LATHAM & WATKINS

10 Key Focus Areas

for UK-Regulated Financial Services Firms in 2025

Focus Areas

In this publication, we explore some of the core focus areas for UK-regulated financial services firms in the year ahead. In 2024, we saw disruption to the regulatory reform agenda as the unexpected timing of the general election impacted work and publication schedules. Now that the reform agenda is back on track and aligned to the new government's plans for growth, we are likely to see improved progress on existing reforms as well as fresh initiatives in the pursuit of growth during 2025.

There is doubtless a strong focus on retail markets under the new government, but the UK's competitiveness as a place to do business remains vital as improvements to the UK's wholesale markets continue. ESG and AI continue to dominate across the sector as rapidly evolving areas that profoundly impact the regulatory landscape.

Regulatory change ahead Key stage in the regulatory change or implementation cycle Emerging trend

1. New Government

In its January 2024 Financing Growth paper, the Labour party stated that "Labour's ambition is for the FS sector to be the engine of growth in the UK economy, by providing the policy and regulatory environment it needs to compete on a global level and increase investment in the UK economy". After the new government came to power, little was said about the financial services sector until the Chancellor's November 2024 Mansion House speech (see this Latham blog post), which confirmed Labour's ambition to pursue a growth agenda in financial services.

Although the previous government also focused on growth in the financial services sector — giving the regulators a new secondary objective in relation to growth and international competitiveness — the new government's focus on growth is more wide-ranging and includes regulated firms and government alongside the regulators.

While there is a reasonable degree of continuity, and we certainly do not expect the new government to undo any of the recent reforms or to drastically change direction, it seems there will be a sharper focus on the benefits of regulation and "whether it will make our economy more dynamic and more competitive". Chancellor Rachel Reeves stated in her Mansion House speech that some post-financial crisis measures "have resulted in a system which sought to eliminate risk taking" and have "gone too far".

The new government's focus on growth is more wide-ranging and includes regulated firms and government alongside the regulators.

Key dates

Spring 2025
Government to publish Financial Services Growth & Competitiveness Strategy

Examples include elements of the SMCR and the remuneration rules, which the government and regulators are now seeking to amend (see section 10, below).

Therefore, while the government is unlikely to seek to reverse the core foundations of the regulatory regime, it will look for opportunities to change elements it considers too costly, burdensome, or disproportionate to their aim. Hopefully this approach will remove unintended consequences and ensure that regulation is more carefully calibrated. It will be interesting to see which other aspects of the regulatory regime the new government earmarks for change throughout 2025 and beyond.

It seems there will be a sharper focus on the benefits of regulation and 'whether it will make our economy more dynamic and more competitive'.

As well as focusing on the importance of pursuing domestic change, the Chancellor has emphasised the significance of global relationships. Although she does not wish to undo Brexit, the Chancellor communicated a desire to reset the UK's relationship with the EU, strengthen ties with the US, and engage with significant economies such as India, China, and the Gulf states.

Growth Mindset

The Chancellor has referred to the financial services sector as "the crown jewel in our economy" and considers it one of eight growth-driving sectors in the UK. This commitment to driving growth is demonstrated by the first-of-its-kind Financial Services Growth & Competitiveness Strategy announced at Mansion House. A short Call for Input ran last year and the full Strategy will be published this spring, which is expected to focus on five priority areas: fintech, sustainable finance, asset management and wholesale services, insurance and reinsurance, and capital markets (including retail investment).

For a government that is generally perceived to have a strong consumer focus, these areas lie distinctly on the wholesale side, continuing the previous government's objective of cementing the UK as an attractive place to come and do business. However, the new government places greater emphasis on sustainable finance than the previous government, and is planning to advance many ESG-related measures (see section 3, below).

In new remit letters issued to the regulators, the government emphasised the importance of economic growth and asked the regulators to have regard to other areas, including innovation, the UK's position as a world-leading global finance hub, sustainable finance, capital markets, and financial inclusion.

New Government

Interestingly, the government also wants to ensure that firms have a positive experience of engaging with the regulators and to reduce the administrative burden on firms as much as possible. Indeed, the Financing Growth paper previewed Labour's desire for the FCA to streamline its Handbook requirements, and the regulator is completing the first stage of this work by considering whether any retail provisions are duplicative of obligations under the Consumer Duty (see section 6, below). The FCA has indicated that it will continue this work by examining how it could streamline provisions derived from the MiFID Delegated Regulation on organisational requirements.

The government's agenda will seemingly be reflected in the FCA's own Strategy, which is due to be reset this year. A recent speech confirmed that the next Strategy will run for five years, not three, to allow the FCA more time to achieve its goals. The FCA will focus on becoming a more efficient and effective regulator, tackling financial crime, building consumer resilience, and supporting economic growth and innovation.

The government has also signalled a desire to keep a close eye on the work of the regulators: "Co-design is a cornerstone of this government's approach to policy development and delivery". This desire is perhaps driven by unwelcome surprises such as the FCA's consultation on announcing enforcement investigations (see section 9, below).

Although the new government may be seen as pretty industry-friendly, with talk of growth, increased risk-taking, and potential deregulation, firms should not forget that the government is also very focused on consumer protection. This focus could result in firms being pulled in different directions, as growth and risk-taking do not always sit easily with prioritising consumers. This tension was brought out in the FCA's response to its new remit letter, in which Nikhil Rathi highlighted "the diversity of views between those who would prefer us to invest more resource to minimise consumer losses and risk-taking, and those who want us to focus on reducing burdens on firms and supporting the growth and international competitiveness of the financial services industry".

2. Artificial Intelligence

Although the UK financial services regulators do not yet intend to introduce AI-focused regulation in the financial services sector, they continue to increase scrutiny of how firms deploy AI and its potential risks and benefits. In April 2024, the FCA and the PRA each set out their strategic approach to AI, informing the government how they would implement its cross-cutting principles for the regulation of AI. Although these documents did not divulge much new information for firms, they did provide helpful confirmation of the regulators' stance on AI. The regulators have maintained the view that their approach to AI should be pro-innovation, principles-based, and outcomes-focused. However, as AI use accelerates, the regulators could be tempted to step in before imposing regulation becomes more challenging — addressing risks before they crystallise is always easier.

Regulatory Outlook

The previous UK government's stance was not to legislate for AI. However, in July 2024, the King's Speech stated that the new government would "establish the appropriate legislation to place requirements on those working to develop the most powerful artificial intelligence models". The government is expected to propose this targeted legislation in 2025. The government is also working to remove regulatory barriers to innovation through its new Regulatory Innovation Office and to provide support for businesses.

Key dates

January 2025
FCA to host its inaugural AI Policy Sprint and a Showcase Day for its AI Spotlight

31 January 2025
Deadline for responses to questions posed by the FCA's AI Input Zone regarding use of AI in UK financial services

2 February 2025
Prohibited AI practices must be withdrawn from the EU market under the EU AI Act

2 August 2025
General purpose AI models must be in compliance with the EU AI Act

2 August 2026
Requirements for high-risk AI systems and all other remaining provisions of the EU AI Act become applicable

The regulators have maintained the view that their approach to AI should be pro-innovation, principles-based, and outcomes-focused.

In November 2024, the government announced a new AI assurance platform to give businesses access to information about actions they can take to identify and mitigate the potential risks and harms posed by AI. The government is also consulting on an AI Management Essentials tool for businesses.

While there is no new financial services regulatory framework on the horizon, AI has featured in various regulator speeches in recent months, and work on a number of AI-related initiatives continues to build momentum. Further, the new remit letters the government issued to the regulators stress that the government wants to ensure that firms can innovate and invest in new technologies, including the safe adoption of AI. This signals that, although firms may not be seeing a huge amount of output on AI from the regulators, the regulators are dedicating serious time and resource to this area as they try to navigate how the sector can reap the potential benefits without causing undue harm to consumers and markets. Last October, an FCA speech stated that "The FCA will remain vigilant, proactive and committed to enhancing AI use without sacrificing the trust and security that underpin financial services". Moreover, the Bank of England has focused on the potential ramifications for financial and market stability.

In particular, the regulators are keen to understand how firms might use AI in their businesses, and to carry out diagnostic work to better understand important use cases and consider further whether new regulation might be required in the short- to medium-term. The results from the latest machine learning survey indicate that 75% of the 120 firms surveyed were already using some form of AI in their operations, up from 53% in 2022. While many firms are using AI in lower-risk areas, such as to optimise internal processes, significant numbers are using AI to assist with customer support, risk mitigation, trading, and capital management (for more detail, see this Latham blog post).

The regulators also want to provide safe spaces for firms and innovative businesses to trial AI offerings. The FCA has participated in the Digital Regulation Cooperation Forum (DRCF), with which it launched an AI & Digital Hub in April 2024 to help innovative businesses access cross-sector guidance. The FCA also announced a new AI Lab last October, which is made up of several components. These include the AI Spotlight, designed to help firms showcase examples of how they are leveraging AI; an AI Sprint, bringing together various stakeholders to inform the FCA's regulatory approach to AI; and an online feedback platform known as the AI Input Zone.

The FCA also plans to enhance the testing capabilities of its Digital Sandbox and run further AI-focused TechSprints. This follows the success of the FCA's 2024 market abuse surveillance TechSprint, which explored how advanced solutions leveraging AI could help to detect market abuse, involving teams from the UK and other jurisdictions.

Further, the Bank of England set up an AI Consortium in late 2024, to gather input from relevant stakeholders and help inform the Bank's approach to AI. This is all important work, as results from a 2024 survey revealed that many firms are not confident the FCA can adapt its regulatory requirements to respond efficiently to innovation and new challenges.

Action Points for Firms

The regulators have helpfully indicated which existing pieces of regulation firms need to consider when using AI, as many current rules and principles are relevant to firms' deployment of AI. For now, the regulators consider that existing outcomes-focused regulation ought to suffice in ensuring that AI is used responsibly and safely. For example, firms undertaking retail business need to be particularly mindful of achieving good outcomes for customers in line with the Consumer Duty. Equally, good governance and oversight in relation to AI ought to be achieved via the SMCR.

Although there is no new framework to grasp, firms using or considering using AI within their business should expect increasing regulator interest in this area. Firms should ensure that they can explain their use of AI to the FCA (and PRA, if appropriate), justify their approach, and outline the safeguards and mitigants they have in place. Boards should also ensure that, even if they do not have a complete understanding of the technology (which is not required), they do have an appropriate level of oversight to manage the output effectively and provide challenge when needed. Firms might want to consider appointing a central person or team to approve the use of AI within the firm to ensure that measures are effective and consistent.

As with any area of rapid evolution and potential gaps in the regulatory framework, firms need to ensure they adhere to best practices and are not outliers. Historically, areas lacking clear regulation are often breeding grounds for conduct risk. Hopefully, the regulators will step in with guidance in key areas, such as indicating their expectations for senior manager responsibility under the SMCR. There could also be a role for industry bodies in filling any regulatory gaps with industry standards.

Position in the EU

The EU is taking a much more prescriptive approach to the regulation of AI under the EU AI Act (for further detail on the Act, see this Latham publication). The Act represents a holistic set of risk-based rules applicable to all players in the AI ecosystem, from providers, to deployers, to importers. The EU rules do not regulate AI technology as such; rather they are very much use case-focused, setting out stricter requirements for uses of AI systems considered to pose higher risk (including certain credit scoring, insurance pricing, and recruitment and employment use cases). The EU AI Act has a broad reach and applies to AI systems that are put on the market in the EU or used in the EU, as well as AI systems whose output is used in the EU (whether or not the AI provider or deployer is in the EU). Consequently, UK firms operating in the EU or with any EU presence need to be mindful of the EU AI Act when providing or deploying AI.

As with any area of rapid evolution and potential gaps in the regulatory framework, firms need to ensure they adhere to best practices and are not outliers.

While the full regime will not take effect until 2 August 2026, there are certain compliance milestones in 2025 relating to prohibited AI practices and general purpose AI models. UK firms must ensure they understand the implications of the Act for their businesses and how to ensure compliance.

3. ESG

2025 represents something of a watershed moment in the context of the ESG agenda, with UK financial institutions affected by mandatory ESG disclosure regimes and a reinvigorated and ambitious sustainable finance strategy under the new government. UK firms will feel the impact of the ESG focus across their enterprise-level disclosures, risk management frameworks, and product approval processes.

Enterprise-Level ESG impacts

EU Corporate Social Responsibility Directive (CSRD)

Notwithstanding that the CSRD is an EU Directive, its extraterritorial impacts (including on UK firms) are significant. From 1 January 2025, we will start to see financial institutions publishing CSRD reports as part of or alongside their Annual Management Reports (see this Latham blog post). With 1,000+ ESG data points to consider reporting on, this will represent the most significant ESG reporting that financial institutions have experienced to date. Many financial institutions operating in and based in the UK find themselves in scope, whether directly or as part of their parent entity's requirements.

UK firms will feel the impact of the ESG focus across their enterprise-level disclosures, risk management frameworks, and product approval processes.

Key dates

Early 2025
Government to lay legislation to bring ESG ratings providers within scope of regulation, following which the FCA will consult on its related rules and guidance

6 February 2025
UK Green Taxonomy consultation closes for comment

Q1 2025
PRA to update SS3/19 on the management of climate-related risks; UK government aims to consult on exposure drafts of UK SRS

April 2025
The FCA's temporary extension for complying with the SDR naming and marketing rules expires

1 May 2025
ESMA Guidelines on funds' names using ESG or sustainability-related terms apply to pre-existing funds

Q2 2025
FCA expected to consult on disclosure rules referencing the ISSB Standards and on transition plan disclosures for listed companies; FCA to publish final rules on its SDR for portfolio managers; FCA and PRA to set out next steps on their diversity and inclusion reporting proposals

Mid-2025
European Commission may publish a report on the SFDR level 1 review

H2 2025
The FCA is anticipated to extend the SDR to apply to the overseas funds regime (subject to consultation)

2 December 2025
Ongoing SDR product- and entity-level disclosures for firms with AUM >£50 billion take effect

2 July 2026
EU ESG Ratings Regulation to apply

Mandatory TCFD Regime

The UK TCFD-aligned climate-related financial disclosures (contained in the Companies Act, the UK Listing Rules, and the FCA's ESG Sourcebook) continue to expand in scope. The FCA introduced a mandatory TCFD disclosure regime for premium listed companies in December 2020. This was extended in January 2022 to large UK asset managers; in April 2022 for many other UK companies and financial institutions; and to all asset managers in January 2023. In 2025, mandatory TCFD-aligned disclosures will roll out across the whole economy, forming the bedrock of climate disclosure that will then be supplemented by the broader sustainability disclosures referenced below.

Transition Plans

The UK Transition Plan Taskforce (TPT) first released its Disclosure Framework in October 2023. In April 2024, the final set of transition plan resources featuring sector-specific guidance documents were made available (including for banks, asset managers, and asset owners). The Disclosure Framework aims to support consistent disclosures from companies under the International Sustainability Standards Board (ISSB) Standards and the European Sustainability Reporting Standards (ESRS). The TPT Disclosure Framework is also expected to play a role in the forthcoming UK Sustainability Reporting Standards (UK SRS) (see below).

UK SRS

In the first half of 2025, we expect HM Treasury to consult on sustainability disclosure requirements that could come into effect as early as 2026. The UK SRS are expected to be based on the ISSB Standards and, therefore, may offer an opportunity for UK companies to comply with a globally harmonised set of sustainability disclosure standards. This is notable for UK firms operating as part of large global groups that may already be preparing to adopt the internationally recognised ISSB Standards on a voluntary basis, and demonstrates the UK's stated intention to align with other major economies.

UK Green Taxonomy

Investors use green taxonomies to identify economic activities considered environmentally sustainable. Following the lead of the EU, certain countries around the world are now developing their own green taxonomies. On 14 November 2024, HM Treasury launched a consultation on the value case for a UK Green Taxonomy — specifically, whether it would complement existing sustainable finance policies by supporting market participants to make sustainable investment decisions, and the specific market and regulatory use cases facilitating that support. The consultation will inform an assessment of the value of implementing a UK Green Taxonomy, and determine exactly how it could be targeted to ensure maximum effectiveness.

A green taxonomy is intended to assist in addressing perceived greenwashing and channelling investment to more sustainable activities. However, the UK's considered approach mirrors the wider challenge many countries have faced in developing a national level taxonomy that is: (i) interoperable with other countries' own taxonomies; and (ii) developed gradually to facilitate coordination with attempts to align to an international standard.

Diversity and Inclusion

Also in 2025, we expect an update from the PRA and FCA on diversity and inclusion. In September 2023, the FCA and PRA published consultation papers outlining new proposals to boost diversity and inclusion across the financial services sector (see this Latham Client Alert). This consultation stalled as a result of the House of Commons Treasury Committee's Sexism in the City inquiry, which raised concerns about collecting and reporting on data and the need to set targets. We will see how the new government's own legislative plans for a Race Equality Act and ethnicity equal pay rights shape the regulators' plans in this context.

ESG Products

UK Sustainability Disclosure Requirements (SDR)

The SDR regime outlines four sustainability product labels that can be applied to investment vehicles manufactured by UK managers of retail funds, along with product- and entity-level disclosures. The regime is accompanied by an anti-greenwashing rule, which is applicable to all regulated firms.

The SDR came into force on a phased basis throughout 2024:

- 31 May 2024: Anti-greenwashing rule
- 31 July 2024: Product labels
- 2 December 2024: Naming and marketing rules (subject to some temporary forbearance)

The phased implementation will continue throughout 2025, including extension to portfolio managers and overseas funds (subject to consultation). Meanwhile, in the EU, the European Commission continues to consider potential reforms to the Sustainable Finance Disclosure Regulation (SFDR). It seems likely that the EU will follow the UK's lead and pivot towards a labelling, rather than disclosure-based, regime.

ESG Ratings

In November 2024, HM Treasury laid out the future regulatory regime for ESG ratings (see this Latham blog post). Secondary legislation will be introduced to expand the regulatory perimeter in the FSMA 2000 (Regulated Activities) Order 2001 (RAO) to capture the activity of "providing ESG ratings", including ratings produced in the UK and ratings produced overseas that are made available to UK users by way of a business relationship. Affected ESG ratings providers will need to obtain authorisation from the FCA and comply with the regulatory regime, as prescribed by the FCA.

A "regulated products and services" exclusion has been established to exempt firms from needing to apply for permission to provide ESG ratings when they create an ESG rating as part of the development and delivery of another regulated activity for which they are authorised. If ESG ratings are created in this way, the provider will not be required to apply for permission to provide ESG ratings, as long as those ESG ratings are not also provided as a standalone product or service. This exclusion will apply in respect of any product or service that is regulated by the FCA (notably, funds, benchmarks, research, and credit ratings).

The overall process of designing, developing, and commencing the ESG ratings regulatory regime in the UK is expected to take approximately four years. Therefore, firms that consider themselves in scope of the UK proposals have time to consider their global ESG rating distribution strategy, which will necessarily require waiting for more information from both HM Treasury and the FCA on their plans for overseas ratings providers.

4. Edinburgh Reforms

Progress to Date

The Edinburgh Reforms have been the focus of the regulatory reform agenda for the past two years, although a significant number of the 31 measures still remain outstanding (see this Latham publication, which outlines the status of all of the reforms as at 9 December 2024). The reforms were announced in December 2022 and progressed at a reasonable pace before progress stalled somewhat during 2024, in part due to the general election. Publications on a number of measures were due in the second quarter of 2024 but they were delayed, introducing uncertainty over next steps. It took HM Treasury and the regulators until the autumn to really pick up their publication schedule, meaning many areas of progress expected during 2024 have been pushed into 2025.

The Chancellor's Mansion House speech in November 2024 outlined a new agenda for financial services (see this Latham blog post). While the new government is expected to see through the outstanding elements of the Edinburgh Reforms given that they align with the government's plans for growth, it is worth bearing in mind that Mansion House is now the new benchmark for the regulatory reform agenda. Therefore, going forward, the government's achievements in relation to financial services are more likely to be judged against the goals outlined in Rachel Reeves' Mansion House speech than they are against the Edinburgh Reforms package.

Key dates

Early 2025
Government to lay legislation to bring ESG ratings providers within scope of regulation, following which the FCA will consult on its related rules and guidance; FCA to publish a further consultation on the CCI regime

13 February 2025
Advice Guidance Boundary Review consultation on targeted support for pension savers closes

17 February 2025
FCA consultation on PISCES closes for comment

20 March 2025
FCA consultation on the CCI framework closes for comment

Q1 2025
FCA to publish two further consultations on the new prospectus regime; FCA, PRA, and HM Treasury expected to consult on reforms to the SMCR

By May 2025
HM Treasury to legislate for PISCES, following which the FCA will finalise its rules and launch the PISCES sandbox

H1 2025
FCA consultation on transaction reporting; Advice Guidance Boundary Review consultation on retail investments; FCA to finalise rules for the new prospectus regime

H2 2025
Consolidated tape for bonds expected to be operational

Later in 2025
FCA to consult on proposals for a consolidated tape for equities

The government's achievements in relation to financial services are more likely to be judged against the goals outlined in Rachel Reeves' Mansion House speech.

That said, many of the outstanding measures are, in fact, some of the most important. While the previous government ticked off several quick wins early on, arguably these did not have a significant impact. More complex and multi-stage reforms have taken longer to develop, and in many cases are now well progressed. Key progress in 2024 included:

- the Financial Market Infrastructure Sandbox being implemented and open for applications
- the finalisation of the framework for a UK consolidated tape for bonds
- changes to the FCA's rules on research unbundling
- FCA consultations on the new UK prospectus regime, targeted support for pensions savers under the Advice Guidance Boundary Review, rules for the Consumer Composite Investments (CCI) regime, and rules for PISCES
- the government taking the next steps towards regulating ESG ratings providers

Next Steps

This year, we expect to see the FCA finalise the new UK prospectus regime, along with a new public offer platform. Progress is also expected on PISCES, the intermittent trading venue, with the government aiming to have the relevant legislation in place by late spring, and the FCA planning to finalise its rules and launch the PISCES sandbox shortly thereafter. The FCA is due to consult on rules for the new regulatory regime for ESG ratings providers and for the parts of the short selling regime for which it will have responsibility. Further, the FCA is expected to finalise its rules for the new CCI regime in 2025. The long-awaited FCA, PRA, and HM Treasury consultations on reforms to the SMCR are also expected early this year.

After a slow start, the Advice Guidance Boundary Review is picking up pace, with a further consultation on retail investments planned. Also on the retail side, although the timing is unclear, the government is expected to set out more detailed plans for its review of the consumer credit regime.

The government and the FCA have already done a great deal of work in amending, repealing, and restating parts of MiFID II. The FCA is currently considering significant changes to the transaction reporting regime, and is due to publish a full consultation in the first half of this year. Further, the FCA plans to engage on potential design options for a consolidated tape for equities early this year, with a view to publishing a consultation later in the year.

However, next steps in relation to investment research remain unclear. Indeed, although the government accepted all seven recommendations of the Investment Research Review, only one of the recommendations has been taken forward so far (changes to the unbundling rules, which were less ambitious than some had predicted) and nothing further has been communicated regarding next steps for the others.

Finally, this year, the government and the regulators will also progress more files of assimilated law for repeal and restatement. In addition to the files mentioned above, the PRA is focusing on restating parts of the Capital Requirements Regulation not related to Basel 3.1 implementation, and work is due to commence on the next priority areas: the AIFMD, the UCITS Directive, EMIR, and the payments and e-money regimes. There are still a number of important outstanding files, and hopefully HM Treasury will outline the next set of files to be tackled soon.

It will be interesting to see whether the outstanding reforms take on a more ambitious stance under the new government.

While it seems the new government is happy to advance the outstanding reforms, the direction of some of these reforms may differ slightly in light of the government's strong focus on growth (see section 1, above). There has been an impression amongst industry and within the government that many of the reforms promised big but delivered small, and so it will be interesting to see whether the outstanding reforms take on a more ambitious stance under the new government.

5. Wholesale Markets

In the wholesale sector, work has continued on bolstering capital markets and reviewing key assimilated law. One of the key priorities in the FCA's latest business plan was strengthening the UK's position in global wholesale markets, where major reforms have already been made and further reforms are in the pipeline. The new government is retaining a strong focus on this area, which it sees as key to unlocking growth (see section 1, above).

One of the key priorities in the FCA's latest business plan was strengthening the UK's position in global wholesale markets.

Capital Markets

The new UK listing regime was finalised and took effect in July 2024 (see this Latham Client Alert). The overhaul represents a return to a disclosure-based approach to the listing regime, particularly in relation to significant transactions and controlling shareholders. The new rules are responsive to the twin imperatives of maintaining appropriate regulatory standards while accommodating the needs of issuers and the asks of investors.

To complement the listing reforms, the FCA has also been working on reforming the UK prospectus regime — the legislation which has been in place since early 2024 (The Public Offers and Admissions to Trading Regulations 2024).

Key dates

14 February 2025
Deadline for responding to FCA Discussion Paper on transaction reporting

17 February 2025
FCA consultation on PISCES closes for comment

28 February 2025
Responses due to consultation elements of CP24/24 on the MiFID Delegated Regulation on organisational requirements

28 March 2025
Responses due to discussion element of CP24/24 on the MiFID Delegated Regulation on organisational requirements

31 March 2025
Trading venues will no longer need to apply pre-trade transparency to voice and RFQ trading; SIs in bonds and derivatives will no longer need to provide public quotes

Q1 2025
FCA to publish two further consultations on the new prospectus regime; PRA to consult on restating parts of the MiFID Delegated Regulation on organisational requirements in its rules

By May 2025
HM Treasury to legislate for PISCES, following which the FCA will finalise its rules and launch the PISCES sandbox

Q2 2025
FCA intends to publish a consultation on the future of the SI regime

H1 2025
FCA consultation on transaction reporting; FCA to finalise rules for the new prospectus regime

H2 2025
Consolidated tape for bonds expected to be operational; PRA and FCA expected to publish Policy Statements on the MiFID Delegated Regulation on organisational requirements

Later in 2025
FCA to consult on proposals for a consolidated tape for equities

1 December 2025
Most changes to the transparency regime for fixed income and derivatives markets take effect; new SI definition to take effect

The FCA has consulted on the revised prospectus regime (see this Latham blog post) and hopes to finalise the rules by the middle of this year. As with the listing regime, the FCA is pursuing ambitious reforms with the hope of bolstering UK markets, proposing to reduce the instances in which prospectuses are required for further issuances. Further, the FCA is also devising a regime for public offer platforms, which are a new type of market that could be used by unlisted companies looking to raise capital in excess of £5 million from retail investors.

A further innovation in this area is the work on the intermittent trading venue, PISCES. The new government has committed to continuing this work and intends to make the necessary legislation by May 2025 (see this Latham blog post). PISCES was originally intended for implementation by the end of 2024, but the election hampered progress on the consultation. However, the government is now keen to make swift progress and has decided to simplify the regime by applying bespoke disclosure arrangements rather than trying to apply the existing market abuse regime. The FCA launched its consultation on the rules for PISCES late last year, including the proposed disclosure requirements (see this Latham blog post). PISCES will run as a temporary sandbox for five years, but could be converted to a permanent regime, depending on its success.

MiFID II

HM Treasury and the FCA continue to repeal and restate MiFID II, undertaking the work in stages due to the volume of legislation and rules. Last year, the FCA finalised changes to the rules on non-equity transparency, most of which will come into effect on 1 December 2025. These changes will significantly simplify the regime by reducing the instruments in scope of pre- and post-trade reporting. At the same time, the FCA launched a discussion on the future of the systematic internaliser (SI) regime; the regulator will follow up with a consultation this year and aims to finalise any changes in time for the revised SI definition to take effect on 1 December 2025. This links into conceptual considerations around the trading venue perimeter and whether the line is drawn effectively.

HM Treasury and the FCA also launched the next stage of work on MiFID II, focusing on transaction reporting and the MiFID Delegated Regulation on organisational requirements. The recent FCA Discussion Paper on transaction reporting suggests that the FCA is considering a significant overhaul of the regime (see this Latham blog post), whereas the consultation on the MiFID organisational requirements focuses on moving across obligations into the FCA Handbook with no real policy change (although the discussion element of the paper does consider potential future reforms).

The PRA is also due to consult on restating parts of the MiFID Delegated Regulation on organisational requirements in the first quarter of this year.

The UK continues to chart its own course on MiFID II, focusing on what will work best for UK markets. While the EU revamped some of the markets provisions, its current and primary focus is finalising the Retail Investment Strategy package of reforms. Consequently, approaching EU and UK MiFID as parallel regimes is becoming increasingly difficult. Even when both sides seem to be targeting broadly the same reforms, these do not end up aligning.

This is evident in the area of investment research, as both jurisdictions finalised their changes to the rules on research unbundling last year. While the EU is permitting full rebundling, subject to certain parameters, the UK changes come with prescriptive guardrails that mean full rebundling is impossible (see this Latham blog post). The UK changes resulted from the recommendations of the Investment Research Review, which provided six further recommendations for the government, the FCA, and industry, such as setting up a research platform and clarifying FCA rules on investment research. Although the government accepted all of these recommendations, they have not advanced as yet. Hopefully we will hear more about next steps this year.

On short selling, the FCA needs to consult on its rules which will set out much of the crucial detail. It is hoped that the new regime will be finalised this year.

MAR

Work on repealing and restating MAR in the UK has not yet begun, but while we do not currently have insight into potential future changes to the regime, we would not expect them to be fundamental. In the EU, the Listing Act has made some notable tweaks to EU MAR, in particular in relation to buy-backs, market soundings, PDMR transactions, and insider lists. Changes meaning that issuers need not disclose inside information relating to steps in a protracted process will not take effect until mid-2026.

Reform aside, supervision and enforcement of the regime continues to develop. In June 2024, ESMA set out expectations for how issuers handle calls with analysts ahead of MAR closed periods, in light of potential concerns in this area (see this Latham blog post). There is historical UK regulatory guidance on the same issue, and, in a similar vein, the FCA recently used Primary Market Bulletin 52 to ensure issuers are mindful of the information they disseminate during shareholder communications, particularly during private communications with smaller shareholders.

More generally, the FCA remains focused on how it can leverage technology to detect market abuse, and continues to pursue suspected market abuse as an enforcement priority (see section 9, below). The FCA also highlighted that it has increased monitoring of fixed income and commodities markets. The regulator has reiterated many times that firms do not seem to be as conscious of the regulatory obligations in these markets.

Lastly, the regulatory debate over pre-hedging continues. IOSCO published a consultation in November 2024, which aims to produce a set of agreed industry recommendations to support the establishment of acceptable market practices in relation to pre-hedging.

This followed a Financial Markets Standards Board spotlight review on pre-hedging in July 2024, which was intended to contribute to the industry debate but not codify standards of behaviour. The final output from the IOSCO paper is expected this year; the output may finally result in an agreed approach, although presumably not without some controversy.

6. Retail Markets

The FCA remains heavily focused on consumer protection, and rules in retail markets are becoming increasingly complex, whilst also impacting more firms. Many retail rules capture firms in the wholesale sector because they are part of the distribution chain, and firms are finding it increasingly difficult to scope themselves out of retail measures.

Rules in retail markets are becoming increasingly complex, whilst also impacting more firms.

The Consumer Duty is a good example of this, with many firms that do not consider themselves as truly serving retail customers caught to some degree.

Although the new government is focused on regulating for growth and increasing risk-taking (see section 1, above), it also has a strong focus on consumer protection and financial inclusion. It will be interesting to see how the government and the FCA try to reconcile these sometimes competing aims.

Consumer Duty

By far the biggest change for firms from a retail perspective has been the introduction of the Consumer Duty. 31 July 2024 marked one year since the Consumer Duty came into force for new and open products and services, as well as the deadline for closed products and services and preparing the first annual board report.

Key dates

Early 2025
FCA to publish a further consultation on the CCI regime

13 February 2025
Advice Guidance Boundary Review consultation on targeted support for pension savers closes

20 March 2025
FCA consultation on the CCI framework closes for comment

Q1 2025
FCA to publish findings from its review of firms' treatment of vulnerable customers; PRA consultation expected on review of the FSCS deposit protection limit; HM Treasury to finalise BNPL legislation and FCA to consult on related rules

1-3 April 2025
Supreme Court to hear appeals in motor finance cases

May 2025
FCA to set out next steps in its review into the past use of discretionary commission arrangements in the motor finance industry

H1 2025
FCA to provide feedback on its review of retail conduct rules in light of the Consumer Duty; next steps to be published following joint FCA and FOS Call for Input on modernising the redress system; Advice Guidance Boundary Review consultation on retail investments

4 December 2025
Deadline for motor finance firms to respond to customer complaints regarding discretionary commission arrangements

Now, firms are moving into business-as-usual mode and need to consider how to ensure ongoing compliance with the Duty (see this Latham publication).

The FCA has provided numerous pieces of feedback on the Consumer Duty to date, helping firms to understand good and poor practices and to identify areas for improvement. The FCA plans to continue with a range of thematic, multi-firm, and market-wide work, in accordance with its recently published workplan. Firms should ensure they have processes in place to carefully review and act on relevant feedback.

Historically, the FCA's publications have focused heavily on the treatment of vulnerable customers, and feedback from the FCA's review into the treatment of vulnerable customers is due early this year. The FCA also brought enforcement action against three firms in 2024 for their treatment of customers in financial difficulties. The Final Notices pinpointed in particular the firms' treatment of vulnerable customers. Although these cases pre-dated the Duty, they give a good indication of the FCA's expectations and set a high bar for firms. Therefore, firms should watch developments closely. Firms should also be mindful of the price and value outcome under the Duty to ensure they are meeting the FCA's expectations, as this is another challenging area.

Last year, the FCA launched a review of retail conduct rules in its Handbook in light of the Consumer Duty. The FCA is aiming to streamline the Handbook by assessing whether specific rules are duplicative of the high-level obligations under the Duty. How the FCA takes this forward, and which areas it considers can rely on outcomes-focused regulation rather than detailed rules, will be of great interest. While streamlining the Handbook would certainly be beneficial in places, there are many areas in which firms may rather keep more prescriptive requirements to provide certainty about regulatory expectations.

Motor Finance

The FCA's work in relation to commissions in the motor finance industry continues to grow in importance, particularly following the Court of Appeal decisions last autumn that extended the concerns to non-discretionary commissions and signalled potentially broad ramifications for the use of commissions in various contexts. This year, stakeholders are hoping for clarity on determining when commission agreements may be problematic, as well as on key outcomes (for example, on any FCA-initiated redress scheme) and next steps. The Supreme Court will hear the appeals from the Court of Appeal decisions at the start of April 2025, with its judgment eagerly awaited.

Linked to this, the FCA and the Financial Ombudsman Service (FOS) will continue their work on modernising the redress system, which aims to help the FOS better handle mass redress events.

Retail Investments

Stakeholders are waiting for the government and FCA to scrap the PRIIPs regime and replace it with the new Consumer Composite Investments (CCI) regime. Although this was announced as a priority under the Edinburgh Reforms, progress has taken longer than expected. The FCA finally published a consultation on its rules for the regime late last year, in which it seeks to address various issues with the scope of the PRIIPs regime. It also proposes to remove the requirement for manufacturers to provide a PRIIPs KID, instead giving them flexibility to produce their own product summary. A further consultation on consequential amendments and transitional arrangements will follow early this year. The FCA plans to finalise its rules in 2025, but the exact timing is not yet known.

HM Treasury and the FCA have also picked up the pace on the Advice Guidance Boundary Review, seeking to close the so-called "advice gap". They issued a Discussion Paper in 2023, which sought to explore various options for how authorised firms can provide more support to customers without providing regulated advice (see this Latham blog post).

Now they are moving forward with a consultation exploring how targeted support might be provided to pension savers, with a further consultation on retail investments due in the first half of this year. The latter will include draft rules and guidance that will apply across retail investments and pensions.

Consumer Credit

The review of the Consumer Credit Act 1974 is another area of focus that formed part of the Edinburgh Reforms but has now stalled. Following a high-level initial consultation, the government was expected to issue a second-stage consultation last year with more detail on how it intends to pursue ambitious reform of the regime. This has not yet materialised, but hopefully work will progress this year as the regime doubtless requires reform. After a long period of uncertainty, the new government is pushing ahead with the regulation of Buy-Now-Pay-Later (BNPL) products, with legislation expected to be made early this year. The FCA will then be able to consult on its rules, with a view to implementing the regime in 2026, bringing welcome certainty to an area that has long been earmarked for regulation.

7. Basel 3.1 Implementation

The Basel 3 reforms to bank capital requirements were devised after the 2007-2008 financial crisis to help ensure that banks and their supervisors addressed weaknesses exposed by the crisis. The Basel Committee on Banking Supervision (BCBS) prepared various improvements to the regime, which were implemented over a number of years.

The last of these post-crisis reforms were finalised in 2017, with new standards for the calculation of capital requirements for credit risk, credit valuation adjustment risk, and operational risk. They also included a revised leverage ratio, a leverage ratio buffer, and an output floor.

This final set of reforms is often referred to as Basel 3.1 or the Basel III Endgame, and was originally intended for implementation in January 2022 but delayed to January 2023 because of the COVID-19 pandemic.

Uncertainties regarding the approach to and timing of implementation in these major jurisdictions have caused challenges for global banks preparing for the new rules.

Key dates

Q1 2025
PRA intends to issue a Policy Statement containing all final policy materials for Basel 3.1 implementation in the UK

1 January 2026
UK implementation date for Basel 3.1; EU implementation date for delayed market risk provisions

1 January 2030
End of UK transitional implementation period

While many jurisdictions have finalised and implemented these standards, adoption in the UK, EU, and US has been further delayed. Uncertainties regarding the approach to and timing of implementation in these major jurisdictions have caused challenges for global banks preparing for the new rules. The path is now clearer in the UK and EU at least with final measures and implementation dates confirmed during 2024. Therefore, 2025 promises to be a critical year for banks adjusting to the new regime.

UK

The PRA's final measures for UK banks were delayed by the general election in July 2024, sparking debate that the regulator might push back the planned UK implementation date. This speculation turned out to be correct, and when the PRA published its second near-final Policy Statement in September 2024 it also delayed the UK implementation date by six months to 1 January 2026. However, the PRA has maintained the end of the transitional period as 1 January 2030, meaning a slightly shorter transition for firms.

The final UK package includes some substantial changes from the consultation, with more leniency in some areas. In finalising the UK measures, the PRA has been particularly mindful of its secondary objective to promote international competitiveness and growth.

Therefore, the regulator listened to industry feedback and made some notable adjustments, including reducing capital requirements in relation to SME lending and infrastructure lending, introducing a more risk-sensitive approach to the valuation of residential real estate, and adjusting the approach to calculating the output floor. The PRA tried to take a pragmatic approach, which is not overly conservative and will not put UK banks at a disadvantage in comparison with their peers in the US or EU. It considers that the UK measures will result in a very minimal increase to bank capital levels in the UK overall.

The final UK package includes some substantial changes from the consultation, with more leniency in some areas.

Banks will need to spend 2025 preparing for implementation of the final measures, as well as monitoring HM Treasury and the PRA's wider work on repealing and restating the Capital Requirements Regulation (CRR). For example, the PRA has consulted on the definition of capital, streamlining the Pillar 2A capital framework, implementing changes to the large exposures framework, and restating elements of the CRR not related to Basel 3.1 implementation in the PRA Rulebook.

The PRA is also working on finalising its new Strong and Simple regime for smaller, domestic banks, which is based on the Basel framework but aims to take a proportionate approach suited to smaller market players. Following this work, the UK prudential regime for banks will look and feel quite different to the CRR regime inherited post-Brexit.

EU

The EU finalised its Basel 3.1 implementing measures in 2024, forming part of the so-called CRR3 legislative package. The EU chose to stick with an implementation date of 1 January 2025; however, it split the package by also introducing a delayed implementation date of 1 January 2026 for the market risk prudential requirements (referred to as the Fundamental Review of the Trading Book or FRTB). As in the UK, the EU package is subject to various transitional arrangements. The EU is keeping a close eye on developments in the US, and the European Commission has the power to further delay these measures if it considers this necessary to assist with international alignment.

This split implementation has increased complexity in the EU, as not only is part of the package delayed, but banks also need to make adjustments to parts of the main package during 2025 where those parts interact with the delayed provisions.

US

In the US, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation (FDIC) have been considering many negative comments on their 2023 proposed rule on Basel implementation. The election of President Donald Trump has likely delayed an issuance of a re-proposed rule until after his appointees to the FDIC Board of Directors and OCC have assumed their positions in 2025. Although a re-proposal will reduce the amount by which required bank capital must increase when compared with the original 2023 proposal, continued lobbying by the banking industry is expected, with a principal goal of ensuring that US implementation does not prejudice US banks as compared to their non-US competitors.

In addition, a re-proposal, unlike the original 2023 proposal, will almost assuredly focus capital increases on the largest, most internationally active US banks, with domestic regional and community banks largely or totally exempt. The bulk of any capital increases is highly likely to fall upon capital markets, trading, and derivatives activities, including through the implementation of the Basel FRTB provisions. Any re-proposal will be subject to public notice and comment requirements, which means that any implementation rule will not be finalised before the second half of 2025. Like the UK and EU, transitional arrangements are expected before full implementation takes place.

8. Operational Resilience

Operational resilience is not a new area of focus for the UK financial services regulators, but it is becoming increasingly important as operational disruptions occur more frequently and carry greater risk. In its annual report for 2023/24, the FCA highlighted that the number of operational disruptions reported to the regulator in 2023 had risen to 1,018, compared to the previous high of 785 in 2022.

The challenges presented by operational resilience over recent years have intensified and become more complex. There are many reasons for this, but the increase in the reliance on technology and sophisticated systems means that operational disruptions are more likely to occur. The growth in the use of AI and its potential within the sector also pose unique challenges. The regulators introduced the new operational resilience framework to try and address some of the challenges firms are facing, including fostering the mindset within firms that incidents will occur and they need to be able to respond effectively.

The challenges presented by operational resilience over recent years have intensified and become more complex.

Key dates

13 March 2025
PRA and FCA consultations on operational incident and third-party reporting close for comment

31 March 2025
Deadline for firms to remain within their impact tolerances

H2 2025
PRA and FCA to publish Policy Statements on operational incident and third-party reporting

New Framework

Firms within scope of the new framework should by now be ready to meet the final deadline of 31 March 2025, by which time they must have carried out mapping and scenario testing to a level of sophistication that enables them to remain within the impact tolerances they set for their important business services. However, firms should be mindful that their work is not complete after this date, and they must ensure that operational resilience is embedded into their culture. The regulators expect firms to consistently review important business services and impact tolerances, improve the quality of their mapping and scenario testing, and scan for new and emerging risks.

The FCA recently offered feedback to firms on their response to an operational incident involving a third party that affected many firms across the sector. The FCA used this opportunity to emphasise that firms that had thoughtfully applied the new framework fared better when faced with operational disruption. It also highlighted a continued trend of third-party related incidents, which firms must be mindful of when assessing their operational resilience.

One important factor for firms to consider this year is how they can continually increase the sophistication of their testing plans. They should be refreshing their severe but plausible scenarios regularly.

Firms must push themselves with their testing, thinking about scenarios that are likely to cause them to breach their impact tolerances so they really understand the limits of when they will or will not be able to remain within the tolerances they have set.

One important factor for firms to consider this year is how they can continually increase the sophistication of their testing plans.

The new framework is heavily outcome-focused and judgement-based. Due to the wide discretion afforded to firms, previous FCA and PRA feedback suggested that the regulators have seen significant variation in practices. While in some circumstances this is justified based on firms' business models, in others it may be difficult to defend. For example, firms setting impact tolerances for very similar or identical important business services with different temporal limits.

Now that firms are entering into the business-as-usual phase of the regulatory change cycle, the regulators might wish to take stock again of how well firms have managed their implementation — and we expect to see supervisory work in this area.

Hopefully, firms will receive more guidance in 2025 regarding regulatory expectations as well as further examples of good and poor practices. Benchmarking is just as important for firms as for the regulators in this area.

For firms not subject to the specific regulatory framework on operational resilience, this topic still remains important as all firms face the challenge of operational disruptions. The FCA stated that it may extend the regime in future, though it is not expected to revisit this statement until the initial rollout is complete. For now, the FCA encourages firms outside the scope of the new regime to apply some or all of the elements on a voluntary basis. For example, many firms could sensibly identify some important business services and set appropriate impact tolerances. Firms would also do well to plan a communications strategy to deploy in the event of an operational disruption.

Related Measures

The FCA and PRA are currently consulting on requirements around operational incident reporting and third-party reporting (see this Latham blog post). They propose to introduce an agreed definition of an operational incident, and to require firms to submit standardised reports on incidents that breach certain reporting thresholds.

This is to help ensure that the regulators receive consistent notifications about such incidents. The regulators also propose to require that larger firms, or those with the highest market impact, report material third party arrangements to the regulator(s), to help the regulators have better visibility of connections between third parties and the financial services sector. Firms would be required to notify material arrangements, regardless of whether or not these constitute outsourcing arrangements.

Closely linked to the above, the regulators have also finalised their framework for Critical Third Parties (CTP), which came into effect on 1 January. The regulators have been given new powers to oversee certain aspects of CTPs — this is not a full authorisation regime, but it will require any CTPs designated by HM Treasury to comply with a set of Fundamental Rules and more detailed Operational Risk and Resilience Requirements (see this Latham blog post).

Now that the regime is finalised, it will be interesting to see how quickly HM Treasury moves to designate any CTPs, as recommended by the regulators — the decision is likely to be just as political as it is regulatory. The Bank of England has also indicated that, depending on how the use of AI evolves, it may be necessary to think about extending the regulatory perimeter in order to impose certain requirements directly on AI model providers.

Operational Resilience

Regulated firms should remember that oversight of a CTP by the regulators does not absolve the firm of any of its regulatory responsibilities when relying on the services of a CTP.

Operational resilience is not just a concern in the UK, and UK firms that have operations in the EU will also need to be mindful of DORA (the new EU Digital Operational Resilience Regulation), which takes effect on 17 January 2025 (see this Latham blog post). DORA represents the EU's attempt to mitigate the digital operational resiliency risks (for example, the impact of cyberattacks and software malfunctions) arising from the financial services sector's increasing reliance on technology and, in particular, a small number of core ICT providers.

9. Enforcement Trends

Announcing Investigations

The FCA's Joint Executive Directors of Enforcement and Market Oversight, Therese Chambers and Steve Smart, have provided a greater insight into what to expect in future. The key development for 2024 was the FCA's consultation on announcing enforcement investigations (see this Latham blog post), which was particularly badly received by the industry. The previous government was so concerned by the proposals that the Financial Services Regulation Committee opened an inquiry and ordered the FCA not to progress its policy work until it had taken evidence. The reconstituted Committee reopened the inquiry shortly after the general election in order to continue this work, and subjected the FCA to a challenging evidence session.

The FCA toned down its original proposals and addressed the key criticisms in its second consultation (see this Latham blog post), specifically noting it will consider the potential impact on the firm when deciding whether or not to announce, and allowing firms more time to consider a proposed announcement and make representations to the FCA. However, firms will still be concerned about the circumstances in which the FCA might announce enforcement investigations in future. The FCA board intends to decide on the changes in the first quarter of this year, and it will be interesting to see where the FCA lands and how any changes affect its approach.

Key dates

Q1 2025
FCA to publish final approach on announcing enforcement investigations; FCA expected to publish final guidance on non-financial misconduct

Common Areas for Enforcement

Separately, there has been a pronounced focus on financial crime from the FCA. Indeed, Therese Chambers stated that reducing and preventing serious harm from financial crime will remain a key pillar in the FCA's next strategy (which is due this year). Anti-money laundering and MAR systems and controls failings remain ripe areas for enforcement action, particularly among newer businesses and fintechs who may not have the resource or experience to ensure systems fully meet regulatory expectations. Anti-money laundering remains a difficult area, with the FCA telling firms they must not take an overly restrictive approach while also fining them for not having sufficiently robust controls. As well as focusing on familiar areas, the FCA has recently trodden some new enforcement ground, taking action against audit firms for the first time as well as bringing criminal charges against a group of "finfluencers" for unlawful financial promotions.

However, some key areas of the regulatory landscape are lacking in demonstrative enforcement action, including the Consumer Duty, ESG-related concerns such as greenwashing, and the SMCR. We will be alert to potential action in these areas throughout 2025. The FCA has been clear that it will only take action in relation to the Consumer Duty if it sees firms failing to make best efforts to comply, rather than for inadvertent breaches as the new obligations bed in.

Firms in the retail sector should note that the FCA took action against three firms in 2024 for their treatment of customers in financial difficulties. Although the issues pre-dated the Consumer Duty, these cases had a distinct flavour of the Duty about them and contain important learnings for firms.

Some key areas of the regulatory landscape are lacking in demonstrative enforcement action.

After some uncomfortable defeats in the Upper Tribunal in 2023, the FCA fared much better in 2024 with some success and far less criticism. The FCA's new guidance on non-financial misconduct may help to draw more distinct lines in difficult cases in this area, thereby leading to clearer outcomes. Doubling down on undesirable conduct and improving culture is likely to be high on the FCA's agenda following the findings of the Sexism in the City inquiry (see this Latham blog post) and the results of its survey on non-financial misconduct in the wholesale sector (see this Latham blog post). Both found room for improvement, with results from the survey indicating a significant increase in the number of non-financial misconduct allegations reported to firms during the period surveyed.

Approach to Enforcement

The FCA is now trying to focus on bringing fewer but more impactful enforcement actions. According to Therese Chambers, “It’s about making a conscious decision to identify cases where we believe there may be conduct creating the greatest risk of harm, and where an investigation is most likely to drive the greatest deterrence”.

FCA is trying to progress legacy cases through the system and has been opening fewer enforcement cases.

Although cases are still taking a long time to reach their conclusion (investigations that closed in 2023/24 took an average of 42 months to complete), the FCA is trying to progress legacy cases through the system and has been opening fewer enforcement cases and closing more cases compared with previous years.

The FCA has opened a greater number of criminal actions than in previous years, linked to its focus on financial crime, and has also been more focused on early interventions, such as refusing authorisation applications, cancelling permissions, or imposing requirements. This approach should mean fewer cases for the Enforcement team to deal with.

As in previous years, the PRA kept its enforcement efforts focused in 2024, with only three enforcement actions brought to fruition. The PRA has continued to concentrate on firms’ especially serious failings and seems particularly concerned about firms having appropriate processes and systems to meet regulatory requirements. Therefore, we expect the PRA to continue to ensure firms are investing properly in their systems and controls, fully understanding their regulatory obligations, and regularly checking that those systems and controls are producing the right outcomes.

Although the PRA’s new early account scheme has been in place since January 2024 (see this Latham blog post), this does not apply to historical matters so we have yet to see how it will impact PRA enforcement actions.

10. Governance

One aspect of regulation that the regulators have been re-examining recently is governance. Both the remuneration rules and the SMCR have been earmarked as areas in which the UK can tweak the rules to make them more proportionate and to ensure that UK regulation remains competitive. The new government has identified both of these regimes as frameworks in which post-crisis reforms have gone too far. The areas of reform are interesting, as while the remuneration rules were inherited from the EU and contain aspects with which the UK never agreed, the SMCR is a UK-specific regime.

Remuneration

The UK was never supportive of the CRD V amendments to the remuneration rules for banks, which lowered some of the monetary thresholds within the regime to figures that did not work for the UK market. Having already scrapped the bonus cap in late 2023, the regulators are now seeking to further change the UK regime for banks to make it more suitable for the sector, and to ensure that the UK remains competitive with other jurisdictions (see this Latham blog post).

This consultation did not feature in the previous Regulatory Initiatives Grid, and was first mentioned in a PRA speech last autumn. Seemingly, the new government has been involved in driving change in this area, as it doesn't appear to have been on the reform agenda previously.

Key dates

13 March 2025
Deadline for responding to the joint PRA and FCA consultation on remuneration reforms

Q1 2025
FCA, PRA, and HM Treasury expected to consult on reforms to the SMCR

H2 2025
PRA and FCA aim to publish final policy materials in relation to their remuneration reforms

Not only do the proposals seek to reduce deferral periods, which the regulators have identified as positioning the UK as a global outlier, they also seek to adjust the test for identifying material risk takers (individuals who are subject to detailed remuneration requirements under the regime) and increase proportionality by raising the threshold above which material risk takers are subject to a more prescriptive set of rules. Although the intention is not to interfere with the fundamental tenets of the regime, these are significant amendments that are indicative of change the new government is hoping to drive.

However, these proposals only affect dual-regulated firms, not firms solely regulated by the FCA. Although the MIFIDPRU remuneration rules are not as stringent as those for banks, there are elements that perhaps ought to be reviewed in light of these proposals to ensure that solo-regulated firms are subject to a proportionate regime. The FCA says that it will keep its other remuneration regimes under review, but there is no suggestion it has changes in mind for the immediate future.

SMCR

The review of the SMCR is another area of the Edinburgh Reforms that has stalled. Although the government and the regulators issued papers exploring areas for reform in spring 2023 (see this Latham blog post), next steps have not been addressed until recently.

While the initial papers signalled that the government and the regulators did not have a fundamental overhaul of the regime in mind, Chancellor Rachel Reeves announced in her Mansion House speech that the government plans to remove the Certification Regime and replace it with a more proportionate alternative. Details of the proposals will follow this year, which will help firms to understand the potential impact of the changes. However, it is clear that these proposals will be more significant than originally indicated, presumably under the influence of the new government's growth agenda.

There had also been some suggestion from the regulators that they were considering expanding their expectations as to when the group entity senior manager function (SMF7) applies. It will be interesting to see whether or not this materialises in their proposals given that it would not align with the government's deregulatory agenda.

Contacts

Paul A. Davies
Partner
London
T +44.20.7710.4664
E paul.davies@lw.com

Arthur S. Long
Partner
New York
T +1.212.906.1353
E arthur.long@lw.com

Rob Moulton
Partner
London
T +44.20.7710.4523
E rob.moulton@lw.com

Anne Mainwaring
Counsel
London
T +44.20.7710.1018
E anne.mainwaring@lw.com

Ella McGinn
Associate
London
T +44.20.7710.4649
E ella.mcginn@lw.com

Sean Wells
Associate
London
T+44.20.7710.4662
E sean.wells@lw.com

Johannes Poon
Knowledge Management Lawyer
London
T +44.20.7710.3085
E johannes.poon@lw.com

Nicola Higgs
Partner
London
T +44.20.7710.1154
E nicola.higgs@lw.com

Fiona M. Maclean
Partner
London
T +44.20.7710.1822
E fiona.maclean@lw.com

Nell Perks
Partner
London
T +44.20.7710.4749
E helennell.perks@lw.com

Sidhartha Lal
Associate
London
T +44.20.7710.4778
E sidhartha.lal@lw.com

Jonathan Ritson-Candler
Associate
London
T +44.20.7710.1815
E jonathan.ritson-candler@lw.com

Gary Whitehead
Associate
London
T +44.20.7710.1036
E gary.whitehead@lw.com

Amy Smyth
Knowledge Management Counsel
London
T +44.20.7710.4772
E amy.smyth@lw.com

Betty M. Huber
Partner
New York
T +1.212.906.1222
E betty.huber@lw.com

Andrea Monks
Partner
London
T +44.20.7710.4767
E andrea.monks@lw.com

Becky Critchley
Counsel
London
T +44.20.7710.4519
E becky.critchley@lw.com

Jaime Martin
Associate
London
T +44.20.7866.2655
E jaime.martin@lw.com

Sara Sayma
Associate
London
T +44.20.7710.4554
E sara.sayma@lw.com

Charlotte Collins
Knowledge Management Counsel
London
T +44.20.7710.1804
E charlotte.collins@lw.com

LATHAM & WATKINS

10 Key Focus Areas

for UK-Regulated Financial Services Firms in 2025

To learn more about Latham's financial regulatory capabilities, visit Global Financial Regulatory Resources

Latham & Watkins is the business name of Latham & Watkins (London) LLP, a registered limited liability partnership organised under the laws of New York and regulated by the Solicitors Regulation Authority (SRA No. 203820). A list of the names of the partners of Latham & Watkins (London) LLP is open to inspection at its principal place of business, 99 Bishopsgate, London EC2M 3XF, and such persons are either solicitors, registered foreign lawyers or European lawyers. We are affiliated with the firm Latham & Watkins LLP, a limited liability partnership organised under the laws of Delaware. © Copyright 2025 Latham & Watkins. All Rights Reserved.