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Back-to-school briefing 2025

Ready, steady ....

Contents

This *back-to-school* briefing takes stock of regulatory developments during July and August 2025. It is important that firms take time now to understand the implications for their business, strategic plans and operational capabilities.

EMEA Centre for Regulatory Strategy

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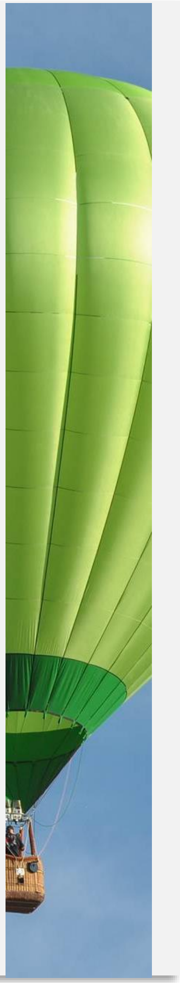
The team of former regulators, industry specialists, and business advisers has a **deep understanding of the impact of regulations** on business models and strategy.



Ready, steady … wait for it.

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Policymakers were busy during the summer. July and August saw publications across a range of initiatives. However, in many instances what was published tees-up more detailed and substantive developments to be revealed later.

The political drive to stimulate economic growth was a key factor shaping UK and EU developments. Most prominent was the UK's Financial Services Growth and Competitiveness Strategy (FS Strategy), published in July. However, it is also clear that the process of translating political will into concrete regulatory initiatives is nascent. With significant policy development continuing into 2026, the full impact of many initiatives on economic growth and firms will only become clearer in 2027. E.g., we expect the UK Government to introduce a Bill later this year to make legislative changes to implement its proposals. Similarly, the EU's more complex transmission mechanism between politicians and regulators has created challenges and affected the speed at which pro-growth policies are put into effect.

An important theme in the FS Strategy is reforms targeting lending and investment, to support growth *directly*. This includes measures to foster a stronger retail investment culture and improve the availability of mortgages, potentially boosting demand for retail offerings. Firms must decide whether to launch a Targeted Support (TS) offering, potentially as early as Spring 2026 or wait until its market impact and policy dependencies are clearer. Mortgage reforms require more substantial policy development in 2026, delaying a full assessment of their impact and response.

Most FS Strategy developments will affect growth *indirectly*, streamlining processes, reducing costs or accelerating time-to-market. E.g., Financial Ombudsman Service (FOS) reforms aim to mitigate market disruptions. Reforms to the UK Senior Managers & Certification Regime (SMCR) will streamline regulatory approvals. In aggregate, these developments should enhance the UK's attractiveness as a financial centre and increase firms' investability.

After a quieter summer, the EU's FS policy agenda is set for a busy autumn, with a focus on advancing its growth agenda, including the Retail Investment Strategy. Simplification initiatives will be a priority too, including finalising the sustainability omnibus and launching the digital omnibus. The influence of US policy developments on the EU and UK, including the new EU-US trade deal, also cannot be underestimated – e.g. further changes to Basel 3.1 / Endgame or the acceleration of the pace of digital assets rules.

Regulatory simplification is not simple

Notably, UK and EU reform processes are not deregulatory. Regulation is expanding in areas such as AI, digital assets and buy-now-pay-later (BNPL). The reforms are also unlikely to reduce significantly the regulatory touchpoints for most firms. Although reformed, the FOS will continue operating. The Payment Systems Regulator's abolition is expected to have a limited impact, with its direct supervisory portfolio limited to eight payment systems. Balancing providing clarity on regulatory expectations with flexibility also remains a challenge for policymakers, underscored by the planned review and simplification of the EU AI Act during its ongoing implementation period.

Also, swift implementation of reforms demands sufficient parliamentary time to make the necessary legislative changes. The ambition to attain market leadership in fast-moving areas like digital assets and captive insurance may demand faster policy development than is planned. E.g., whilst the UK is making progress on stablecoins it is uncertain whether the pace is sufficient to secure a competitive advantage.

Coordination challenges and interdependencies remain. E.g., the full effectiveness of TS partly depends on alignment with the Information Commissioner's Office and FOS. The UK Autumn Budget will be crucial to assess the overall fiscal and regulatory environment for the FS sector. Finally, it remains to be seen if supervisors' or firms' risk tolerances will adjust, even if politicians are signalling a willingness to take greater risk.

Implications for firms

Even if over the longer-term, some developments are likely to reduce the regulatory burden, the journey to get to that point will inevitably create more work for all stakeholders. Firms must chart a way forward that builds on the details available while maintaining flexibility to adapt to uncertainties, including incomplete timelines.

Many firms have built regulatory strategy capabilities. Recent developments underscore the benefit of having a strategic, forward-looking view of regulatory developments that informs corporate strategy, finance, risk and compliance teams.

For firms that offer retail savings, investments or pensions products, developing a TS response is important given the potential market impact. Maturing regulatory and market landscapes also necessitate reviews of AI and digital assets strategies before full clarity of regulatory expectations. Prioritising "low regret" actions will be important for navigating uncertainty to deliver to multiple regulatory deadlines. E.g., enhancing governance, risk and control frameworks is crucial regardless of the final shape of regulatory frameworks.

This unfolds against the backdrop of an increasingly complex operating environment, not least given ever-evolving cyber risks and geopolitical shifts. Parallel initiatives across jurisdictions will, at times, likely come at the expense of global regulatory consistency, creating additional costs for firms. Moreover, the upcoming implementation of the Basel Committee on Banking Supervision's standard on the prudential treatment of banks' digital assets exposures will be another key test of the appetite of national regulators to implement agreed global standards.

A strategic view of selected regulatory developments during the summer[1]

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New opportunities that require strategic decisions

- UK: TS regime
- UK: mortgage market reforms
- UK: digital assets regime
- UK: insurance risk transformation and captives reforms
- UK: bank capital and resolution reforms
- UK: individual savings accounts reforms – treatment of long-term asset funds
- UK: public offer platforms and Public Offers and Admissions to Trading Regulations reforms
- EU: AI Act
- EU: Solvency II Delegated Act review

Streamlining compliance

- UK: SMCR reforms
- UK: Consumer Duty - wholesale application
- UK: FOS reforms
- UK: financial crime FS industry priorities
- UK: Defence Against Money Laundering Suspicious Activity Report reduced thresholds
- EU: Omnibus sustainability package

Increased compliance and risk management requirements

- UK: motor finance developments
- UK: buy-now-pay-later requirements
- UK: home and travel claims insurance claims handling review
- EU: T+1settlement
- EU: Capital Requirements Directive VI Article 21c and internal governance requirements
- EU: operational resilience and third-party risk management guidelines
- UK and EU: climate- (and nature-) related risk management capabilities

Key

- **New opportunities that require strategic decisions:** Potential for growth, but complex rules with high compliance risk and investment required.
- **Streamlining compliance:** Potential to reduce or streamline compliance, and potential to deliver medium-term compliance savings notwithstanding some complexity.
- **Increased compliance and risk management:** New rules requiring compliance and risk management change. In some instances, these are complex and will require significant operating model changes.

1. Not exhaustive. Based on the Centre's analysis of regulatory developments as of end-August 2025. Actual impact may vary by individual firm.

Boosting retail investment and access to finance

A time of change in UK markets

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The Government aims to foster a retail investment culture in the UK. By redirecting household wealth from savings to investments, it aims to boost UK capital markets and funding for infrastructure projects. In parallel, the Government is enhancing mortgage borrowing options. For firms, this could create new demand for retail investments and advice, pensions and mortgage products.

The FCA's consultation on the new Targeted Support (TS) framework is key. TS applies to defined contribution pensions and retail investments (with exceptions). The regime will permit firms to design product suggestions for retail customer segments sharing common characteristics – a change from regulated advice, which – unlike TS – cannot be offered for free. This presents firms with an opportunity to rethink customer engagement strategies (and related partnerships). Firms that successfully offer TS will be able to channel direct savings into investment products.

Firms seeking to be early movers must act quickly to get relevant authorisations. Final TS rules are expected by year-end. FCA pre-application support opens in October, and the authorisation gateway will open in early 2026. Demonstrating that consumer outcomes are "better" under TS than if it had not been provided is paramount, with the Consumer Duty playing a key role. Firms able to access high-quality customer data are well placed to create appropriately granular TS segments. *(Click here and here for our analysis on TS).*

Beyond the TS framework, some uncertainties remain regarding dependencies with other regulations. Changes to the Privacy and Electronic Communications Regulations would enable firms to market TS suggestions proactively to consumers – crucial for achieving scale. The FCA, Government and Information Commissioner's Office are exploring this issue. The FCA has said a different approach is needed for TS-related complaints compared to those for holistic advice, but we await more details in this area.

Beyond TS, the Chancellor's announcement permitting long-term asset funds (LTAFs) in stocks & shares individual savings accounts (ISAs) from April 2026 could boost private sector fundraising. However, concerns about exposing retail investors to illiquid investments may cause firms to proceed cautiously. The Government confirmed that further ISA changes remain under consideration. In addition, an industry-led advertising campaign, expected to launch in April 2026, aims to further boost retail investment. However, success likely requires further complementary initiatives, such as financial literacy programmes.

The mortgage market is also poised for change. The PRA has allowed lenders to disapply loan-to-income (LTI) flow limits (with conditions) with immediate effect, and the FCA has finalised targeted changes to lending and advice rules to support execution-only mortgages, also effective immediately. Although these changes are targeted and their individual impact seems limited, more substantial medium-term changes are under consideration. The FCA's wider review of lending and advice rules is exploring support for first-time buyers, the self-employed, and those with variable income. In July, the PRA opened the debate on simplifying mortgage modelling rules for medium-sized lenders, including exploring a foundation internal ratings based (FIRB) approach for residential mortgages. *(Click here for further analysis).*

While nascent, these medium-term reforms could reshape the UK mortgage market, influencing both supply and demand. Simplified lending and advice rules could increase lending to underserved customers. Simpler mortgage modelling could support medium-sized banks and building societies unable to obtain advanced IRB (AIRB) permissions – although creating uncertainty for the strategies and competitiveness of existing AIRB users.

However, the overall impact hinges on future policy decisions, such as whether FIRB becomes a permanent or transitional (to AIRB) option. PRA/FCA consultations are slated for 2026, with implementation not expected before 2027. This potentially creates a strategic dilemma for banks. For example, medium-sized firms on a trajectory to AIRB must decide whether to 'stick or twist' on further investment. Ultimately, the success of any FCA/PRA changes will depend on firms' risk appetite to leverage them, particularly regarding expanding mortgage access to higher risk borrowers.

Summer developments

- 30 June: UK FCA consultation on TS.
- 9 July: UK PRA review of LTI flow limits.
- 15 July: UK Government confirmation of inclusion of LTAFs in stocks & shares ISAs.
- 22 July: UK FCA policy statement on mortgage rule review.
- 31 July: UK PRA discussion paper on mortgage modelling rules.

Watchlist: key milestones before year-end

- October: UK FCA TS pre-application support opens.
- December: UK FCA TS policy statement.

Revitalising capital markets

Driving investment and economic growth

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Several UK and EU initiatives that aim to modernise post-trade infrastructure and boost investment in home assets and listings on exchanges progressed. Other recent EU developments may however constrain the ability of third-country banks to serve EU clients. These initiatives had been introduced before the summer, but the recent developments provide important details and necessitate changes to operating models for those firms affected.

The EU T+1 transition is gaining momentum. The EU's high-level implementation roadmap, released on 30 June, provides further clarity for firms' gap assessments, budgeting and planning. However, there is more to come, and firms should maintain flexibility in their implementation plans. Further updates from technical streams are expected, alongside new initiatives including a standard settlement instructions industry taskforce. ESMA will consult on guidelines on standardised procedures and messaging protocols in Q1 2026. The design of industry-wide testing is another open area affecting implementation plans and costs.

While the EU's T+1 recommendations largely align with the UK's (released in February), firms operating in both jurisdictions will need to navigate some nuances. The UK adopts a more holistic and behaviour-driven approach, contrasting with the EU's more detailed guidance. More practical differences include varied timings for gating events. Firms now need to complete impact analyses and budgeting, ready for implementation in 2026, and establish the governance for the transformation. This requires coordinated effort across front, middle, and back offices, considering industry specifics (e.g., static data) and links with other regulatory changes. *(Click here for further T+1 analysis.)*

Policymakers aim to increase investment into UK assets. Alongside pension reforms, the FCA's finalised Public Offers and Admissions to Trading Regulation (POATRs), effective January 2026, aims to reduce capital-raising costs by increasing the threshold at which a prospectus is required. New final rules for public offer platforms (POPs) – set up to raise funds over £5 million – should allow firms to raise capital from a broader investor base. These reforms will primarily benefit smaller market participants, increasing their access to funding. However, an expanded pipeline of UK assets will create investment opportunities for all firms. Firms should review investment strategies, balancing investment in potentially riskier assets with consumer protection and reputational risk management. Overseas firms looking to enter the UK to capitalise on the new opportunities can leverage the "concierge service", a public/private collaboration launching this autumn, to navigate the UK regulatory landscape.

To further enhance UK capital markets, the PRA finalised reforms to its regime for insurance special purpose vehicles (ISPVs), which securitise insurance risks. The reforms relax legal structure and funding requirements, aiming to improve the "limited uptake" of the regime. While this initial change alone is unlikely to attract significant new business, the Government is consulting on wider reforms to facilitate access to capital and investment opportunities for insurers and market participants, potentially opening access to the insurance-linked securities market to non-insurers in the coming years.

In the EU, Capital Requirements Directive (CRD) VI Article 21c will constrain how third-country banks can provide core banking services to EU clients. The EBA's report on the scope of the interbank exemptions in Article 21c did not find sufficient evidence to expand the scope to other EU financial sector entities, e.g., investment firms. While third-country banks may have hoped for an expansion, the EBA's position at least provides certainty for banks which were delaying their preparation. New CRD VI reporting requirements for EU branches of non-EU firms, proposed in August, will impose additional burdens, requiring banks to submit new data (e.g., on reverse solicitation).

With less than one year until the CRD VI grandfathering period ends, banks should determine whether the EBA position changes their CRD VI impact assessments, refining implementation programmes as necessary, including resourcing, budget, IT system changes and regulatory engagement. *(Click here for further analysis on CRD VI Article 21c).*

Summer developments

- 30 June: EU T+1 roadmap.
- 15 July:
  - UK FCA policy statements on POATR and POPs.
  - UK HMT consultation on changes to the risk transformation regulations.
- 23 July: EU EBA report on the interbank exemptions in CRD VI Article 21c.
- 24 July: UK PRA policy statement on ISPVs.
- 31 July: EU EBA consultation on CRD VI supervisory reporting of third-country branches.

Watchlist: key milestones before year-end

- Q4: EU ESMA report on level two changes to the Central Securities Depositories Regulation to facilitate T+1.
- 1 December: UK FCA changes to transparency regime for bonds and derivatives entry into application.

Innovation and resilience

Greater regulatory clarity paves the way for innovation, but firms await the finer detail

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Increased clarity on the regulatory direction of travel has boosted firms' efforts to adopt new technologies into their operations and services. Further key details are yet to be published – some are expected by year-end. Firms must progress implementation programmes, and associated governance and risk management, in a way that enables flexibility to accommodate future details.

The EU AI Act, with its looming August 2026 compliance deadline for high-risk AI systems, is a case-in-point. The summer saw continued debate on the simplification of requirements. EU authorities will provide further detail in a simplification proposal (digital omnibus) expected in Q4 2025. However, ongoing negotiations in other areas, such as the EU's sustainability simplification package, launched in February, suggest that full clarity on any AI Act changes may not emerge until Q1 2026, or even later.

New **AI Act** guidelines published in July **set a high threshold for when downstream users of general-purpose AI (GPAI) models will be re-classified as providers** when making changes to the underlying model, encouraging adoption and experimentation. **Commitments made by AI vendors who are signatories to a new EU GPAI code of practice will also boost AI model transparency**. E.g., the code's model documentation provisions (e.g. on model training) could support FS firms' compliance and third-party risk management (TPRM) efforts. Many, but not all, leading AI companies have signed the code.

Importantly, the AI Act complements, not replaces, existing regulations. **EIOPA's August opinion underscores the convergence of supervisory principles for AI governance across regulations.** Addressing AI systems *not* classed as high-risk or prohibited under the AI Act, the opinion provides valuable guidance of what "good" looks like in the context of insurance regulations. This includes an emphasis on risk management systems, data governance, transparency, and human oversight – all central to the AI Act too.

A key consideration for firms is how to maintain momentum in AI adoption programmes, building on the latest developments but recognising that some regulatory uncertainty will persist. Tackling "low regret" actions and taking a business and broader risk lens on AI is a key strategy for doing this. This includes establishing governance processes for AI experimentation and scaling, ensuring alignment with the firm's risk appetite, and developing an associated risk and control framework. Effective AI governance, with clear approval processes, typically accelerates rather than hinders AI deployment.

Digital assets also gained some political and regulatory momentum. Whilst US developments, particularly the GENIUS Act – establishing a new stablecoin regime – dominated headlines, the UK also made some progress. **The UK's wholesale markets digital strategy commits to scaling distributed ledger technology infrastructure and digital assets**. Meanwhile, **a full draft FCA regime for unbacked digital assets and stablecoins is expected by Q1 2026**. This is one of the many examples where large incumbent FS firms do not have enough clarity to press the "go" button just yet.

However, the convergence of a maturing regulatory landscape and increasing market interest may prompt some firms to (re-)assess their digital assets strategies. This includes considering where to focus efforts and determine timings for capability development and launch. **Nevertheless, some uncertainties persist, necessitating agile strategies. Stablecoins illustrate this:** the UK FS Strategy recognises their *"potential to transform retail and cross-border payments […] and wholesale settlement"* but the BoE's stance remains more cautious, and details of its systemic regime remain unknown. The PRA requirement that banks issue stablecoins from a separate legal entity adds complexity, potentially influencing strategic decisions. *(Click here for further GENIUS Act analysis.)*

Finally, **the EBA's consultation on non-ICT TPRM guidelines** and **the ECB's final guide on cloud outsourcing** underscore that TPRM remains the most complex area of operational resilience for firms to address. **These initiatives, while intended to complement the Digital Operational Resilience Act (DORA), may require further changes to cloud strategies and TPRM frameworks**. The ECB guide adds some granularity to DORA's requirements. E.g., the ECB expects firms to consider additional measures for cloud services supporting critical or important functions, including potentially using multiple providers.

Summer developments

- **8 July:** EU EBA consultation on non-ICT TPRM guidelines.
- **10 July:** EU GPAI code of practice publication.
- **15 July:** UK HMT wholesale markets digital strategy.
- **16 July:** EU ECB final guide on cloud outsourcing.
- **18 July:** EU Commission guidelines on the scope of AI Act GPAI requirements.
- **1 August:** EU Commission and AI Board opinions on the GPAI code of practice.
- **2 August:** EU AI Act GPAI rules entry into application.
- **6 August:** EU EIOPA opinion on AI governance and risk management

Watchlist: key milestones before year-end

- **Q4:** EU Commission digital omnibus proposal.
- **Q4:** UK BoE consultation on rules for systemic payment systems using stablecoins.
- **Q4:** UK Payments Vision Delivery Committee payments forward plan.

Good consumer outcomes

Going hand in hand with growth

Notwithstanding the growth focus, the UK authorities are scrutinising consumer outcomes closely. Although redress mechanisms are under review to promote predictability, the Financial Ombudsman Service (FOS) will continue to play a vital role in consumer protection. Furthermore, the FCA's shift to more flexible supervision only reinforces the need for a considered regulatory engagement strategy.

The UK Supreme Court's 1 August motor finance ruling rejected two of the three claims against lenders, upholding one citing an unfair relationship under the Consumer Credit Act 1974. Firms still face a substantial financial exposure – £9bn - £18bn according to FCA estimates. **The FCA will consult in early October on an industry-wide redress scheme**, including discretionary commission arrangements (DCAs) but potentially extending to non-DCAs.

The consultation will likely include criteria to assess whether a customer relationship is unfair, calculation methodologies and determine the backdating period. While the FCA has indicated backdating to 2007, we expect industry to argue for a later date, due to data gaps and consumer credit firms only entering the FCA regulatory perimeter in 2014. **Assessing whether individual client relationships are deemed unfair will be resource-intensive for firms**, with proposed qualitative factors such as customer sophistication varying by agreement.

The FCA expects the scheme to launch in 2026, with consumers starting to receive compensation later that year. Given the work involved and the need to quantify exposures, affected firms should begin retrieving relevant data, especially on lending agreements, before October.

FOS reforms aim to reduce future market disruption, likely boosting the investability of UK FS. Proposed changes include granting the FCA final decision-making authority for mass redress events and issues with potential for wider consumer or firm implications. **However, the legislative change might not go smoothly,** given some legislators might consider the proposals reduce consumer protection. **Complementary proposals to restructure FOS case fees, released in August, could lower firms' complaints costs.** The recommended staged approach could reduce fees paid to the FOS from £650 per case to £210 if firms reach a settlement before the FOS commences an investigation. **However, two caveats exist: the impact on customer complaints behaviour is uncertain, and the new model will only be implemented in 2027/28.**

In parallel, the Government is proposing further reforms to the appointed representatives (AR) regime, including a slight extension to the jurisdiction of the FOS.

Elsewhere, **the FCA's latest annual work programme commits to "focus market engagement on areas where harm is the greatest, focusing on a smaller number of priorities."** The way the FCA decided to communicate its findings on the motor insurance, premium finance and general insurance pricing practices (GIPP) reviews is an early signal of this new approach.

The FCA confirmed that **GIPP compliance was satisfactory and that rising motor insurance premiums were largely attributed to escalating claims costs. It also ruled out stringent premium finance interventions.** However, the FCA raised **material market-wide issues around claims handling in home and travel insurance** (e.g., lack of oversight of claims outsourcing arrangements) and will continue to follow up with firms individually when it identifies shortcomings. **This further increases the need for firms to proactively engage with regulators to demonstrate they are seeking to do the 'right thing'** for customers, including recording the rationale for key decisions and having robust customer outcomes monitoring processes.

Finally, **the FCA's draft buy-now-pay-later (BNPL) regime, published in July, is stricter than many expected**, introducing affordability checks for every transaction and emphasising compliance with existing rules, e.g., Consumer Duty. The anticipated increase in costs and reduced transaction volumes will challenge business models, likely leading to some market consolidation. With final rules expected in early 2026 and compliance deadlines starting in July 2026, **firms must assess the regime's impact on their commercial viability promptly**.

Summer developments

- **15 July:** UK HMT consultation on FOS reforms.
- **18 July:** UK FCA consultation on the BNPL regime.
- **22 July:**
  - UK FCA motor insurance claims analysis.
  - UK FCA market study on premium finance.
  - UK FCA GIPP evaluation paper.
  - UK FCA review of home and travel claims handling.
- **1 August:** UK Supreme Court motor finance ruling.
- **11 August:** UK HMT policy statement on the AR regime.
- **13 August:** UK FOS consultation on case fees.

Watchlist: key milestones before year-end

- **October:** UK FCA consultation on the motor finance redress scheme.
- **TBC:** UK FCA review of motor insurance outcomes for specific customer groups.
- **Q4:** UK FCA premium finance market study final report.

Reconfiguring governance frameworks

Recalibrations are underway, easing some requirements, while tightening others

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While acknowledging the core role of the Senior Managers and Certification Regime (SMCR) and Consumer Duty in promoting good governance in financial services, policymakers are reviewing their practical application. Firms can expect compliance burdens to reduce, but the extent and timing are uncertain. Conversely, EU developments point towards a tightening of individual accountability expectations for banks' senior leaders.

Although the SMCR reform process was initiated in 2023, no substantial changes have been implemented yet. The Government now aims for a 50% reduction in the regime's burden, proposed in two phases. FCA's Phase 1 consultation, released in July, focusses narrowly on improving approval processes, offering little relief for firms. The PRA's Phase 1 proposal to extend senior management function (SMF) 7 to capture controllers, increasing the regime's scope, will slightly expand the scope of the regime.

Phase 2, replacing the Certification Regime and potentially reducing SMF roles, could result in a more substantial reduction in the compliance burden. However, the Government's decision to delegate the replacement of the CR and adjustments to SMF roles to the regulators may limit the extent of change. Moreover, Phase 2 depends on legislative amendments, with currently uncertain timelines.

In July, the Government and FCA confirmed that a report on the Consumer Duty's application to wholesale firms and asset managers not dealing directly with retail clients will be published in September. While some recalibration of the Duty's application to wholesale activity is expected, its central role in promoting good governance and retail customer outcomes will remain.

Stepping back, this is part of a larger programme of work to streamline the FCA handbook post-implementation of the Duty, with an FCA progress report and updated work plan also eagerly anticipated in September. Assessing the outcome of these initiatives in the round will be key to evaluating the overall forward-looking shape of the FCA regulatory framework.

Governance reform is also an EU priority, although the direction of travel points towards a tightening of requirements. In August, the EBA consulted on revised guidelines on internal governance, reflecting new requirements introduced by the Capital Requirements Directive (CRD) VI.

Most notably, the amended guidelines include further detail on the new requirement for firms to draw up individual statements on the roles and duties of members of the management body, senior managers and key function holders (e.g., heads of internal control functions); and to map duties, reporting lines and responsibilities within the firm's governance.

Experience suggests that these exercises are more complex to implement than they first appear. Formalising the duties of individual members of the management body can lead to challenging conversations about accountability and reward, e.g., where the responsibilities of the management body have previously been thought of collectively rather than individually. Mapping duties could be challenging for more complex firms (not least given that the requirements apply to non-EU subsidiaries).

While the guidelines do not include specific implementation deadlines, a conservative assumption is that they will apply on the general application date for CRD VI in January 2026, with firms likely to be assessed as early as the 2026 supervisory review and evaluation process. Firms need to make an early start.

Summer developments

- 15 July:
  - UK HMT, FCA & PRA consultations on SMCR reforms.
  - UK HMT & FCA update on the review of the Consumer Duty's wholesale application.
- 7 August: EU EBA consultation on revised guidelines on CRD VI internal governance requirements.

Watchlist: key milestones before year-end

- September: UK FCA report on the Consumer Duty's wholesale application and update on the handbook review.
- TBC: EU ECB final guide on governance and risk culture.

Reviewing the bank and insurance capital framework

Addressing current challenges and laying the foundation for future change

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Recent developments, all known or anticipated, are nevertheless important, starting to lay the foundations to ease both financial and operational regulatory requirements for firms. Some offer short-term benefits; others pave the way for medium-term reforms, many details of which require further clarification from policymakers before firms can assess their full impact.

During July, the PRA signalled that the policy debate on the core of the Basel 3.1 package is closed. Banks will broadly welcome the clarity but will be keen to see how the more contentious elements will be delivered in practice, including commitments and concessions on SME and infrastructure lending.

However, the PRA is using rulemaking flexibility to deliver some targeted changes in timing and content for some firms. In the same consultation, the PRA proposed a one-year delay to the Fundamental Review of the Trading Book – Internal Models Approach (FRTB-IMA) implementation (to 1 January 2028). This may help the UK to align with the US, at least in timing, and could improve the IMA's appeal (current low take-up), with more time for banks to refine internal model strategies. But it raises a question for the EU, since it plans to implement FRTB on 1 January 2027. We expect the EU to stick to its timetable but to "switch off" temporarily those aspects of Capital Requirements Regulation (CRR) III FRTB that would result in higher capital requirements. That said, it is possible that the EU opts to propose legislation to amend the FRTB more extensively.

In parallel, UK authorities are resolving some simpler issues that could deliver benefits. Targeted UK CRR modifications address certain Brexit-related issues (e.g. reconfiguring the prudential treatment of exposures to non-UK covered bonds). Raising the threshold at which banks come into scope of the Resolution Assessment (from £50bn to £100bn in retail deposits) and simplifying reporting should benefit mid-tier firms, enabling greater retail deposit growth. However, it remains to be seen whether the increase in Minimum Requirement for Own Funds and Eligible Liabilities (MREL) thresholds (from £15bn to £25bn) creates sufficient, lasting headroom for high-growth banks to avoid entering a more onerous resolution strategy.

July also saw several early-stage initiatives aiming to address long-standing regulatory constraints, but their impact on UK lending capacity and incentives remains uncertain. A review of the ring-fencing regime (report due in early 2026) is unlikely to abolish it, but easing the burden on banks would be broadly welcomed (e.g., improved market access and/or intra-group services).

The BoE's Financial Policy Committee (FPC) will report in December on whether bank capital requirements are set at an appropriate level. On the face of it, options to reduce capital requirements that are likely to be palatable to the FPC seem limited; either due to a desire not to reduce the effectiveness of its own macroprudential toolkit, or commitments to adhere to international standards. However, the PRA has shown recent willingness to depart from certain long-held principles (e.g., on mortgage modelling). If the FPC shows similar willingness, certain policy options could become more likely – e.g., reducing the positive neutral countercyclical capital buffer from 2% (effectively reversing the outcome of its previous 2019 review), or reducing the levels at which Pillar 2A or the PRA buffer are set.

Insurers have gained more clarity on the technicalities of medium-term initiatives, all applying in 2027. EIOPA consulted on standards framing the planned insurance resolution regime while the Commission consulted on a review of the Solvency II Delegated Acts. Suggested amendments broadly align with EIOPA's opinion from 2020, with the (late but notable) inclusion of lower capital requirements for securitised assets well received by the industry. Firms will also welcome less capital-intensive calculations for the risk margin and long-term equity investments, plus the new proportionality regime (e.g., simplified calculations for smaller insurers, including captives).

Meanwhile, the Government confirmed the outline of the UK's captive insurance regime, but details remain unclear. The scale of the opportunity for offering captive management services will become clearer in 2026, following a PRA consultation, before the regime's mid-2027 entry into force. However, the lack of a specific tax treatment for UK captives may limit the regime's opportunities compared with other jurisdictions.

Summer developments

- 15 July:
  - — UK PRA policy statement on MREL thresholds.
  - — UK PRA statement on non-UK covered bonds.
  - — UK PRA consultations on Basel 3.1 market risk and resolution assessments.
  - — UK HMT policy update on UK CRR modifications.
  - — UK HMT consultation response on the captive insurance regime.
- 17 July: EU Commission consultation on the Solvency II Delegated Acts review.
- 22 July: EU EIOPA consultation on insurance resolution.

Watchlist: key milestones before year-end

- Q4: UK PRA policy statements on further liquidity reporting requirements for insurers and the matching adjustment accelerator.
- December: UK FPC report on the review of UK bank capital levels.

Sustainable finance

Transparency, risk and resilience

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As UK and EU governments have refocused their approaches to the sustainability transition, shaped by economic and political headwinds, sustainability and sustainable finance retain central roles in industrial policy. With politicians looking to the FS sector to mobilise finance and supervisors alert to increasing risk, sustainability-related policies have continued to evolve across several fronts.

In the EU, following a request from the European Commission, **EFRAG** published proposed revisions **to the European Sustainability Reporting Standards (ESRS) to simplify reporting requirements** (*click here* for further analysis). Progress was also made with the Omnibus package. The Commission adopted a 'Quick fix' Delegated Act to delay the phase-in of certain requirements for 'Wave 1' firms; adopted a Delegated Act to simplify Taxonomy Reporting requirements; and recommended the VSME standard, which will also now serve as the basis for the future voluntary standard proposed in the Omnibus package.

Based on these steps, **it looks likely that the Commission's ambition to simplify requirements will ultimately be achieved**. But as of now, **the most significant steps – E.g. finalisation of revisions to the ESRS and of the re-scoping of application of CRSD and CSDDD – remain undecided**, limiting the action firms can take. The range of negotiating positions being discussed suggests full-agreement may still take time to reach. The EU-US trade deal could be an additional source of complexity for reaching agreement, for example, on third-country group reporting requirements or supply chain rules.

The UK Government published a consultation in June seeking views on draft UK Sustainability Reporting Standards (SRS), based on the ISSB standards. Consistent with the recommendations last year by the UK Sustainability Disclosure Technical Advisory Committee, the Government proposed to adopt the standards with few changes. The **FCA** will consult **later this year on how these standards will be applied to listed companies** (the Government is expected to consult towards the end of the year regarding non-listed companies). The timing of that consultation will in part determine whether requirements can be introduced from financial years beginning in 2026 as the Government initialled planned. Given the potentially short timeline, some listed have already begun to prepare based of the draft standard.

The FCA's approach will be informed by its multi-firm review of climate reporting. **To deliver effectively on an action to simplify requirements and ease unnecessary burdens on firms, it will need to take a holistic view of disclosures**. For example, it also wrote to firms about sustainability-linked loans.

In its FS Strategy, the Government announced it would **not** introduce a UK Green Taxonomy – an outcome not unexpected given the positioning of the Government's earlier consultation on whether to proceed.

Increasing attention is being given to how transition plans are developed and disclosed. The FCA announced that disclosures in prospectuses related to issuers' transition plans would be considered protected forward-looking statements. The ECB has said that from the end of this year and throughout 2026, it will discuss progress with banks. Perhaps more notable though is the **extension of transition planning to adaptation and to mobilising transition finance.** In its FS Strategy, the UK Government highlighted that the FCA will spearhead a transition finance pilot, to explore scaling transition finance, and the Transition Finance Council (TFC) is consulting on guidelines for credible transition finance. Internationally, the Network for Greening the Finance System (NGFS) published a paper on integrating adaptation and resilience into transition plans, supporting work by the G20 Sustainable Finance Working Group. These developments will support a continuing evolution of requirements for firms, necessitating ongoing investment in capabilities.

Prudential supervisors expect firms to continue developing their capabilities to assess and manage risks. In an update, the ECB said that the banks it supervises are making progress, but gaps remain – echoing the sentiment from the PRA when it consulted on updated climate-related risk management in April (CP10/25). The ECB plans to publish a good practices guide later this year. The ECB also announced its decision to adapt its collateral framework to reflect climate-related risks in collateral valuation.

Summer developments

- **4 July**: UK Government UK Green Taxonomy Response.
- **11 July**: ECB on managing climate and nature risks.
- **15 July**: FCA Policy Statement on New rules for the public offers and admission to trading regime
- **29 July**: ECB on adaptions to its collateral framework.
- **31 July:** EFRAG consultation on revised ESRS Exposure Drafts.
- **6 August:** FCA report on review of climate reporting.
- **14 August**: FCA letter on sustainability-linked loans.
- **18 August**: TFC consultation on Transition Finance Guidelines.

Watchlist: key milestones before year-end

- **October**: Parliament General Approach on Omnibus package.
- **Before end-year**: Feedback from Government on UK SRS and FCA consultation for listed firms.
- **Before end-year**: Feedback from PRA on CP 10/25.

Tackling financial crime

An unwavering regulatory priority

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Financial crime prevention remains a priority. Recent measures aim to help improve the efficiency and effectiveness of the financial services (FS) industry's efforts to combat financial crime, requiring firms to update financial crime risk and control frameworks and reassess their resource allocation.

Two key initiatives will help firms prioritise their resources. First, on 21 July, the FCA and National Crime Agency (NCA) jointly published the System Priorities – 2025, introducing nine priorities for the UK FS industry in the fight against financial crime. Focus areas include increasing scrutiny of transaction flows and corporate structures associated with the abuse of power by overseas politically exposed persons, and bolstering the digital assets industry's resilience to criminal abuse.

Second, the latest national risk assessment (NRA) of money laundering and terrorist financing risks, published by the Government in July, provides additional clarity. The assessment highlights an increase in risks in the digital assets, payments and e-money, and wealth management sectors since 2020. Firms operating in these areas should anticipate heightened regulatory scrutiny, particularly on ensuring that governance and risk management frameworks keep pace with business growth.

Both publications offer clearer priorities, allowing for more efficient resource allocation. Firms now need to translate the FCA/NCA high-level priorities and NRA findings into demonstrable actions. This includes integrating them into risk assessment methodologies, systems and controls, with annual updates to reflect revised versions of the publications, now expected to be released annually.

In parallel, the Government has taken steps to ease some regulatory burdens, freeing resources to respond to these priorities. In mid-July, the Government confirmed an increase in the thresholds for submitting a Defence Against Money Laundering (DAML) Suspicious Activity Report on a transaction from £1000 to £3000, effective from 31 July 2025 (subject to certain conditions). This provides an immediate reduction in the reporting burden on firms when processing lower value transactions. More broadly, it indicates a willingness among policymakers to revisit regulations that are demonstrably less important in delivering priority outcomes in the fight against financial crime.

However, there are some other new UK obligations that firms must address. For instance, the new UK corporate offence of failure to prevent fraud, effective from 1 September, applies to large organisations (meeting criteria) across all sectors. While FS firms always had responsibilities for tackling fraud, this fundamentally shifts corporate liability, requiring companies to proactively prevent fraud, like bribery and tax evasion obligations. For firms, this necessitates continuously updated policies and controls to respond to evolving fraud risks.

While firms continue to deploy RegTech solutions to streamline compliance efforts, in the EU, the EBA highlighted that over half of reported serious compliance failures stemmed partly from the improper use of AML/CFT RegTech tools. This underscores that RegTech, while offering compliance efficiency gains (as the EBA acknowledges), is not a silver bullet. Robust governance, including vendor oversight, safeguards for automation and testing are crucial.

The EU's new Anti-Money Laundering Authority (AMLA), in its 2025 work programme, signals a shift towards the active implementation of its expectations, particularly in the digital assets sector. AMLA expects firms seeking Markets in Cryptoassets Regulation licences to have robust AML/CFT systems from the outset. AMLA is also preparing for its direct supervisory activities (commencing in 2028), developing several standards and guidelines, including on supervisory cooperation, transaction monitoring and business-wide risk assessments. Robust horizon-scanning capabilities to monitor these developments will be crucial for ensuring timely responses.

Summer developments

- 1 July: EU AMLA 2025 work programme update.
- 17 July: UK HMT NRA of money laundering and terrorist financing risks report.
- 21 July: UK NCA system priorities report.
- 28 July: EU EBA opinion and report on money laundering and terrorist financing risks
- 31 July: UK HMT DAML Suspicious Activity Report reduced thresholds entry into force.
- 1 September: UK corporate offence of failure to prevent fraud took effect.

Watchlist: key milestones before year-end

- Q4: UK Government fraud strategy.
- TBC: UK FCA consultation on potential changes to the Strong Customer Authentication technical standards.

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This note reflects the collective insights of the EMEA Centre for Regulatory Strategy team. We would like to thank each member of the team for their contribution.

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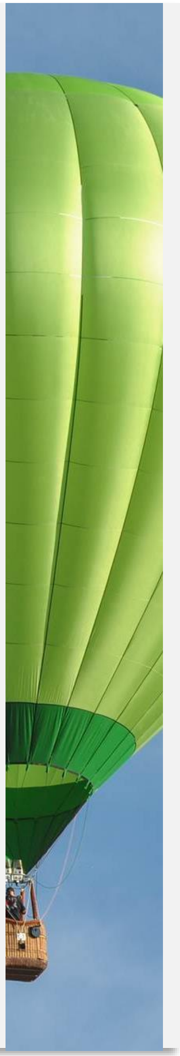

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