the regulator, it now seems to be retreating slightly in pursuit of the growth agenda. Notably, the FCA did not publicly use the Duty to intervene in any particular sectors during 2025.

At the end of last year, the FCA published a statement to provide clarity on its supervisory approach and expectations under the Duty when firms work together to manufacture products for retail customers. This year, it will seek to clarify the application and requirements of the Duty, including through distribution chains, with a view to drawing a brighter line for firms. It may also consider whether there should be further exemptions from elements of the Duty if firms are subject to other regulatory obligations. Further, it plans to consult on removing business with non-UK customers from the scope of the Duty. This is a very significant move, as it breaks with the usual approach to the UK regulatory perimeter.

> The FCA's contradictory stance on the Consumer Duty might seem confusing to firms, so navigating regulatory expectations could be tricky in the year ahead.

Yet despite this work, the FCA continues to provide feedback on its expectations under the Duty in parallel and is clearly monitoring for compliance with the Duty. Most notably during 2025, it provided feedback on how firms should be treating vulnerable customers and highlighting areas requiring improvement (see this Latham blog post). Looking ahead, the FCA has indicated that priorities for this year will include its reviews of the products and services outcome, firms' approaches to outcomes monitoring, customer journey design, and the consumer understanding outcome.

The FCA's contradictory stance on the Consumer Duty might seem confusing to firms, so navigating regulatory expectations could be tricky in the year ahead.

Retail Disclosures

The FCA finalised the rules for its new retail disclosure regime to replace the UK PRIIPs Regulation (the Consumer Composite Investments (CCI) regime) late last year (see this Latham blog post). The new framework will apply from 6 April 2026, subject to transitional arrangements that will allow manufacturers to choose whether to transition to the new CCI product summary or continue using a PRIIPs KID until the full regime takes effect on 8 June 2027. Manufacturers and distributors will need to spend this year preparing themselves for the new regime, including understanding the requirements for a CCI product summary.

Stakeholders will want to see whether it becomes market practice to use the new product summary early on in the transitional period, or whether manufacturers take their time to transition. Manufacturers that are not regulated financial services firms should also note that they will be required to meet basic UK product governance standards, including a product approval process, under the CCI regime. This marks a significant uplift from the PRIIPs regime.

Attitude to Risk

In line with its mandate from the government to reconsider the calibration of its risk appetite in order to promote growth, the FCA has been considering potential tweaks to ease the regulatory burden. As part of this, it has carried out a review of risk warnings on investments, on which it will report back early this year, and has outlined its expectations of firms promoting investment products as well as common misconceptions about risk warnings. In a speech last autumn, Sarah Pritchard spoke out against "clunky" risk warnings, highlighting that "these warnings are not set by our rules — they're simply custom and practice within industry". At an overarching level, the FCA published a Discussion Paper in December 2025, setting out examples of where the FCA could rebalance risk in order to help promote retail investment. The FCA wants to explore not only how the rulebook can help facilitate retail investment, but also how it can help ensure that retail consumers make appropriate investment decisions and understand the protections that are in place for them. It is examining areas such as financial promotion rules and the appropriateness test.

> The FCA wants to explore not only how the rulebook can help facilitate retail investment, but also how it can help ensure that retail consumers make appropriate investment decisions and understand the protections that are in place for them.

The FCA is also looking to update its client categorisation framework, to make it easier for firms to opt-up some retail clients to elective professional status (see more on these proposals in section 6). In addition, it has suggested that the government might consider modernising the legislative exemptions in the Financial Promotion Order and the Promotion of Collective Investment Schemes Order, to dovetail with this work.

The FCA is using its Advice Guidance Boundary Review to provide advisory firms with confidence to offer "targeted support", which will not attract the same regulatory compliance obligations as full regulated advice. The policy was finalised in late 2025, and the new regime will be rolled out from April, alongside an industry campaign to promote retail investment (see this Latham blog post).

Retail Markets – How the Consumer Duty and Motor Finance Redress Have Reshaped the Landscape

Consumer Credit Reform

Reform of the Consumer Credit Act 1974 (CCA) has been on the agenda for some time, but this is not an area of regulation in which "quick wins" will be possible. HM Treasury published a phase 1 consultation in spring 2025, setting out a roadmap for reform. The consultation included important proposals on removing the highly prescriptive information requirements so that they can be recast in FCA rules, and scrapping draconian sanctions for failures to comply with these technical requirements (see this Latham blog post). These proposals demonstrate a willingness to significantly overhaul the regime. Timing for the phase 2 consultation, which will address the scope of the regime and explore whether consumer rights and protections (such as the unfair relationship provisions) need to be retained in legislation, remains uncertain. Separately, the FCA is reviewing its rules for advertising consumer credit, and plans to formally seek views from stakeholders in Q2 2026.

Plans to regulate certain buy-now-pay-later (BNPL) products will finally come to fruition this year. The legislation was finalised in 2025 (see this Latham blog post), and the FCA's Policy Statement on its rule changes is expected early this year. The regime will take effect on 15 July 2026, and so participants in this market need to prepare themselves for the new requirements. The regime will capture lenders that offer a BNPL agreement to finance the purchase of goods or services from a merchant; however, merchants that offer their own BNPL agreements directly and brokers of BNPL products will not come within scope. As the timing for this regime has not been aligned with broader CCA reforms, the regime may need to be revisited when the CCA reforms progress further.

Consumer Redress

The issues concerning the payment of commissions in the motor finance sector had led the government to announce intentions to reform the Financial Ombudsman Service (FOS) back in 2024, and this initiative progressed significantly in 2025. As part of the Leeds Reforms, HM Treasury launched a consultation on reforming the legislative framework, with a view to returning the FOS to its original purpose as a simple, impartial dispute resolution service, while the FCA and the FOS launched a joint consultation in parallel, focusing on how they can work better together to ensure consistent outcomes (see this Latham Client Alert). The results of these consultations are due in the first part of this year, and are expected to lead to considerable changes to the role and operations of the FOS.

Meanwhile, regulators, the government, and industry participants alike held their breath as the Supreme Court handed down its judgment in three combined motor finance cases in August 2025 (see this Latham blog post).

Retail Markets – How the Consumer Duty and Motor Finance Redress Have Reshaped the Landscape

The court only upheld one of the claims, under the unfair relationship provisions in the CCA, concluding that the claims in common law and equitable bribery had failed, thereby setting a relatively high bar for similar claims to succeed. However, these cases did not address the position under the FCA's rules, so the FCA launched a consultation on a motor finance redress scheme in October 2025 (see this Latham blog post). The FCA's proposed scheme is based around the idea of an unfair relationship, and the regulator estimates that around 44% of all agreements made since 2007 will be considered unfair under the scheme due to inadequate disclosure of certain details.

To date, there has been significant engagement with the FCA's proposals, causing it to push back the deadline for responses by several weeks. It hopes to issue its final position in February or March 2026, after which lenders will be expected to implement the scheme promptly and start paying compensation later in 2026. The FCA intends for the redress scheme to draw a line under the issue, and emphasises that its proposed test for unfairness in this context should not be read across into other sectors. Therefore, we do not expect similar consequences to emerge more broadly across other sectors in which commissions are paid.

6. Wholesale Markets – Secondary Markets Reforms Continue to Lag Those in Primary Markets

Wholesale market reform over the past year has largely been characterised by the restatement of assimilated law and the methodical continuation of work on key files already in progress. The government's Leeds Reforms did not herald major announcements in terms of wholesale markets policy; rather, they reaffirmed the direction of travel and committed further resource to implementation. Much of this work is sequenced and multi-stage, and it is taking time to deliver.

Assimilated Law

Work on MiFID II has continued apace. Changes to the derivatives trading obligation to add certain secured overnight financing rate overnight index swaps and provide new exemptions for post-trade risk reduction services took effect on 30 June 2025. In addition, the FCA, together with the PRA and HM Treasury, completed the restatement of the MiFID Org Reg into regulatory rules on 23 October 2025. This was a "lift and shift" exercise with no substantive policy change. However, it paves the way for further review and reform in future. The FCA has made a start by consulting on rationalising the SYSC 10 Handbook provisions on conflicts of interest (see this Latham blog post).

Key dates

19 January 2026
New prospectus regime and public offer platforms regime take effect

30 March 2026
Rule changes removing prohibitions on MTFs carrying out matched principal trading and SIs operating an OTF to take effect

April 2026
Final FCA rules on short selling expected

5 June 2026
Final EU Listing Act changes to EU MAR take effect

June 2026
Expected main commencement date for new UK short selling regime

H1 2026
- FCA Policy Statement on the consolidated tape for equities expected
- FCA to consult on the SI regime for equity markets

6 July 2026
Changes to the commodity derivatives regulatory framework take effect

Summer 2026
Dematerialisation Market Action Taskforce to publish its implementation plan for "phase 1" of the digitisation of share ownership

December 2026
FCA system updates for position reports and market maker exemption notifications under the UK short selling regime expected to take effect

H2 2026
FCA Policy Statement on the transaction reporting regime expected

2026
FCA to consult on equity market structure and transparency

1 January 2027
Revised MiFID ancillary activities regime to take effect

1 June 2027
Expiry of transition period for market maker notifications under the UK short selling regime

11 October 2027
UK to move to T+1 securities settlement

Wholesale Markets – Secondary Markets Reforms Continue to Lag Those in Primary Markets

A further flurry of MiFID-related activity occurred at the end of 2025. The FCA published a Policy Statement on the systematic internaliser (SI) regime for bonds, with a consultation on the equities regime to follow this year. Changes to the SI definition and revisions to the UK SI obligations have applied since 1 December 2025, as well as revisions to the UK transparency regime for bonds and derivatives. Removal of the prohibitions on MTFs carrying out matched principal trading and SIs operating an OTF will take effect at the end of Q1 2026. In addition, the FCA published a Policy Statement on the revised ancillary activities test in December 2025, following the relevant legislation being made in November, with the updated regime scheduled to take effect at the start of 2027. The FCA also launched a consultation on the transaction reporting regime in November 2025, following a 2024 Discussion Paper, with a view to making significant changes (see this Latham blog post). Key proposals include reducing the timeframe for back-reporting from five to three years, and limiting the scope to financial instruments tradeable on UK trading venues only.

The first UK bond consolidated tape provider is expected to become operational shortly, notwithstanding some delays in the tender process. The FCA launched a consultation on an equities consolidated tape in November 2025, aiming for the equities tape to be operational from 2027. In an effort to balance competing views, the FCA has proposed that the equities tape should include some pre-trade data.

Legislation establishing the new short selling regime was finalised last year, and the FCA consulted in October 2025 on the changes to its rules to reflect its new powers under the regime (see this Latham blog post). While not a fundamental overhaul, the package seeks to reduce the administrative burden, including by simplifying the market maker exemption process. Final rules are expected in April 2026, to take effect in June with a transitional period for market maker exemptions running until 1 June 2027.

On derivatives, HM Treasury and the FCA have consulted on making the temporary intragroup exemption regime permanent under UK EMIR ahead of its expiry at the end of this year. In addition, further work on clearing, reporting, and risk mitigation requirements is planned for this year.

Looking ahead, reforms to the Benchmarks Regulation (BMR) and Market Abuse Regulation (MAR) are expected, with work already confirmed to be underway on the BMR. HM Treasury published a consultation in December 2025 proposing to replace the UK BMR with a new Specified Authorised Benchmarks Regime. Under the new framework, only benchmarks or benchmark administrators that are designated due to their importance to the integrity of UK financial markets would be regulated (see this Latham blog post). Such changes would bring the UK regime closer to the position under the revised EU BMR, which significantly reduced the scope of the regime with effect from the start of this year.

Wholesale Markets – Secondary Markets Reforms Continue to Lag Those in Primary Markets

In the EU, the final Listing Act changes to EU MAR will take effect on 5 June 2026. These include amending Article 17 so that issuers need not announce inside information relating to intermediate steps in a protracted process where those steps are connected with bringing about or resulting in particular circumstances or a particular event, and modifying the "not likely to mislead the public" limb of the conditions for delaying disclosure (see this Latham publication for more detail). These changes will create substantive divergence from UK MAR, and issuers and their advisers should be alert to the potential for different practices to emerge in the EU.

Primary Markets and Market Infrastructure

Primary markets have experienced some of the most significant reforms in recent years. The next milestone, replacing the UK Prospectus Regulation with the new Public Offers and Admissions to Trading Regime, will occur on 19 January 2026 (for details of the regime, see this Latham Client Alert). Reforms in this area have been ambitious and are designed to modernise the framework for issuers and investors. Also with effect from 19 January 2026, issuers undertaking a further issuance will no longer need to submit a listing application, which will reduce transactional friction points for follow-on capital raisings. Further, the FCA has signalled an intention to consult this year on removing the seven-day research waiting period, to further speed up IPO applications.

The junior market for growth companies has attracted major developments as well, with the LSE recently publishing feedback to its discussion paper on the future of AIM, which sets out immediate changes to relax certain AIM requirements (benefiting in particular founder-led businesses and companies considering M&A) and the LSE's plans for the future development of that market.

Another ambitious initiative is the creation of the framework for PISCES, a new type of intermittent trading venue (see this Latham blog post). The rulebook was finalised last summer, and the FCA has since approved two PISCES operators, noting that active engagement with additional applicants is ongoing. The focus this year will be on how trading events operate in practice and whether the initiative meets its policy objectives.

Momentum has also built behind the UK's move to T+1 securities settlement. The Technical Group of the Accelerated Settlement Task Force submitted its report to HM Treasury on 6 February 2025, confirming 11 October 2027 as the implementation date, in alignment with the EU and Switzerland. The FCA and the Bank of England are supporting delivery, and the government proposed draft legislation in November 2025 to help deliver the changes. Firms are expected to begin making the necessary systems and process changes this year to be ready for October 2027.

Wholesale Markets – Secondary Markets Reforms Continue to Lag Those in Primary Markets

Conduct of Business

The FCA's focus on conduct of business has sharpened. It is considering amendments to the client categorisation rules to make it easier for certain retail clients to opt-up to elective professional status (see this Latham blog post). It is also reviewing how the Consumer Duty applies to wholesale firms to ensure they are not unduly burdened by requirements that were not intended to capture them (see section 5).

In addition, the regulator has maintained particular scrutiny of wholesale banks. It published a summary of supervisory findings last summer from a number of pieces of multi-firm and other supervisory work in the sector, drawing out important observations on topics such as gifts and entertainment and off-channel communications. It has since added feedback from a review of best execution in UK listed cash equities at wholesale banks, finding that banks generally had strong practices in assessing the scope of best execution, although the quality of management information and governance were variable (see this Latham blog post). The signal is clear: The FCA will continue to focus on everyday conduct issues. Firms should use this year to ensure their compliance arrangements are robust and effective in these areas, and that they are getting the basics right.

> The FCA's focus on conduct of business has sharpened.

7. Prudential Requirements – The Tyranny of Basel 3.1 on Reforms

Measures relating to prudential requirements featured more prominently than expected in the July 2025 Leeds Reforms, with proposals aimed at introducing greater flexibility and revisiting proportionality (see this Latham Client Alert). This development is striking after many years of tightening prudential regulation since the financial crisis. The government now appears keen for the regulators to weigh the regulatory burden carefully and recalibrate elements of the framework to support the UK's global competitiveness and alignment with international norms. However, regulators must strike a delicate balance to avoid over-diluting important protections.

> The government now appears keen for the regulators to weigh the regulatory burden carefully and recalibrate elements of the framework.

Key dates

Q1 2026
- HM Treasury to report back on reforms to the ring-fencing regime
- HM Treasury expected to make legislation to revoke provisions of the UK CRR
- PRA Policy Statements expected on final policy materials for Basel 3.1 implementation, restatement of the remainder of the UK CRR, retiring the refined methodology to Pillar 2A, and the simplified capital regime for Small Domestic Deposit Takers
- European Commission expected to adopt legislation on policy options for the Basel 3.1 market risk framework

1 April 2026
FCA streamlining of own funds requirements for investment firms takes effect

Q2 2026
- PRA Policy Statement on phase 1 of its Pillar 2A review expected
- FCA to provide an update on its review of the remuneration framework for asset managers and investment firms

H1 2026
- PRA Policy Statement expected on raising the threshold at which firms come into scope of the Resolution Assessment Part of the PRA Rulebook
- Second PRA Policy Statement expected on amendments to the large exposures framework

H2 2026
FCA to consult on potential reforms to the market risk framework for MIFIDPRU investment firms that deal on own account

2026
PRA may consult on the liquidity framework in light of lessons learned from the March 2023 banking turmoil

1 January 2027
- UK implementation date for majority of Basel 3.1 and the new capital regime for Small Domestic Deposit Takers
- EU implementation date for delayed Basel 3.1 market risk provisions

11 January 2027
Date of application for majority of EU CRD VI reforms on third-country branches

1 January 2028
Proposed date for UK implementation of Basel 3.1 market risk provisions

1 January 2030
End of UK transitional implementation period for Basel 3.1

UK Reform Agenda

While Basel 3.1 implementation continues to dominate the regulatory change agenda, other important areas of the prudential regime are also under review. The PRA plans to publish its final policy materials for Basel 3.1 implementation and the new, simplified capital regime for Small Domestic Deposit Takers in the first quarter of this year, once HM Treasury has made the necessary legislation to pave the way for the rule changes. These measures are due to take effect from the start of 2027. The PRA is also expected to confirm in Q1 of this year that the new modelling requirements for market risk will be delayed until 1 January 2028. Confirmation of these implementation dates and the final rules should give banks the certainty they need to prepare for implementation during 2026.

Beyond Basel 3.1, review work has focused on the Pillar 2A requirements, and adjusting thresholds in order to ensure regimes apply proportionately, as many thresholds have remained static for some years. For example, the Bank of England finalised its updated policy on minimum requirements for own funds and eligible liabilities (MREL) last year, introducing a new higher indicative assets threshold from the start of this year. Similarly, the PRA raised the retail deposits threshold for the application of the leverage ratio requirement, also effective from the start of this year. In addition, the PRA has consulted on raising the threshold at which firms come into scope of the Resolution Assessment Part of the PRA Rulebook, to ensure only the very largest firms are subject to the full suite of requirements. The PRA has also indicated that it will consult this year on a wider approach to indexing thresholds to avoid "prudential drag".

More broadly, the Financial Policy Committee (FPC) has undertaken a major review of bank capital requirements in the UK, publishing its findings at the end of last year. The FPC advised that it has lowered its estimate of the appropriate level of tier-one capital that banks must hold, showing a willingness to ease the burden of post-financial crisis regulation. The FPC will also undertake a review of the leverage ratio, in light of concerns that UK rules are less favourable than those in the US and EU. It plans to prioritise reviewing the UK's approach to regulatory buffers in leverage ratio requirements. Banks can also expect the outcome of the most recent review of the ring-fencing regime early this year. Although the Edinburgh Reforms delivered some adjustments, the government has signalled that these did not go far enough. The current focus is on options for further relaxation, rather than removal of the regime, even though ring-fencing makes the UK something of an international outlier. The PRA is also standing firm on some areas in which it thinks that change could introduce excessive risk. For example, the PRA's CEO, Sam Woods, has commented that the regulator will not be heeding calls to exclude higher-rated government bonds from the leverage ratio.

Prudential Requirements – The Tyranny of Basel 3.1 on Reforms

Prudential reform is not confined to banks. Last year, the FCA reviewed the requirements for solo-regulated investment firms, finalising proposals to streamline the rulebook by removing all cross-references to the UK Capital Requirements Regulation. While the amendments will not change the levels of capital that firms must hold, they will make the rulebook much easier to navigate when they take effect this year. They will also help facilitate the FCA's longer-term vision to move to an integrated prudential sourcebook containing core prudential standards applicable to all solo-regulated firms (to be known as COREPRU), which will be supplemented by sector-specific rules in dedicated prudential sourcebooks (a model previously used by the regulator before the proliferation of EU standards). The FCA also published an engagement paper on potential reforms to the market risk framework for investment firms, to ensure the amounts of capital that certain specialised trading firms must hold against market risk remain appropriate and proportionate. This will be followed by a consultation in the second half of this year.

> The PRA has shown a willingness to make substantive changes to the remuneration regime for banks.

Remuneration Requirements

The PRA has shown a willingness to make substantive changes to the remuneration regime for banks, in support of growth and competitiveness. It finalised various relaxations to the rules in October 2025, with key amendments relating to pay taking immediate effect (see this Latham blog post). Notably, in the final rules, the PRA went further on some reforms than consulted on (for example, reducing the seven-year minimum deferral period to four years across all material risk takers, and applying the 60% deferral requirement on a marginal basis). It also took on board feedback from the consultation process to make additional changes not originally consulted on, including removing the expectation for firms to pre-notify supervisors of retention awards.

Separately, the FCA has been undertaking a review of its remuneration rules for AIFMs, UCITS managers, and MiFID investment firms, and will report back this year. Solo-regulated firms will hope to see similar relaxations to their rules, so that the requirements they face are not stricter than those for banks.

EU Outlook

The EU continues to consider the best approach for implementing the Basel 3.1 market risk provisions, in light of further delays in the UK and US. Powers to push back implementation of these provisions any further have been exhausted, and the new provisions are set to apply from 1 January 2027. However, the Commission consulted on further policy options at the end of last year that would seek to mitigate unfavourable consequences for EU banks by introducing temporary adjustments for a period of three years. The Commission is considering temporary targeted amendments to the framework in areas in which other major jurisdictions have deviated from the requirements, along with a “multiplier” designed to neutralise the capital impact on banks that might otherwise suffer negative impacts from the new rules. It is due to adopt the relevant legislation on these adjustments in the first quarter of this year.

There are also calls to streamline the regime in the EU more broadly, with the European Central Bank (ECB) tabling proposals to simplify the prudential, supervisory, and reporting framework at the end of 2025. Similar to the UK approach, the ECB is considering how to reduce complexity, increase proportionality, and ease the burden on smaller firms.

Nonetheless, the burden of regulation continues to increase in some areas, and non-EU groups will be mindful that the CRD VI provisions on third-country branches begin to apply from early 2027. Once these provisions come into force, affected groups will no longer be able to provide core banking services into the EU on a cross-border basis, and will need to establish a physical presence (in the form of a branch or subsidiary) in the EU. Affected groups should use this year to finalise preparations for the new requirements.

US Position

Last year, the US federal banking agencies advanced the Trump administration's deregulatory agenda by comprehensively reviewing their regulations and guidance in an effort to reduce the burden placed on financial institutions under their supervision. This review, which has resulted in the tailoring, recission, and withdrawal of certain existing regulations and guidance, has been well-received by those banking industry participants that have long viewed bank supervision as too complex and disruptive. Some of the key regulatory initiatives are discussed below.

Following widespread industry criticism of the US federal banking agencies' 2023 proposed rule on the last stage of Basel III implementation, known as the Basel III Endgame, the federal banking agencies intend to issue a reproposal in the early part of 2026, according to Federal Reserve Vice Chair for Supervision Michelle Bowman. The reproposal will be subject to a notice-and-comment period. The reproposed rulemaking is expected to appease the banking industry by being much closer to capital-neutral in the US than the 2023 proposal.

In October last year, the Federal Reserve issued a proposal aimed at offering increased transparency into, and improving the accuracy of, its annual stress-testing framework for large US banks and large US holding company subsidiaries of non-US banks. The proposal seeks public comment on: (i) the stress-test models; (ii) changes to the stress-testing framework that guides the design of the hypothetical scenarios; and (iii) the hypothetical scenarios for the upcoming 2026 stress test. The proposal follows the Federal Reserve's December 2024 announcement that it intended to modify the stress-testing regime to, among other considerations, improve financial resilience.

Lastly, the US federal banking agencies published a final rule in November 2025 to lower the enhanced supplementary leverage ratio (eSLR) for global systemically important bank holding companies (GSIBs) and their insured depository institution subsidiaries (IDIs). Under the final rule, the eSLR standards will be matched at the GSIB and IDI levels with the intention of calibrating a banking organisation's eSLR to its systemic risk profile. The standards will thereby serve as a backstop to risk-based capital requirements, as opposed to a de-facto binding constraint, and provide GSIBs with wider latitude in determining the composition of their assets. The intended effect is to promote consistency across a GSIB and its subsidiaries, and align the eSLR with the leverage ratio framework published by the Basel Committee on Banking Supervision.

8. Financial Crime Reforms

Fighting financial crime remains a central pillar of the FCA's Strategy, featuring prominently in its 2025-30 Strategy document (see this Latham blog post). Anti-money laundering (AML) and counter terrorist financing (CTF) systems and controls continue to be a primary focus for supervision and enforcement, including where the deficiencies identified do not result in actual money laundering or terrorist financing taking place (see section 10). The FCA has imposed 13 fines on firms for AML and CTF systems and controls failings since 2021. Firms should ensure that their frameworks align with regulatory expectations, including regular risk-based testing and validation. Increasingly, firms are deploying AI-enabled monitoring and analytics to detect and prevent financial crime. However, models must be carefully calibrated, explainable, and supported by appropriate human oversight (for more information on AI in financial services, see section 4).

FCA Supervisory Work

The FCA is maintaining close scrutiny of firms' compliance with the UK AML and CTF regime. For example, in January 2025 it published its updated analysis on "Assessing and reducing the risk of Money Laundering Through the Markets". This document highlights risk areas for wholesale brokers, setting out good and poor practices with illustrative case studies.

Key dates

Q1 2026
HM Treasury expects to lay the final version of the Money Laundering and Terrorist Financing (Amendment and Miscellaneous Provision) Regulations

10 July 2027
New EU AML Regulation to apply to financial institutions

2027
- HM Treasury expected to carry out its next comprehensive review of the MLRs
- UK's next anticipated FATF mutual evaluation

> The FCA has imposed 13 fines on firms for AML and CTF systems and controls failings since 2021.

Later in the year, it followed up with findings from a review of financial crime oversight in corporate finance firms, concluding that firms may be falling short of the requirements by, for example, not having a documented business-wide risk assessment, and not retaining evidence of customer due diligence. This was closely followed by another paper on business-wide risk assessment and customer risk assessment processes, again setting out good practices and areas for improvement. Together, these publications underscore intensive supervisory attention to financial crime controls across the sector. Recent FCA data shows that four out of six skilled persons reports commissioned by the FCA in Q2 2025/26 related to financial crime.

> FCA publications underscore intensive supervisory attention to financial crime controls across the sector.

The FCA finalised updates to its guidance on the treatment of politically exposed persons (PEPs) for AML purposes last July, concluding a review following concerns that firms may not always be dealing with PEPs in a proportionate manner. The updated guidance reflects changes to legislation to clarify that firms should treat domestic PEPs as lower-risk unless there are other risk factors present, and allows greater flexibility for signing off on business relationships with PEPs. Firms should ensure they monitor the treatment of PEPs to satisfy themselves that they are acting in line with regulatory expectations. The guidance also contains some important statements for global businesses, highlighting that UK firms must apply group-wide policies and procedures to all of their branches and subsidiaries, and foreign groups must comply with UK AML requirements in relation to any business relationship in the UK.

Reform to the UK AML and CTF Regime

HM Treasury has been working for some time on reforms to the UK AML and CTF regime. Last year, it prepared legislation to amend the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, which is due to be finalised early this year. Some of the amendments include changing the trigger for enhanced due diligence from transactions that are “complex or unusually large” to transactions which are “unusually complex or unusually large” to ensure a proportionate approach, mandating enhanced due diligence only if the relevant transactions or customer relationships involve a person established in a Financial Action Task Force (FATF) Call for Action country (not an Increased Monitoring List country), and introducing new provisions to allow financial institutions to offer pooled client accounts in a wider set of circumstances than currently permitted. In other areas, the government suggested that improvements to sectoral guidance may be preferable to legislative change, so further updates from the FCA or Joint Money Laundering Steering Group may follow.

Separately, the government has also been consulting on reforming AML and CTF supervision in the UK, and put forward a range of options in 2023. In a surprising move, it announced in October 2025 that it has decided to consolidate responsibility for AML and CTF supervision of legal, accountancy, and trust and company service providers within the FCA. This will result in the FCA supervising approximately 60,000 firms for AML and CTF purposes (it currently regulates around 42,000 authorised financial services firms), and could add significantly to the FCA's already full workload, arguably expanding its duties too far. The FCA will be working with the government to prepare for this change, although as it depends on legislation, no clear timing has been set for the FCA to take over AML and CTF supervision of these sectors. The FCA has indicated that it would anticipate making good use of its regional offices for this new role.

Preparations are also underway for the FATF mutual evaluation of the UK in 2027, and recent reforms are clearly mindful of that timetable and the scrutiny it will bring.

New EU AML Regime

EU co-legislators have spent the past few years designing a new AML and CTF framework, which aims to increase harmonisation and raise standards by setting out most requirements in a directly applicable regulation. At the heart of this will sit a new EU Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA). Certain "high-risk" financial institutions will be directly supervised by AMLA, rather than by national authorities.

This new framework will create substantive divergence between the EU and UK AML and CTF regimes. Because both frameworks may require the application of their rules to branches and subsidiaries of firms based in the other jurisdiction, pan-European groups will need to re-assess group-wide policies, procedures, and control frameworks to ensure they meet overlapping and differing requirements.

Most of the changes to the EU framework will take effect on 10 July 2027, and AMLA aims to start its selection process from the same time, with a view to becoming fully operational from the start of 2028. Accordingly, 2026 is a critical year for affected firms to plan and commence implementation work, including mapping divergence, clarifying governance and accountability for group-wide AML standards, and updating risk assessments and due diligence frameworks.

9. Asset Management Regulatory Trends

Asset managers face a crucial year in 2026 in terms of regulatory change, as detailed proposals for the reform of the UK Alternative Investment Fund Managers Directive (AIFMD) are expected this spring. Meanwhile, supervision continues to focus on valuation practices, conflicts of interest management, and risk management. Heightened regulatory attention on private credit markets will also remain a defining theme in the year ahead.

AIFMD Review

Reform of the UK AIFMD is one of the most consequential changes on the horizon. HM Treasury and the FCA issued preliminary consultation documents in spring 2025, setting out some high-level proposals for reform (see this Latham Client Alert). Key proposals include introducing new categories and thresholds for different types of UK Alterative Investment Fund Managers (AIFMs), and tailoring the rules based on the activities they undertake. A full FCA consultation and draft legislation are expected this spring, which should provide more detailed proposals. As part of this, the FCA also plans to reconsult on proposals to require some authorised AIFs invested in inherently illiquid assets such as real estate to have minimum notice periods, and to review the leverage rules for different types of AIF. Various other aspects of the regime are also under review, including prudential standards, reporting and disclosure requirements, and rules on marketing, although the exact timing for review of these elements remains unclear.

Key dates

Early 2026
FCA to consult on streamlining asset management requirements

Spring 2026
FCA to consult on detailed rules on the future regime to replace the AIFMD, and HM Treasury to publish draft legislation

16 April 2026
AIFMD II application date in the EU

Q2 2026
FCA to provide an update on its review of the remuneration framework for AIFMs

H1 2026
FCA Policy Statement on fund tokenisation expected

Q2/3 2026
IOSCO to publish a final report on updated recommendations on valuing collective investment schemes

Later in 2026
Final FCA rules to replace the AIFMD expected to be published

H2 2026
FCA to consult on implementing the IOSCO and FSB guidance on liquidity risk management for AIFMs

By end 2026
IOSCO and the FSB to review progress in implementing recommendations and guidance on investment fund liquidity issues

Early 2027
Bank of England to publish its final report on the private markets system-wide exploratory scenario exercise

The FCA has, however, stated that it will report back on a review of its remuneration rules for AIFMs in Q2 2026.

Meanwhile, in the EU, changes to the EU AIFMD (referred to as AIFMD II) will take effect in April. The EU AIFMD II reform package is fairly targeted, and amends specific areas of the AIFMD, focusing on delegation, depositories, liquidity risk management, data reporting, and loan origination. There is no indication that the UK will seek to mirror these changes as part of its review of the AIFMD. Therefore, this will lead to meaningful divergence between the UK and the EU going forward. In particular, UK AIFMs will not be subject to the new EU rules on loan origination, and so will not be able to access this harmonised framework or make use of the loan origination passport available to EU AIFMs and their compliant AIFs.

Other Reforms

The FCA's broader asset management agenda continues to emphasise innovation and proportionality. For example, it consulted on fund tokenisation in the last quarter of 2025 and is due to report back in the first half of this year. Consistent with its drive to reduce unnecessary costs and ease the administrative burden of regulation, the FCA has also consulted on streamlining detailed assessment of value reporting for authorised fund managers, proposing to replace granular requirements with a high-level obligation.

> The FCA's broader asset management agenda continues to emphasise innovation and proportionality.

Reforms to other key regimes will also impact asset managers; for example, the new product information required under the CCI regime (see section 5), ESG-related requirements, including reforms to the SFDR product categories (see section 3), and continued implementation of the UK SDR entity-level disclosure requirements (see section 2). Operationally, asset managers should continue their preparations for the transition to a T+1 settlement cycle by 11 October 2027 (see section 6). The FCA has highlighted that some small and medium-sized asset managers may not be fully aware of the changes needed to comply with the new requirements, and has set out its expectations of the steps firms should be taking in 2026 to ensure readiness.

From a supervisory standpoint, the FCA remains focused on valuation practices, conflicts of interest management, and risk management. It published findings from a review of valuation practices last year, identifying various areas for improvement (see this Latham blog post).

The regulator also set out findings from a review of business models for smaller asset managers last year, with emphasis on sound risk management practices, conflicts of interest, and the Consumer Duty. In addition, it has been conducting a multi-firm review of conflicts of interest management, with findings expected this year.

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Globally, regulators and other standard setters are focused on similar themes to the FCA. IOSCO published its final report on Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes in May 2025, together with implementation guidance. The updated recommendations seek to reflect market and policy developments in recent years, and the FCA has committed to implementing these across its systems. IOSCO also published a consultation towards the end of 2025 on Valuing Collective Investment Schemes, seeking to update existing principles on this topic. IOSCO notes that the proposed updates are informed by evolving best practices and recent experience of valuation challenges during times of market volatility.

Private Credit

Governments and regulators across the globe continue to focus on private credit markets and their interconnectedness with the broader financial system. In the UK, the House of Lords Financial Services Regulation Committee launched a parliamentary inquiry into the growth of private credit markets last summer, seeking to examine whether post-crisis capital reforms have impacted bank lending, how much visibility the Bank of England has on the size of private markets, their interconnections with the banking sector, and any potential spillover risks. The inquiry has been taking evidence, and is expected to report back in 2026. The Bank of England launched a system-wide exploratory scenario stress-test at the end of 2025, concentrating on the UK private markets. This will focus on understanding the behaviour of banks and non-bank financial institutions active in private markets in response to a downturn, and whether these interactions can amplify stress across the financial system and pose risks to UK financial stability. Interim findings are expected this year, with a final report due in early 2027. No doubt UK regulators and their foreign counterparts will continue to scrutinise this area during the year ahead.

10. Enforcement – The FCA's New Approach and Focus

From an enforcement perspective, 2025 will likely be remembered for the FCA's climbdown on its proposals to name firms under investigation at an early stage (so-called "name and shame"). Although the FCA had revised its proposals in a bid to get them over the line, ultimately the strength of feeling against them (in industry and government) was too powerful. The regulator announced that it would not be taking forward the main proposal to introduce a public interest test for announcing enforcement investigations (see Latham blog posts here and here). Instead, the FCA is continuing to use its existing "exceptional circumstances" test to determine if it should publicise investigations, which many respondents had deemed adequate for the FCA's stated goal of achieving an incremental increase in announcements. A judicial review hearing last autumn provided insight into this process, and suggests that the FCA may be considering using these existing powers a little more frequently, albeit still with a high bar for their use.

The FCA has, however, made some changes so that it can reactively confirm investigations that are officially announced by firms or other regulators, make public announcements in relation to the potentially unlawful activities of unregulated firms, and publish greater detail of issues under investigation anonymously. We have already seen evidence of it reactively confirming official announcements. The FCA also recently introduced an "Enforcement Investigations" page on its website, which provides a list of investigations that the FCA has chosen to announce.

Key dates

1 September 2026
Amendment to the scope of COCON and new FCA guidance on non-financial misconduct take effect

> The regulator has been focusing on lowering the number of open investigations and achieving outcomes more quickly, putting its resources into what it expects to be the most impactful cases.

Enforcement – The FCA's New Approach and Focus

Unfortunately for the FCA, this about-turn has largely overshadowed the positive work it has been doing to streamline the enforcement process and reduce investigation times. The regulator has been focusing on lowering the number of open investigations and achieving outcomes more quickly, putting its resources into what it expects to be the most impactful cases. For example, the number of open enforcement operations decreased from 188 as of 31 March 2024 to 124 as of 1 October 2025. The FCA has also been highlighting the speed of operations when publishing recent enforcement outcomes, with seven operations completed in 16 months or less during 2025, compared to an average of 42 months in 2023/24. It has also stated that the majority of enforcement operations now end with an enforcement action, compared to less than a third historically. However, the FCA still has a large number of cases stalling at the post-investigation stage, and more work will be needed to reduce this backlog in the year ahead. For firms, the FCA has highlighted the need to "do the right thing", emphasising that cooperating, taking responsibility, and remedying issues can lead to faster investigations and lower penalties at the end.

Unlike in previous years, the FCA had a relatively successful year in the Upper Tribunal in 2025, with the Tribunal finding in the FCA's favour on several occasions. This contrasts with recent years, in which the regulator lost some high-profile cases and was criticised by the Tribunal for the way it had conducted certain cases. Looking ahead, these successes could embolden the FCA in the cases it brings.

However, despite the Tribunal holding in the FCA's favour, it did reduce the penalties imposed by the regulator in a number of cases, so the FCA may be more mindful of how it applies its penalty framework going forward. Another notable development last year was the withdrawal of an appeal to the Supreme Court regarding the FCA's powers to impose a redress scheme, which means that the Court of Appeal's wide interpretation of these powers still stands.

> "The FCA has highlighted the need to "do the right thing", emphasising that cooperating, taking responsibility, and remedying issues can lead to faster investigations and lower penalties at the end.

The PRA had another quiet year on the enforcement front, choosing to take a strategic and focused approach. The cases it brought demonstrate its continued attention on systems and controls, and expectations of senior managers. It seems the PRA will remain focused on ensuring firms are appropriately set up to meet their regulatory obligations, concentrating on taking action against more serious failings.

Enforcement – The FCA's New Approach and Focus

Focus Areas

Key enforcement hotspots continue to be weaknesses in financial crime, market abuse, and transaction reporting systems and controls, with the FCA issuing six fines in relation to financial crime systems and controls in 2025. These fines capture newer market entrants as well as incumbents, so all firms should be mindful of any potential shortcomings they may have in this area (for more information on financial crime, please see section 8). The regulator has also been focused on taking action against actual market abuse, and secured four insider dealing convictions against individuals in 2025.

The FCA has pursued more criminal convictions overall, perhaps influenced by Steve Smart's background at the National Crime Agency. The Joint Executive Director of Enforcement and Market Oversight stated at the FCA's annual public meeting last October that 50% of open cases at the time were criminal, with 75% related to financial crime. While these numbers are likely impacted by the regulator's efforts to crack down on investment fraud, illegal business, and unlawful financial promotions, they remain quite striking.

> Key enforcement hotspots continue to be weaknesses in financial crime, market abuse, and transaction reporting systems and controls.

Enforcement Against Individuals

There were a handful of high-profile cases against individuals in 2025, offering some important learnings. Although there still has not been a really instructive senior managers regime case, the regulators have articulated some expectations more clearly. For example, the PRA explained the role it expects notified non-executive directors to play in overseeing the conduct of the firm's business and holding the firm's executive management to account. Meanwhile, the FCA emphasised the breadth of a senior manager's responsibilities and the level of oversight expected, and was vindicated by the Upper Tribunal in its findings as to when a senior manager lacks integrity.

Non-financial misconduct may come back under the spotlight this year, with the FCA's new guidance taking effect. The re-formulated guidance, which the FCA finalised in December 2025, seeks to clarify expectations around how firms should address instances of non-financial misconduct in the context of the Conduct Rules and fitness and propriety (see this Latham blog post). The guidance clearly highlights that the FCA wishes to promote a stricter line on non-financial misconduct than that taken on occasion by the Upper Tribunal. Although the guidance still leaves many grey areas, firms will likely prefer to have some additional clarity when navigating difficult situations. The FCA indicated in a letter to the Treasury Select Committee late last year that, as at 9 October 2025, it had 76 open supervisory cases and one enforcement case relating to non-financial misconduct.

Enforcement – The FCA's New Approach and Focus

The latter has been referred to the Upper Tribunal and the outcome is eagerly awaited, although if the FCA succeeds it is unlikely to redefine any boundaries, since the case centres on conduct concerning an internal investigation, not the underlying non-financial misconduct that prompted the investigation.
The FCA also provided data showing that the total number of non-financial misconduct cases has grown year-on-year, demonstrating the increasing focus on this area.

However, the FCA is yet to bring enforcement action solely based on non-criminal, non-financial misconduct, such as harassment or bullying.

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10 Key Focus Areas

for UK-Regulated Financial Services Firms in 2026

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