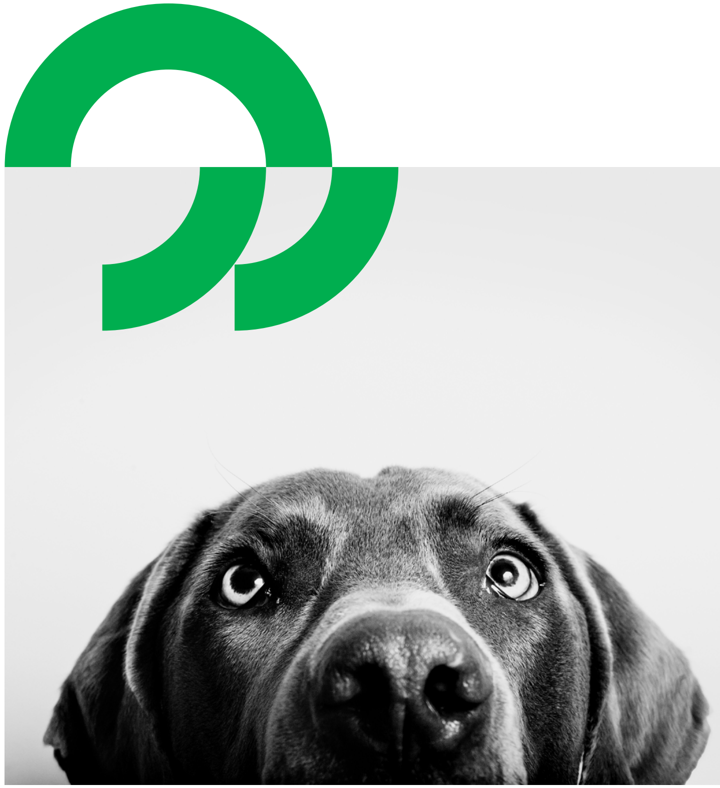
Financial services regulatory *horizon report*

2025

This PDF contains interactive elements.

Index



Overview of *the year ahead*

The financial services legislative and regulatory priorities of new governments around the world are starting to crystallise as we enter the dawn of a new year. Across the U.K. and EU, consistent themes are competitiveness and growth, innovation, and sustainable finance. As against this, in an increasingly polarised geopolitical environment, protectionism and fragmentation continue to be of concern.

Please note that this document does not seek to cover all regulatory developments planned for 2025 and speaks to matters known as of 31 December 2024. It does not consider changes planned for the insurance or pensions sectors. Equally, the timing of a number of updates remains uncertain, and in some instances, we are unable to identify when in 2025 they are anticipated. Furthermore, any expected date is subject to change and parliamentary time.

U.K.

In the U.K., the Labour government published their plan for financial services in January 2024, pre-election. They recognise the importance of the financial services industry and promise to "unashamedly champion" the sector as "one of the U.K.'s greatest assets". They aspire to a regulatory framework that "will be stable and predictable, and guided by a set of priorities crucial to the success of the sector: efficient, proportionate, incremental, and coordinated across government. That must also mean a balance between consumer protection, competitiveness and financial stability in defining our policy agenda".

Their vision is based on six policy priorities: (i) inclusive growth, scaling regional financial centres alongside London and Edinburgh hubs; (ii) enhancing the international competitiveness of the sector, strengthening international engagements and building a more collaborative relationship with the EU; (iii) reinforcing consumer protection (including regulation of the "Buy-Now, Pay-Later" (BNPL) sector) and financial inclusion; (iv) leading the world in sustainable finance; (v) embracing innovation and fintech as the future of financial services; and (vi) reinvigorating capital markets.

On 14 November 2024, Rachel Reeves, the U.K. Chancellor, set out a package of reforms in her Mansion House speech. The reforms aim to drive growth and competitiveness in financial services. Ms Reeves stated that the regulatory changes post-financial crisis created a system which sought to eliminate risk-taking. This "has gone too far" and has led to unintended consequences. Ms Reeves hopes to maintain the U.K.'s high regulatory standards while rebalancing elements of the regulatory system to drive economic growth and competitiveness. We have already seen some evidence of the new attitude to risk-taking through various concessions in the consultation process for the implementation of Basel 3.1. It is not yet clear how the new attitude to risk-taking will translate into market and conduct regulation.

EU

Following the European elections in June 2024, the European Council set out its priorities in the 2024–2029 EU strategic agenda. This serves as inspiration for the European Commission's political priorities. Amongst these strategic priorities is "a prosperous and competitive Europe". The President of the Commission determined seven priorities for the 2024–2029 mandate of the European Commission which include: (i) a new plan for Europe's sustainable prosperity and competitiveness; and (ii) a global Europe: Leveraging power and partnerships, reforming the international system to make it fit for today's world.

What each of these developing priorities means in practice is a matter of great interest to the financial markets and market participants but the industry is buoyed by the increasing focus on competitiveness and growth.

Competitiveness and growth

U.K.

The financial services sector has been identified by the government as one of eight growth-driving sectors. In November 2024, HMT published a call for evidence designed to support the development of the financial services sector plan, referred to as the Financial Services Growth & Competitiveness Strategy. Once developed, the strategy will serve as the central guiding framework through which the government will deliver sustainable, inclusive growth for the financial services sector and secure the U.K.'s competitiveness as an international financial centre. It should further support the secondary objective of the regulators, introduced by the Financial Services and Markets Act 2023, to facilitate the international competitiveness of the U.K. economy and its growth over the medium to long term. The strategy will be published in Spring 2025.

EU

Mario Draghi, former European Central Bank President, was tasked by the European Commission to prepare a report of his personal vision on the future of European competitiveness. The report, published in September 2024, looks at the challenges faced by the industry and companies in the Single Market. It identifies three main areas for action to reignite sustainable growth and the three main barriers. The first area for action is described as the most important and urges the EU to close the 'innovation gap' with the US and China.

The second area identified for action is a joint plan for decarbonisation and competitiveness, and the third and final area looks to increase security and decrease dependencies. The report discusses the barriers to growth and a strategy for moving forward. Its findings will contribute to the Commission's work on a new plan for Europe's sustainable prosperity and competitiveness.

International relations

U.K./EU engagement

The second meeting of the Joint EU-U.K. Financial Regulatory Forum between the EU and the U.K. took place in May 2024. The published report of the meeting records that both sides emphasised the benefit and importance of structured regulatory cooperation between the EU and the U.K. The third forum is expected to take place in February 2025.

Labour reports no plans to seek to rejoin the EU, instead it wants to "reset the relationship" and "work to improve the U.K.'s trade and investment relationship with the EU, by tearing down unnecessary barriers to trade". Amongst the aspirations is the mutual recognition of professional qualifications. Labour has said that it is committed to implementing post-Brexit agreements made under the previous government, including the Windsor Framework.

U.K./SWISS MUTUAL RECOGNITION AGREEMENT

Progress on the Berne Agreement, the U.K./Swiss Mutual Recognition Agreement continues, albeit slowly. This agreement, concluded in December 2023, seeks to set sectors where the U.K. and Switzerland will mutually recognise each other's domestic laws and regulations on financial services, making it easier for providers to each of the two markets to do business with corporate and high net worth clients in the other. The agreement must be ratified by both the U.K. and Swiss parliament before it can come into force. It was submitted to the Swiss parliament on 4 September 2024.

On 15 October 2024, the first formal meeting between U.K. and Swiss finance ministers since the negotiations of the Berne Agreement concluded took place. The discussions emphasised close, ongoing U.K. and Swiss cooperation in financial services and focused on several key themes, including: (i) economic outlook and financial stability, (ii) the Berne Agreement, (iii) sustainable finance, (iiii) artificial intelligence (AI) and innovation and (iiiii) capital markets. The next meeting will take place in H2 2025. The ambition reported by both sides is to complete implementation of the Berne Agreement as soon as possible, by the end of 2025 at the latest.

When the Berne Agreement was concluded, HMT describe it as "a ground-breaking pact on financial services cooperation". It stated that a finalised mutual recognition agreement between the two countries could act as a template for cross-border wholesale financial services between the U.K. and other countries.

Timeline

Click on a theme (▶) to read more.

- **1 January 2025** EU CRR III and implementation of final Basel standards applies ▶ EU Prudential regulation
- **1 January 2025** EBA guidelines on group capital test for investment firm groups under IFR apply ▶ EU Prudential regulation
- **1 January 2025** FCA and PRA rules for CTPs take effect, but only apply once a CTP's designation applies ▶ U.K. Operational resilience and outsourcing
- **From 1 January 2025** Reporting under CSRD by in-scope firms for the 2024 financial year ▶ EU ESG
- **3 January 2025** EU consolidated tape for bonds selection process to launch ▶ EU Secondary markets
- **Early January 2025** GFXC expected to publish updated FX Global Code ▶ U.K. Derivatives and securitisation markets
- **9 January 2025** First set of obligations apply under the Instant Payments Regulation ▶ EU Payment services and payment systems
- **9 January 2025** Daily sanctions screening obligation applies for all PSPs under the Instant Payments Regulation ▶ EU Payment services and payment systems
- **9 January 2025** GFANZ consultation on index guidance to support real-economy decarbonisation closes ▶ International ESG
- **13 January 2025** FCA consultation on corrections and clarificatory amendments to Sustainability Disclosure Requirements closes ▶ U.K. ESG
- **14 January 2025** HMT consultation on draft Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No. 2) Order 2024 (implementing ESG ratings providers regime) closes ▶ U.K. ESG
- **17 January 2025** DORA applies ▶ EU Operational resilience and outsourcing
- **27 January 2025** GFANZ consultation on guidance on nature in net-zero transition plans closes ▶ International ESG
- **28 January 2025** Deadline for responses to European Commission consultation on draft delegated regulation under EU Green Bond Regulation regime ▶ EU ESG
- **31 January 2025** U.K. consolidated tape for bonds tender documents to be published ▶ U.K. Secondary markets
- **January 2025** ESMA to launch 2025 EU-wide stress test ▶ EU Prudential regulation
- **3 February 2025** EU DPE regime for post-trade transparency to be fully operational ▶ EU Secondary markets
- **4 February 2025** EBA/ESMA guidelines on suitability of the management body and holders of qualifying holdings under MiCAR will apply two months after publication on EBA website in all languages ▶ EU Fintech/Digital assets
- **6 February 2025** HMT consultation on U.K. Green Taxonomy closes ▶ U.K. ESG
- **7 February 2025** Close of PSR consultation setting out potential remedies to the issues the PSR identified in the final report of its Market Review into Cross Border Interchange Fees ▶ U.K. Payment services and payment systems
- **10 February 2025** EBA guidelines on redemption plans under MiCAR will apply two months after publication on EBA website in all EU languages ▶ EU Fintech/Digital assets
- **19 February 2025** Financial Reporting Council consultation on proposed changes to the Stewardship Code closes. ▶ U.K. ESG
- **21 February 2025** Deadline for comments on FMSB Transparency Draft on Statement of Good Practice on governance of sustainability-linked products ▶ U.K. ESG
- **26 February 2025** Publication of EU Omnibus Simplification Package ▶ EU ESG
- **28 February 2025** Deadline for SDDT-eligible firms to inform the PRA they intend to become subject to the ICR ▶ U.K. Prudential regulation
- **Early 2025** ESMA to publish final report on findings of the CSA on sustainability-related disclosures and the integration of sustainability risks ▶ EU ESG
- **Early 2025** Financial Services and Markets Act 2000 (Ring-fenced Bodies, Core Activities, Excluded Activities and Prohibitions) (Amendment) Order 2024 to enter into force ▶ U.K. Ring-fencing
- **Early 2025** PRA policy reforms to geographical scope of the ring-fencing regime anticipated ▶ U.K. Ring-fencing
- **Early 2025** EU MiFID derivative transparency consultation paper on ESMA's Article 11a mandate expected ▶ EU Secondary markets
- **Early 2025** U.K. FCA market engagement on consolidated tape for equities ▶ U.K. Secondary markets
- **Early 2025** FCA to publish pre-application engagement opportunities regarding PISCES ▶ U.K. Secondary markets
- **Early 2025** Consultation on consequential changes required by the U.K. CCI Regime ▶ U.K. Funds and financial products
- **Early 2025** EFRAG to consult on implementation guidance on transition plans for climate change mitigation ▶ EU ESG
- **3 March 2025** PRA expectations on trading activity wind-down planning enter into force ▶ U.K. Recovery and resolution
- **31 March 2025** Deadline for Collateral investors to submit complaints to FCA ▶ Cross-sector
- **31 March 2025** ESMA consultation on draft RTS on ESEF for sustainability reporting closes ▶ EU ESG
- **31 March 2025** Anticipated date for PRA proposed changes streamlining the Pillar 2A capital framework and the capital communications process ▶ U.K. Prudential regulation
- **31 March 2025** First reference date for ITS on supervisory reporting requirements implementing changes required to align with CRR III ▶ EU Prudential regulation
- **31 March 2025** Transitional period ends for March 2021 operational resilience regime ▶ U.K. Operational resilience and outsourcing
- **31 March 2025** NCAs to submit list of systemic financial entities to ESAs (DORA) ▶ EU Operational resilience and outsourcing
- **31 March 2025** U.K. EMIR transitional period for outstanding derivative reports ends ▶ U.K. Derivatives and securitisation markets
- **By end March 2025** FCA finalisation of new approach to publicising its enforcement investigations and changes to its Enforcement Guide ▶ Cross-sector
- **Q1 2025** EFRAG to consult on NESRS for Art. 40a companies under CSRD ▶ EU ESG
- **Q1 2025** U.K. government to consult on U.K.-Sustainability Reporting Standards and take endorsement decision ▶ U.K. ESG
- **Q1 2025** PRA to consult on updating SS3/19 on the management of climate-related risks ▶ U.K. ESG/Prudential
- **Q1 2025** GFANZ to publish final supplemental guidance on nature in net-zero transition plans and on index guidance to support real-economy decarbonisation ▶ International ESG
- **Q1 2025** Final SI and PRA Rules on Basel 3.1 implementation expected ▶ U.K. Prudential regulation
- **Q1 2025** Possible PRA Consultation Paper on review of the thresholds for application of the leverage ratio ▶ U.K. Prudential regulation
- **Q1 2025** Final reporting taxonomy for Basel 3.1 anticipated ▶ U.K. Prudential regulation
- **Q1 2025** FCA consultation on review of the prudential regime for Personal Investment Firms ▶ U.K. Prudential regulation
- **Q1 2025** FCA consultation on review of the definition of regulatory capital used in MIFIDPRU ▶ U.K. Prudential regulation
- **Q1 2025** PRA final policy on changes to RAF assessment timing framework anticipated ▶ U.K. Recovery and resolution
- **Q1 2025** PRA consultation on changes to depositor protection limit ▶ U.K. Recovery and resolution
- **Q1 2025** PRA to consult on changes to Depositor Protection Part of Rulebook to implement Bank Resolution (Recapitalisation) Act 2025 ▶ U.K. Recovery and resolution
- **Q1 2025** U.K. PRA and FCA further consultation on securitisation rules ▶ U.K. Derivatives and securitisation markets
- **Q1 2025** U.K. FCA to publish two consultation papers on POATR: consequential changes and additional proposals ▶ U.K. Primary markets
- **Q1 2025** ESMA to publish final report for articles 25 and 26 MiFIR transaction data reporting and order book data ▶ EU Secondary markets
- **Q1 2025** U.K. FCA to publish further commentary on retirement income advice market ▶ U.K. Treatment of consumers
- **Q1 2025** U.K. FCA Feedback statement on review of FCA requirements following introduction of Consumer Duty ▶ U.K. Treatment of consumers
- **Q1 2025** U.K. FCA consultation on review of debt advice rules (CONC 8) ▶ U.K. Consumer credit
- **Q1 2025** U.K. FCA evaluation of persistent debt intervention ▶ U.K. Consumer credit
- **Q1 2025** EC, EP and Council will begin trilogue negotiations on the proposed PSD3 package ▶ EU Payment services and payment systems
- **Q1 2025** PSR to publish its final report on its Market Review into Card Scheme and Processing Fees ▶ U.K. Payment services and payment systems
- **Spring 2025** Publication of U.K. Financial Services Growth and Competitiveness Strategy ▶ U.K. ESG
- **2 April 2025** Temporary flexibility under FCA naming and marketing rules ends ▶ U.K. ESG
- **30 April 2025** NCAs to submit registers of information to ESAs ▶ EU Operational resilience and outsourcing
- **30 April 2025** ESMA to deliver technical advice on MAR and MIFID II regarding SME Growth Markets ▶ EU Secondary markets
- **April 2025** ESMA to deliver technical advice on UCITS Eligible Assets Directive ▶ EU Funds and financial products
- **1 May 2025** APP fraud reimbursement scheme: all members of Faster Payments to use the reimbursement claim management system (RCMS) ▶ U.K. Payment services and payment systems
- **21 May 2025** Deadline for funds existing prior to 21 November 2024 to apply ESMA's guidelines on funds' names using ESG or sustainability-related terms ▶ EU ESG
- **May 2025** U.K. PISCES statutory instrument expected to be laid before U.K. parliament ▶ U.K. Secondary markets
- **May 2025** U.K. PISCES rules expected to be published once statutory instrument laid before U.K. parliament ▶ U.K. Secondary markets
- **30 June 2025** Pillar 3 Data Hub under CRR kicks in for large and other institutions ▶ EU Prudential regulation
- **30 June 2025** EU Commission implementing decision on U.K. CCP equivalence expires ▶ U.K. Financial markets
- **30 June 2025** EC to present an interim report on the application of MiCAR ▶ EU Fintech/Digital assets
- **June 2025** EU consolidated tape for equities selection process to be launched ▶ EU Secondary markets
- **Q2 2025** FCA to publish policy statement on extension of SDR regime to portfolio management ▶ U.K. ESG
- **Q2 2025** Subject to positive endorsement decision, U.K. government to consult on SRS for U.K. companies outside FCA regulatory perimeter ▶ U.K. ESG
- **Q2 2025** ESMA to publish final report on draft technical advice concerning the Prospectus Regulation ▶ EU ESG
- **Q2 2025** PRA policy statement on retiring the refined methodology to Pillar 2A ▶ U.K. Prudential regulation
- **Q2 2025** Proposed implementation date for PRA updates to U.K. policy framework for capital buffers ▶ U.K. Prudential regulation
- **Q2 2025** Changes to PRA supervisory statement on international banks—approach to branch and subsidiary supervision anticipated to take effect ▶ U.K. Prudential regulation
- **Q2 2025** FSB final FIRE expected ▶ U.K. Operational resilience and outsourcing
- **H1 2025** BCBS finalisation of Pillar 3 disclosure framework for climate-related financial risks ▶ International ESG/Prudential
- **H1 2025** HMT to consult on taking forward commitment on transition plans to support ambition to become global hub for transition finance ▶ U.K. ESG
- **H1 2025** FPC assessment of AI's impact on financial stability ▶ U.K. Prudential regulation
- **H1 2025** PRA likely to consult on amendments to the ring-fencing rules to reflect the outcome of its review of the rules ▶ U.K. Ring-fencing
- **H1 2025** BoE response to consultation on approach to setting MREL ▶ U.K. Recovery and resolution
- **H1 2025** Consultation on SRB expectations on bank resolvability testing ▶ EU Recovery and resolution
- **H1 2025** Consultation on SRB expectations on valuation capabilities ▶ EU Recovery and resolution
- **H1 2025** Consultation on SRB expectations on separability and operationalisation of transfer strategies ▶ EU Recovery and resolution
- **H1 2025** Consultation on SRB expectations on communication in resolution ▶ EU Recovery and resolution
- **H1 2025** U.K. rules on new POATRs regime to be finalised ▶ U.K. Primary markets
- **H1 2025** U.K. CCI Regime policy statement expected and retail disclosure regime expected to be in place ▶ U.K. Funds and financial products
- **H1 2025** Market study into premium finance to be published by FCA ▶ U.K. Treatment of consumers
- **H1 2025** FCA Retail banking review of firms' treatment of vulnerable customers to be published ▶ U.K. Treatment of consumers
- **H1 2025** FCA consultation on Advice Guidance Boundary Review rules (retail investments and pensions) to be published ▶ U.K. Treatment of consumers
- **H1 2025** FCA feedback and any necessary regulatory action on identification of vulnerable customers by wealth managers ▶ U.K. Treatment of consumers
- **H1 2025** Consumer Duty 'next steps' to be set out by FCA including follow up on 2024 Call for Input ▶ U.K. Treatment of consumers
- **H1 2025** FCA expected to publish "digital journeys assessment" findings on credit agreements ▶ U.K. Consumer credit
- **H1 2025** FCA discussion paper on specific rules for cryptoasset trading platforms, intermediation, lending, staking and prudential rules within its crypto regime to be published ▶ U.K. FinTech/Digital Assets
- **H1 2025** FCA consultation paper including proposed regulation for stablecoins and custody of cryptoassets, as well as the new prudential sourcebook, which will set out stronger regulation for capital, liquidity and risk management in relation to cryptoassets to be published ▶ U.K Fintech/Digital assets
- **H1 2025** FCA to publish policy statement and final interim rules on new safeguarding regime for payment services and e-money firms ▶ U.K. Payment services and payment systems
- **July 2025** EU CSDR RTS on settlement discipline and settlement efficiency to be delivered ▶ EU Secondary markets
- **August 2025** EU-wide stress test results anticipated ▶ EU Prudential regulation
- **1 September 2025** Corporate criminal offence of failure to prevent fraud comes into force ▶ U.K. AML/Financial crime
- **29 September 2025** EU MiFID transposition deadline for certain EU MiFID review changes ▶ EU Secondary markets
- **September 2025** EU Delegated Regulation on OTC derivatives reference data for MiFIR transparency applies ▶ EU Secondary markets
- **September 2025** EU MiFID RTS 2 (derivatives) review (delayed) ▶ EU Secondary markets
- **Q3 2025** ESMA to submit final draft RTS on ESEF for sustainability reporting to European Commission for endorsement ▶ EU ESG
- **Q3 2025** FCA consultation paper on conduct and firm standards for all RAO activities, including draft provisions on systems and controls including operational resilience and financial crime, consumer duty, conduct (COBS) and governance including SMCR to be published ▶ EU Fintech/Digital assets
- **Q3 2025** FCA consultation paper covering Market Abuse Regime for Cryptoassets and the cryptoasset *Admissions and Disclosures* regime to be published. ▶ EU Fintech/Digital assets
- **1 October 2025** PRA final policy on Solvent exit planning for non-systemic banks and Building Societies enters into force ▶ U.K. Recovery and resolution
- **2 October 2025** ESMA to submit draft RTS and guidelines under EU ESG Ratings Regulation ▶ EU ESG
- **9 October 2025** Traditional banking PSPs located in the euro area are required to provide a payment service of sending instant credit transfers in euro and provide the service of verification of payee under the Instant Payments Regulation ▶ EU Payment Services and Payment Systems
- **2 November 2025** EU CSDR settlement discipline regime mandatory buy-in rules come into effect ▶ EU Settlement and clearing
- **November 2025** Potential development and rollout of a Digital Euro expected ▶ EU Payment services and payment systems
- **2 December 2025** Ongoing entity-level disclosures for firms with AUM of over GBP50 billion come into force ▶ U.K. ESG
- **5 December 2025** Final report and draft technical standards on EU code of conduct for issuer-sponsored research to be published ▶ EU Primary markets
- **30 December 2025** EBA guidelines on internal policies, procedures and controls to ensure the implementation of EU and national restrictive measures apply ▶ EU AML/Financial crime
- **30 December 2025** EBA guidelines on internal policies, procedures and controls to ensure the implementation of EU and national restrictive measures under the recast revised Wire Transfer Regulation apply ▶ EU AML/Financial crime
- **31 December 2025** EBA to report on the riskiness of exposures subject to the impact of environmental or social factors and the potential effects of an adjusted dedicated prudential treatment ▶ EU AML/Financial crime
- **31 December 2025** ESMA and EBA deadline for presenting first annual report on application of MiCAR and developments in markets in cryptoassets ▶ EU Fintech/Digital assets
- **31 December 2025** PRA proposed changes to branch reporting anticipated to take effect ▶ U.K. Prudential regulation
- **31 December 2025** PRA to complete review of depositor protection limit ▶ U.K. Recovery and resolution
- **December 2025** EU consolidated tape for equities provider to be selected ▶ EU Secondary markets
- **Q4 2025** Final report on internal controls for BMAs, CRAs and MTIs to be published ▶ EU Secondary markets
- **Q4 2025** PSR to review the maximum reimbursement level for the APP fraud reimbursement scheme ▶ EU Payment services and payment systems
- **H2 2025** FCA and PRA final policy on remuneration reform ▶ U.K. Remuneration
- **H2 2025** U.K. consolidated tape for bonds to launch ▶ U.K. Secondary markets
- **H2 2025** U.K. legislation may come into force for SDR and labelling of OFR funds ▶ U.K. Funds and financial products
- **H2 2025** ESMA plans to publish final report and RTS on open-ended loan origination AIFs ▶ EU Funds and financial products
- **2025** Further progress on U.K. reforms to revoke and replace assimilated law relating to financial services ▶ Cross-sector
- **2025** U.K. government to progress implementation its AI Action Plan ▶ Cross-sector
- **2025** PRA and FCA final rules and policy statements on D&I ▶ Cross-sector
- **2025** FCA and PRA to publish outcome of their review of the SM&CR ▶ Cross-sector
- **2025** Platform on Sustainable Finance to publish summary of requests received via stakeholder request mechanism and decide next request cut-off date ▶ EU ESG
- **2025** ESMA to publish statement on 2024 CSA on integration of sustainability preferences in firms' suitability assessment ▶ EU ESG
- **2025** ESMA to publish report on 2023/2024 CSA on sustainability in investment management ▶ EU ESG
- **2025** HMT expected to consult on extending SDR and labelling regime to overseas funds ▶ U.K. ESG
- **2025** HMT to lay final Financial Services and Markets Act 2000 (Regulated Activities) Amendment) (No. 2) Order 2024 before parliament ▶ U.K. ESG
- **2025** Formal adoption of FAQs on interpretation and implementation of certain legal provisions of delegated acts under EU Taxonomy Regulation ▶ EU ESG
- **2025** U.K. government consultation on raising the integrity of voluntary carbon and nature markets ▶ U.K. ESG
- **2025** Commission may report, with legislative proposals, if necessary, on IFR/IFD ▶ EU Prudential regulation
- **2025** HMT and PRA to finalise policy on transferring CRR definition of capital requirements to PRA Rulebook ▶ U.K. Prudential regulation
- **2025** PRA policy statement on phase 2 of SDDT regime ▶ U.K. Prudential regulation
- **2025** HMT and PRA consultation on transferring remaining provisions of U.K. CRR into PRA Rulebook ▶ U.K. Prudential regulation
- **2025** HMT policy response on the alignment between ring-fencing and resolution anticipated ▶ U.K. Ring-fencing
- **2025** Delayed ESMA report to the Commission on the publication of administrative penalties and other administrative measures by Member States under EU CCP RRR ▶ EU Recovery and resolution
- **2025** Bank Resolution (Recapitalisation) Bill 2025 to receive royal assent ▶ U.K. Recovery and resolution
- **2025** Continued implementation of DORA requirements ▶ EU Operational resilience and outsourcing
- **2025** EU EMIR RTS on public data publication ▶ EU Derivatives and securitisation markets
- **2025** EU SFTR Report on the efficiency of reporting publication ▶ EU Secondary markets
- **2025** U.K. Prospectus Regime FCA policy statement to be published ▶ U.K. Primary markets
- **2025** U.K. Securitisation Regulation FCA further consultation to be launched ▶ U.K. Derivatives and securitisation markets
- **2025** U.K. MiFID non-equity transparency regime changes to apply ▶ U.K. Secondary markets
- **2025** EU Securitisation Regulation expected to be implemented in EEA-EFTA states ▶ EU Derivatives and securitisation markets
- **2025** U.K. AIFMD review expected ▶ U.K. Funds and financial products
- **2025** FCA may consult on rules and guidance for SDR and labelling of OFR funds ▶ U.K. Funds and financial products
- **2025** U.K. MMF policy statement on updated regime for MMFs expected ▶ U.K. Funds and financial products
- **2025** U.K. AIFMD regulatory reporting regime review expected ▶ U.K. Funds and financial products
- **2025** Outstanding MiCAR Delegated Regulations to be adopted by the EC to be scrutinised by Council and EP ▶ EU Fintech/Digital assets
- **2025** EBA's own initiative guidelines on issuer reporting requirements and templates for ARTs and EMTs under MiCAR will apply two months after translations in all languages are published on EBA website ▶ EU Fintech/Digital assets
- **2025** EBA guidelines on explanations and opinions, and the standardised test for cryptoassets under Article 97(1) of MiCAR will apply two months after translations in all languages are published on EBA's website ▶ EU Fintech/Digital assets
- **2025** ESMA's final guidelines on qualification of cryptoassets as financial instruments (Article 2(5)), security access protocols (Article 14(1)), reverse solicitation (Article 61(3)), investor protection (Articles 81(15) and 82(2)) and (Article 97(1)) under MiCAR will apply two months after translations in all languages are published on ESMA's website ▶ EU Fintech/Digital assets
- **2025** U.K. government to release an expanded fraud strategy ▶ U.K. Payment services and payment systems
- **2025** HMT to introduce secondary legislation for regulation of activities relating to fiat-backed stablecoins ▶ U.K. Fintech/Digital assets
- **2025** FCA to become the U.K.'s sole regulator for Open Banking ▶ U.K. Payment services and payment systems
- **2025** BoE to share its feedback to the discussion paper on innovation in money and payments and continue with its proposed roadmap for RTGS ▶ U.K. Payment services and payment systems
- **2025** EC, EP, Council and EU Member States will work towards finalising the new rules for the PSD3 package ▶ U.K. Payment services and payment systems
- **2025** HMT aims to bring forward the legislation on BNPL ▶ U.K. Payment services and payment systems
- **End 2025** EFRAG to deliver advice on NESRS to European Commission ▶ EU ESG
- **End 2025** PRA proposed amendments to reporting and disclosure dates for resolution assessments to come into effect ▶ U.K. Recovery and resolution
- **1 January 2026** Possible implementation of BCBS standards on disclosure of climate-related financial risks ▶ International ESG/Prudential
- **1 January 2026** Proposed implementation of the remaining Basel 3 banking standards (Basel 3.1) in the U.K. ▶ U.K. Prudential regulation
- **1 January 2026** EU delayed application of own funds requirements for market risk ▶ EU Prudential regulation
- **1 January 2026** BoE revised approach to setting MREL anticipated to apply ▶ U.K. Recovery and resolution
- **1 January 2026** Member governments have committed to national implementation of BCBS standards on the prudential treatment of cryptoassets that were finalised on 16 December 2022 ▶ Fintech/Digital assets
- **Early 2026** PSR to publish a post-implementation review after 12 months of the APP fraud reimbursement policy being in force ▶ U.K. Payment services and payment systems
- **2026** U.K. cryptoassets regime to go live ▶ U.K. Fintech/Digital assets
- **2026** Potentially, the FCA/PRA final rules on incident and outsourcing and third-party reporting will apply ▶ U.K. Operational resilience and outsourcing

Cross-*sector*

U.K. Smarter Regulatory Framework

The U.K. has been engaged since Brexit in a programme of reform to revoke and replace assimilated law relating to financial services. The reform process involves the repeal and/or amendment of various legacy EU law requirements, which have since been assimilated into U.K. domestic law. The objective is to make the U.K. financial markets more competitive and the U.K. regulatory regime more agile, with firm-facing rules moved to the regulators' rulebooks. This process has already resulted in important divergences from the EU's financial services framework (for instance, numerous divergences are already evident in the MiFID framework with more likely to arise, and there will also be meaningful divergences between the U.K. and EU short selling regimes), but much of it is administrative 'copy and paste' of EU law into domestic rules, which is not intended to result in substantive change.

Significant progress has been made on the reform programme. For some areas, the process is complete with legislation and regulator rules in force. For example, the Securitisation Regulations 2024 and related FCA and PRA rules have applied since 1 November 2024, and the Data Reporting Services Regulations 2024 and related FCA rules have applied since 1 April 2024. In other areas, legislation is partially in force, but completion of the reform process requires regulator rules. For example, the Public Offers and Admissions to Trading Regulations 2024 partially entered into force in 2024. The FCA's final rules and policy statement are due in 2025. In other areas, there are draft regulations and the FCA final rules are due to be published, such as for money market funds, or the FCA is due to consult on its proposed rules, such as for short selling. The FCA is expected to take these forward in 2025. Following the government's November announcement that further legislative changes to the MiFID framework will be made, the FCA and PRA will in 2025 finalise the rules that transfer the firm-facing requirements of the MiFID Org Reg into their rules, and the FCA will consult on proposed rules on transaction reporting requirements. Legislation to implement these changes is also expected this year. There are still a number of files for HMT to review and the regulators need to consult on rules in these and other areas. The next phase of HMT's review and reform process includes the UCITS Directive, AIFMD, The E-Money Directive, the Payment Services Directive, certain parts of EMIR relating to CCPs and the equivalence regime.

U.K. Designated Activities Regime

FSMA 2023 introduced a new regulatory regime, the Designated Activities Regime (DAR), which gives the FCA powers over market participants engaging in particular activities.

HM Treasury (HMT) has the power to make regulations providing for an activity to be a 'designated activity', if it relates to "financial markets or exchanges of the United Kingdom", or "financial instruments, financial products, or financial investments that are (or are proposed to be) issued or sold to, or by, persons in the United Kingdom". Persons carrying out a particular designated activity will be required to comply with the applicable legislative requirements and the regulators' rules unless an exemption is available.

Considerable progress has been made to introduce the DAR. The draft Financial Services and Markets Act 2000 (Designated Activities) (Supervision and Enforcement) Regulations 2024 (the "DAR Supervision Regulations"), consolidate the FCA's supervision and enforcement powers for designated activities under the draft Short Selling Regulations 2024 and the Consumer Composite Investments (Designated Activities) Regulations 2024. It is intended that this supervision and enforcement framework will be extended to activities designated by HMT in the future. The Securitisation Regulations 2024 and the Public Offer and Admissions to Trading Regulations 2024 include standalone supervision and enforcement provisions.

The DAR maintains the purview of the FCA over certain activities, products and conduct regulated by assimilated EU law but that are not regulated activities under FSMA. To date, only the DAR regime for securitisations has been fully implemented, with the Securitisation Regulations 2024 and the regulator's related rules entering into force on 1 November 2024. This coincided with the revocation of the Securitisation Regulations 2018 and related EU assimilated law. The Financial Services and Markets Act 2000 (Public Offers and Admissions to Trading) Regulations 2024 have been made, however, the FCA's rules are yet to be finalised—these are expected in the first half of 2025.

There are also separate draft statutory instruments designating other activities such as the draft Short Selling Regulations 2024 and the draft Consumer Composite Investment (Designated Activities) Regulations 2024. The FCA is consulting on a new product information framework for Consumer Composite Investments (responses are due by 20 March 2025) and plans to publish a further consultation with draft rules for consequential amendments and transitional provisions in early 2025. The FCA also plans to issue a policy statement and final rules in the first half of 2025. The FCA's consultation on short selling rules is still to be launched.

Regulatory perimeter—artificial intelligence

The U.K. has not yet introduced any AI-specific legislation or rules for the financial sector, relying instead on general regulation which is technology neutral. In 2025, the U.K. government will progress implementation of the new AI Action Plan. The FCA and PRA will continue to explore what, if any, changes should shape their future regulatory approach to AI, including through the FCA's inaugural 'AI Sprint' at the end of January 2025 and the Bank of England's establishment of an AI consortium.

In contrast, the EU's Artificial Intelligence Act will mostly apply from 2 August 2026, setting out a regulatory regime for various categories of AI providers, developers and suppliers. Some provisions of the AI Act apply earlier. Certain prohibited AI systems will be banned under EU law from 2 February 2025, and penalties and the rules on general-purpose AI models will apply from 2 August 2025. Financial institutions will be focused on mapping the AI systems they are using, determining their status under the EU AI Act for these AI systems (i.e., deployer or provider), implementing compliance frameworks and considering contractual measures (e.g., transparency and documentation, data governance and liability).

Financial promotions and marketing

In recent years, wide-ranging and significant changes have been made to the U.K.'s financial promotion regime. These include the introduction of a regulatory gateway for authorised firms to approve financial promotions of unaffiliated unregulated firms, strengthening of the rules applicable to authorised firms, re-classifying securities into three broad bands clarifying when promotions may be made to retail investors, bringing certain qualifying cryptoassets within scope of the financial promotion regime (although they otherwise remain outside the regulatory perimeter for now) and changes to the financial promotion exemptions for high net worth individuals and sophisticated investors. In 2024, much of the FCA's work on financial promotions related to helping firms to embed the changes, including issuing guidance on cryptoasset promotions. The FCA continued to combat clone scams, issue alerts on illegal financial promotions and engage with firms providing and advertising unauthorised debt advice and debt solutions to consumers via online promotions. Much of this work will continue into 2025.

Issues relating to financial promotions by finfluencers have been a regulatory focus throughout 2024 and that is likely to continue into 2025. Early 2024 saw the FCA issue guidance on financial promotions on social media, including an infographic, prepared jointly with the ASA, to assist influencers in their decisions on whether to promote a financial product or service. Towards the end of 2024, the FCA announced that it had issued numerous alerts against social media accounts operated by finfluencers which could contain unlawful promotions.

Individual accountability

During 2023, and further to the Edinburgh Reforms announcement in December 2022, HMT published a call for evidence and the PRA and FCA published a Discussion Paper (DP 23/3) to build a joint evidence base for considering possible improvements to the existing Senior Managers & Certification Regime (SM&CR).

HMT's call for evidence was deliberately broad in scope, asking whether SM&CR had effectively delivered its objectives, whether those objectives remain relevant and correct for the U.K. and the potential impact of the SM&CR on the U.K.'s international competitiveness. DP 23/3 was similarly wide-ranging, asking for views on the effectiveness, scope and proportionality of SM&CR. In her Mansion House speech on 14 November, Chancellor Rachel Reeves announced that HMT, PRA and FCA will "shortly" publish the outcome of the review, including a commitment to consult on removing the Certification regime. Please also see the discussion on D&I below which covers current PRA and FCA proposals to update aspects of the SM&CR regime in relation to diversity and inclusion.

FSMA 2023 introduced a framework for SM&CR for U.K. exchanges, CCPs and CSDs and enabled HMT to further extend the regime to credit rating agencies. This may be progressed in 2025 depending on the outcome of the review of the SM&CR.

In 2021, the regulators mooted extending SM&CR to payment and e-money firms but there has been no specific developments on this. HMT confirmed in August 2023 that the government would set out next steps regarding future consultations on this once the broader SM&CR review has finished.

In the EU, the revised prudential regime (referred to as the "Risk Reduction Measures Package") in the form of Regulation (EU) 2024/1623 (CRR III) and Directive (EU) 2024/1619 (CRDVI) was finalised on 19 June 2024. This includes new provisions as regards individual accountability. CRDVI requires institutions to prepare individual statements of responsibilities for all members of the management body in its management function, senior management and key function holders, and to map duties with details of reporting lines, governance arrangements and lines of responsibility.

In 2025, firms will need to continue to implement these requirements. CRDVI also introduces administrative and periodic penalties for members of the management body in its management function, senior management, key function holders, other material risk takers and any other natural persons identified as responsible for a breach of national provisions transposing CRD, a breach of CRR or breach of a supervisory decision based on CRD or CRR. Please refer below to the Prudential regulation section for more on CRR III and CRDVI.

D&I

D&I issues were in the spotlight throughout 2024 and this will continue into 2025. The key expected regulatory developments for 2025 are new PRA and FCA final rules and policy statements in response to their 2023 consultations on diversity and inclusion in the financial sector (CP 18/23 and CP 23/30). The final rules had been expected in 2024. The regulators have stated that they now intend to publish policy statements and final rules in 2025. The regulators had proposed at consultation stage that the rules would apply 12 months after the final rules are published. The FCA has stated that it will prioritise its work on non-financial misconduct and, following the publication of the survey results, will continue to engage with the industry to raise standards.

The regulators deliberately synchronised their 2023 proposals where appropriate, and the proposals apply differently depending on the type, size and nature of the firm (including how SM&CR applies). Firms with fewer than 251 employees would be exempt from some of the requirements. As a high-level summary, the proposed rulemakings relate to (i) D&I strategies—the regulators proposed that firms be required to develop and maintain D&I strategies (as opposed to policies) that contain at least information on the firm's D&I objectives and goals, a plan for meeting those, a summary of the arrangements to identify and manage obstacles to achieving the firm's D&I objectives and goals and how the firm ensures its staff has adequate knowledge of the D&I strategy; (ii) D&I targets—it was proposed that a firm be required to set targets to improve diversity across the firm, not only at management level; (iii) senior management functions—responsibility for D&I would need to be allocated to Senior Managers; (iv) fitness and propriety and conduct rules—it was proposed that clarification would be added to the effect that identified patterns of behaviour, such as bullying, discrimination and harassment, could be considered in fitness and propriety assessments; (v) regulatory reporting—it was proposed that firms annually report data across a range of demographic characteristics, inclusion metrics and targets; and (vi) disclosure—the regulators consider that firms should publicly disclose D&I data.

The regulators' final rules and policy will consider the recommendations made by the House of Commons Treasury Select Committee in its "Sexism in the City" report. That report made several recommendations, such as prohibiting prospective employers from asking for salary history, introducing a legal requirement to include salary bands on job adverts, reducing the size threshold for gender pay gap reporting from 250+ to 50+ employees for firms in the financial services sector to capture more firms, requiring businesses with wide gender pay gaps to explain the disparity and publish an action plan and amending the Changes to the Women in Finance Charter including strengthening the link between executive pay, and performance on improving diversity. Stronger protections for whistleblowers in sexual harassment cases were also recommended.
The FCA has stated that in 2025 it will enhance its communications to whistleblowers and better promote the FCA's whistleblowing reporting channels.
The Committee also recommended that the regulators should not proceed with their proposals for extensive diversity data reporting and target setting, and instead focus on the responsibility of senior management and boards for bringing about more diversity and inclusion.
The regulators have said that they agree that data reporting should not be a tick box exercise and that they will carefully consider this recommendation, noting that other reports have highlighted the benefits of data.
The PRA and FCA will jointly set out their next steps in this regard in Q2 2025.

Enforcement

Following significant concerns raised in response to the FCA's initial proposed new approach to publicising its enforcement investigations and changes to its Enforcement Guide, the FCA published a revised set of proposals at the end of November 2024 (responses may be submitted until 17 February 2025). The FCA is considering amendments to the public interest test. First, it is proposed that the test would include the impact of an announcement on the relevant firm and be central to the FCA's consideration of whether to announce an investigation and name the firm. Secondly, the potential for an announcement to seriously disrupt public confidence in the financial system or the market would be an additional factor in the test.

It is also proposed that firms would be given more time to respond to notices of proposed announcements. A relevant firm would be given a copy of any draft announcement and 10 business days' notice to make their representations, with a further two business days' notice of publication of any announcement if the FCA decides to proceed after taking these representations into account. Originally, the FCA had proposed only one day. The new proposed period is also intended to give firms time to consider whether they want, or are required, to make an announcement themselves.

The FCA's board intends to finalise the proposals by the end of March 2025. The FCA has stated that it will not make proactive announcements of investigations that are on-going when the proposals come into effect, although it may reactively confirm on-going investigations that are already in the public domain, where this confirmation is in the public interest.

FCA liability

In November 2024, the All-Party Parliamentary Group on Investment Fraud and Fairer Financial Services published a report on the FCA, prompted by a number of scandals in recent years (including London Capital & Finance, Connaught, Lendy, Collateral, Premier FX and others) in which the regulator was criticised. The APPG's report made a number of recommendations which it proposed the government and FCA implement. It also suggested periodic reviews of the FCA be carried out in the future. The FCA has rejected the way it was characterised in the report and the Economic Secretary to the Treasury, Tulip Siddiq, has said she has confidence in the FCA and is working with it to deliver on its objectives. Some changes to the supervisory arrangements for the FCA, including enhanced oversight by HMT and enhanced powers for the Financial Regulators Complaints Commission, were brought into effect in FSMA 2023 and so given this statement, we do not expect further statutory change in the short term. Nevertheless, it seems likely there will be further discussion on the subject of FCA responsibility for supervisory actions in the coming year. For example, the firm Collateral appeared on the FCA register as if it was an authorised firm and was marketed as such, but the FCA register was incorrect and may have been hacked. The FCA received over 300 complaints from Collateral investors. Victims who lost their savings in that scandal were in December 2024 offered GBP650 compensation by the FCA and an apology. Given the disparity between losses and the compensation offered, it seems inevitable that this case would be referred to the FRCC. The judgment in the civil case by the administrators against the perpetrators of London Capital & Finance at first instance was handed down in November 2024. The SFO is bringing forwards criminal prosecutions and potentially other legal actions may take place in which regulatory issues arise.

Sustainability *and ESG*

INTERNATIONAL

From an international perspective, the Glasgow Financial Alliance for Net Zero (GFANZ) published a consultation paper in October 2024 on proposed supplemental guidance on nature in net zero transition plans, which covers opportunities to reduce nature emissions or increase nature sinks and to support emissions reductions and sequestration through nature-related activities. The consultation closes on 27 January 2025. GFANZ has also published a separate consultation on index guidance to support real-economy decarbonisation. The consultation closes on 9 January 2025. GFANZ expects to publish final guidance for both consultations in Q1 2025.

U.K.

NEW LABOUR GOVERNMENT MANIFESTO AND POLICY STATEMENTS

To date, the U.K. has not followed the EU's regulation-heavy approach (discussed below) on tackling ESG issues, having been somewhat wary of over-regulation. Nevertheless, sustainability-related reforms have continued to emerge in the U.K. in 2024, with more to come over the next 12 months. The new Labour government ran on a manifesto commitment of making the U.K. the green finance capital of the world and accelerating the transition to net zero. It aims to deliver a regulatory framework to support sustainable growth and help the private sector to harness the opportunities of the energy transition.

In November 2024, HMT published a consultation on a proposed U.K. Green Taxonomy and a consultation response on a future regulatory regime for ESG ratings providers as part of its Mansion House Reforms. The new Labour government plans to require U.K.-regulated financial institutions and FTSE 100 companies to implement transition plans aligned with the 1.5-degree goal under the Paris Agreement. Other regulatory developments in the pipeline for 2025 were put in train by the previous Conservative government, including the U.K. Sustainability Reporting Standards and changes arising from the Transition Finance Market Review, demonstrating the direction of travel is towards increasing oversight on sustainability and ESG.

DISCLOSURE AND REPORTING

In June 2023, the International Sustainability Standards Board (ISSB) launched its first sustainability-related reporting standards: the General Requirements for Disclosure of Sustainability-related financial information (IFRS S1), and the requirements for Climate-related Disclosures (IFRS S2). In May 2024, the Secretary of State for the Department for Business and Trade published the Framework and Terms of Reference for the development of U.K. Sustainability Reporting Standards (SRS), setting out the three phases for the delivery of the U.K. SRS which will be based on the IFRS standards. The overall process is supported by two committees established for this purpose: the U.K. Sustainability Disclosure Technical Advisory Committee (TAC) (supported by the Financial Reporting Council) and the U.K. Sustainability Disclosure Policy and Implementation Committee (PIC).

The U.K. government intends to consult on the exposure drafts of the U.K. SRS in Q1 2025 and take a decision on whether to endorse them. The ultimate goal is to establish SRS that form the basis of future requirements in U.K. legislation or regulation for companies to report on ESG-related risks and opportunities. Provided there is a positive endorsement decision, the FCA will be able to introduce U.K. SRS requirements for U.K.-listed companies to report on sustainability-related information. The U.K. government will then decide, in Q2 2025, on disclosure requirements for U.K. companies that do not fall within the FCA's regulatory perimeter, as well as whether to create exemptions from the Companies Act 2006 requirements for those companies that choose to comply with the U.K. SRS voluntarily. Any such changes would be effective no earlier than for accounting periods beginning on or after 1 January 2026.

The FCA has said that, once available for use in the U.K., its intention is to update its climate-related disclosure rules for listed companies to reference the U.K. SRS standards (replacing the Task Force on Climate-related Financial Disclosures-aligned standards).

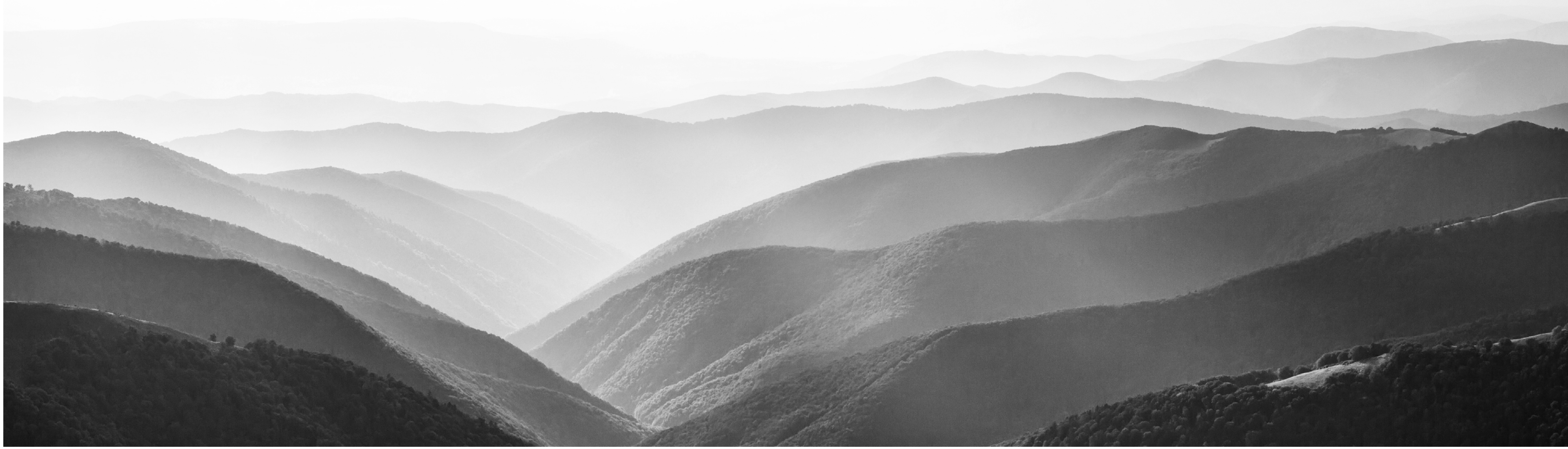
As part of the FCA's consultation on the new Public Offers and Admissions to Trading Regime (see the U.K. Primary Markets part of the Financial markets section below), the FCA has proposed revisions to sustainability-related disclosures in prospectuses. These would include requiring issuers seeking to list equity securities on a regulated market to include certain climate-related disclosures in their prospectuses if they have identified climate-related risks as risk factors or climate-related opportunities as material to their prospects. Issuers that have published transition plans with material information will need to reflect this in summary in their prospectuses in relation to their future strategy. Issuers of non-equity securities would need to disclose whether their debt instruments have been marketed as "green", "social" or "sustainable" or issued under a bond framework. The FCA aims to finalise its rules by the end of H1 2025, followed by a further period before the new rules comes into force.

The FCA had planned to consult in 2024 on guidance setting out its expectations for listed companies' transition plan disclosures, drawing on the Transition Plan Taskforce's Disclosure Framework, which was published in 2023. The FCA's proposed consultation did not materialise in 2024, but the Transition Finance Market Review (TFMR) was conducted (discussed below). The FCA said in response to the TFMR's report that it plans to consider how best to embed the TFMR's findings and to monitor market practices and raise standards, including strengthening disclosure expectations pending endorsement of the U.K. SRS.

TAXONOMY

On 14 November 2024, HMT published a consultation on the value of a U.K. Green Taxonomy. The consultation closes on 6 February 2025. It seeks to establish whether a Taxonomy would be a useful addition to the U.K.'s regulatory framework to mitigate greenwashing risks and enable the private sector to capitalise on and support the green transition. It seeks feedback on uses for a U.K. Green Taxonomy and how to maximise usability (including any key design features) but is not considering specific activity-level standards at this stage.

In its sustainability disclosure implementation update published in May 2024, the previous government confirmed that once the Taxonomy has been finalised, the U.K. government will introduce a testing period for voluntary disclosures and use it for at least two years before considering mandatory disclosures against the Taxonomy.



SDR AND LABELLING REGIME

The U.K. Sustainability Disclosure Requirements (SDR) and ESG labelling regime began to take effect in 2024, in line with the FCA's 28 November 2023 policy statement. From 31 July 2024, U.K. asset managers could begin to use one of four labels—Sustainability Focus, Sustainability Improvers, Sustainability Impact and Sustainability Mixed Goals—with any new or existing funds. If a label is used, prescribed criteria must be met.

In 2024, the FCA consulted on extending the application of the SDR rules to portfolio management. It plans to publish the policy statement with its proposals in Q2 of 2025. HMT intends to consult on expanding the regime to capture overseas funds, with a consultation paper likely to be published in 2025 (although no date has been confirmed). If overseas funds are caught, this may pose significant challenges for international groups in having to potentially comply, simultaneously, with the current EU disclosure regime (as well as any labelling requirements they might prescribe in the future), as well as those in force in the U.K.

The naming and marketing rules were intended to come into effect from 2 December 2024, meaning U.K. asset managers could only use sustainability-related terms in product names and marketing if either: (i) they were using one of the above-mentioned labels; or (ii) they complied with certain product name and marketing requirements. The FCA has offered temporary flexibility, until 2 April 2025, for U.K.-authorised investment funds which are currently using certain terms in the fund's name with the intention of either using a label or changing the name of the fund and which have submitted an application for approval of amended disclosures by 1 October 2024. Firms that are able to comply with the rules without relying on the flexibility should do so.

Firms using a label or sustainability-related terms in their naming and marketing should produce annual ongoing product-level disclosures. The FCA originally stated these disclosures should be made from 12 months after the date the label or terms are used. However, in December 2024, it published a consultation on minor amendments to aspects of the SDR regime, including giving asset managers 16 months from the start of their use of a label or terms in which to prepare the first report (with reporting on an annual basis thereafter). The consultation closes on 13 January 2025. Also from 2 December 2025, firms with more than GBP50bn in assets under management should provide entity-level disclosures on various matters, including in relation to their management of sustainability-related risks and opportunities.

GREENWASHING RISKS AND ISSUES

The FCA's November 2023 policy statement on SDR (see above) introduced a new anti-greenwashing rule prompted by concerns that firms may be making exaggerated or unsubstantiated claims about the sustainability credentials of their products, which could in turn erode trust in the market. The rule came into force on 31 May 2024 and applies to all regulated firms. Broadly speaking, a relevant firm must ensure that any reference to the sustainability characteristics of a product or service is consistent with the sustainability characteristics of the product or service, and is fair, clear and not misleading. This will apply to all communications with clients in the U.K. in relation to a product or service, or communications of a financial promotion or approval of a financial promotion for communication to a person in the U.K. In December 2024, the FCA published a consultation on minor amendments to the anti-greenwashing rule, which closes on 13 January 2025.

The FCA also published final guidance setting out its expectations for firms making claims about the sustainability of a product or service in April 2024.

The Financial Markets Standards Board has published a Transparency Draft of a Statement of Good Practice on the governance of sustainability-linked products (SLPs), upon which it is inviting comments until 21 February 2025. The statement is designed to establish good practices for the governance of SLPs and support the adoption of consistent governance approaches across jurisdictions and asset classes. The hope is that this will support the integrity of SLPs, build investor trust and help mitigate greenwashing risks.

ESG RATINGS

In November 2024, HMT published a response to its consultation on the future regulatory regime for ESG ratings, together with a draft statutory instrument implementing the proposed regime. Technical comments on the draft regulation should be submitted by 14 January 2025. HMT aims to lay the statutory instrument before parliament in early 2025, subject to Parliamentary time. The overall process for designing, developing and commencing the regime is expected to take around four years. Under the incoming regime, providing ESG ratings will become a regulated activity. This will include ratings produced in the U.K. and those produced overseas but made available to U.K. users by means of a business relationship. HMT has attempted to maintain consistency with international standards by broadly aligning the definitions with the International Organization of Securities Commissions' (IOSCO) definition of ESG ratings provision. The FCA will be informed by the IOSCO recommendations when developing its regulatory regime and will align its territorial approach with the EU's where appropriate.

The FCA will consult on draft rules and guidance for ESG ratings providers after the statutory instrument has been laid before parliament in 2025. The FCA is considering how to approach overseas ESG ratings providers applying for U.K. authorisation, including the possibility of requiring them to be incorporated in the U.K. In the interim, the ESG Data and Ratings Code of Conduct Working Group published its code of conduct applicable to both ESG ratings and data providers in December 2023, which firms can sign up to on a voluntary basis.

These initiatives may have significant knock-on impacts for financial services firms generally, given the increased commercial pressure from investors and the market for ESG data and for issuers and/or financial instruments to be the subject of ESG ratings or scores. Among other things, this enables investors and the market to assess how ESG-friendly a financial instrument, issuer or firm may be. It may also assist investors in incorporating ESG risk into their investment decision-making process, which is an increasing trend and the preferred approach from a regulatory perspective.

NET ZERO TARGETS

The former Conservative government expressed an ambition for the U.K. to be "the first ever Net Zero Aligned Financial Centre" and "the best place in the world for green finance", sentiments echoed in large part by the incumbent Labour leadership. In March 2023, the previous government issued the 2023 Green Finance Strategy, containing a number of initiatives and detailed timings. In December 2023, as part of the Strategy, it commissioned the Transition Finance Market Review (TFMR), an independent investigation into how best to scale up transition finance and maximise the opportunities for U.K.-based financial services.

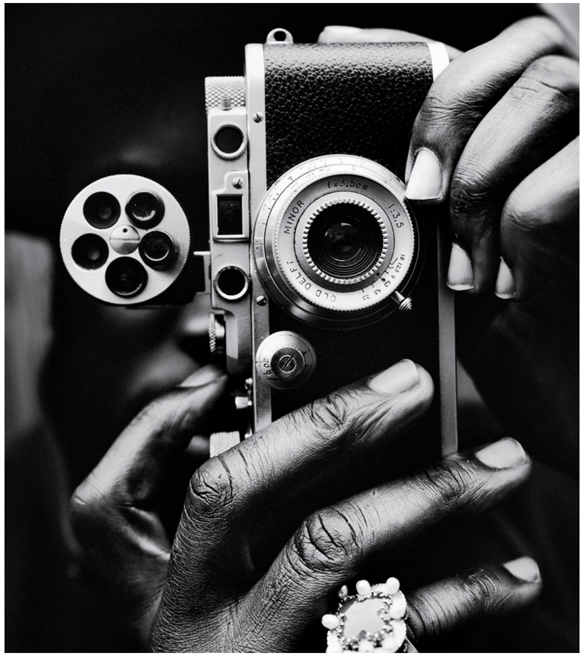
The report was published in October 2024 and sets out the TFMR's recommendations. From a financial services perspective, key proposals include:

- Closer work between key teams within government and within the Bank of England and FCA, as well as ongoing dialogue with industry on policy to support the delivery of decarbonisation targets.
- The Bank of England and FCA to include within their periodic reporting to the government information on how the transition of the economy and transition finance relates to the performance of their functions.
- The Bank of England and FCA to work with the Climate Financial Risk Forum to initiate a new workstream on transition finance.
- FCA and industry to engage to discuss approaches to establishing credible and robust transition pathways to demonstrate that underlying assets are fit for inclusion within the "Sustainability Improvers" label.
- U.K. financial institutions and regulators to monitor and engage with the Platform for Sustainable Finance, European Commission and ESMA on its review of SFDR, with the aim of supporting opportunities for interoperability where possible.

Some of the TFMR's proposed actions for 2025 include:

- The government should work with industry to consider the most appropriate structure of its net zero policy framework and should communicate its findings by Q1 2025, including an assessment of whether adjusting the structure of the framework could improve information flows and policy clarity.
- The government should publish a clear, funded plan for the establishment of a Transition Finance Lab in Q1 2025; the Lab would create a controlled environment to design and test innovative solutions for challenging transition finance deals.

The FCA has, in response, published feedback on how it will support the market to scale with integrity. This will include considering how it can embed the TFMR's findings in its policymaking and supervisory functions. Aspects of its ongoing initiatives, e.g., on ESG ratings providers and the U.K. endorsement of the ISSB standards will contribute to some of the objectives promoted by the TFMR. HMT has confirmed that it will co-launch the Transition Finance Council with the City of London Corporation, as recommended in the TFMR. It will also consult in H1 2025 on how best to take forward its manifesto commitment on transition plans to support its aim of making the U.K. the global hub for transition finance. For further details on the TFMR, see our client bulletin, "Inside the U.K.'s Transition Finance Market Review".



OTHER INITIATIVES

In November 2024, HMT published a call for evidence on the Financial Services Growth and Competitiveness Strategy, which is intended to serve as a guiding framework for sustainable growth in U.K. financial services over the next ten years. Sustainable finance is identified as a priority growth opportunity, with the government's longer-term vision being to develop a streamlined regulatory regime and effective policy framework to support the U.K. and global transition to net zero. The Strategy will be published in Spring 2025.

As part of the Mansion House reforms, the Department for Energy Security and Net Zero published a policy paper in November 2024 setting out principles for voluntary carbon and nature market integrity. It plans to consult on the proposed implementation of the principles and the steps the government could take to improve the integrity and use of voluntary carbon and nature markets in early 2025.

The FCA is continuing its work on stewardship. The Financial Reporting Council launched a consultation on proposed changes to the Stewardship Code in November 2024, including revisions to the definition of stewardship to clarify. Each signatory should determine their specific investment objectives with a focus on "long-term sustainable value". The consultation closes on 19 February 2025 and the FRC plans to publish an updated Code in H1 2025, to take effect on 1 January 2026. In September 2024, the FCA published details of its environmental, social and governance priorities and the metrics it is using to measure progress against them. It has decided to retire certain metrics, including that for measuring the effectiveness of stewardship, due to difficulties in devising metrics that properly reflect the impact of investor stewardship on firms' sustainability strategies. It will continue to support active investor stewardship, although it does not specify any planned initiatives for this purpose.

EU

POLITICAL BACKGROUND

Sustainability and climate change mitigation remained high on the EU agenda in 2024, with decarbonisation presented as one of three key transformations for Europe in Mario Draghi's flagship report on European competitiveness. On 8 November 2024, the newly reappointed President of the European Commission, Ursula von der Leyen, delivered the Budapest Declaration on the new European competitiveness deal and referred to a "simplification revolution" of the EU regulatory framework, with a key objective of reducing reporting requirements by at least 25% in H1 2025. During a press conference after the Declaration, Commissioner von der Leyen referred to an Omnibus Regulation that would streamline legislation and referenced the EU Taxonomy Regulation, Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD) as an example of regulation to be rationalised in this way. It is not yet clear whether, or to what extent, the requirements under those regulations will change—during the press conference, Commissioner von der Leyen said "the content of the laws is good" and will be maintained but there should be a reduction in the questions asked and data points to be collected, which often overlap. The European Commission's work programme for 2025 proposes publishing an Omnibus simplification package on 26 February 2025. In the meantime, further developments are expected in relation to the existing environmental, social and governance (ESG) regulatory regime over the next 12 months.

DISCLOSURE AND REPORTING

From 1 January 2025, the first cohort of firms (which include large EU companies subject to the EU Non-Financial Reporting Directive (NFRD) and large non-EU companies with securities listed on an EU regulated market) will start to report on the 2024 financial year in line with the CSRD. The CSRD regime, which had to be transposed into national legislation by 6 July 2024 and applies in stages, imposes enhanced ESG-related disclosure and reporting requirements on companies, and extends the application of the NFRD to a broader set of companies (large EU companies and non-EU companies with securities listed on an EU regulated market which do not satisfy the >500 employee test, as well as listed SMEs and non-EU companies with significant EU operations). It also introduces more detailed reporting requirements and requires adherence to mandatory EU sustainability reporting standards.

2025 will see the development of further detailed reporting standards and guidance under CSRD:

- The European Financial Reporting Advisory Group (EFRAG) plans to consult on an Exposure Draft of the Non-EU European Sustainability Reporting Standards (NESRS) in Q1 2025, which will apply to non-EU firms with significant EU operations that fall within the scope of CSRD (so-called Art. 40a companies). The NESRS will set out detailed requirements for sustainability reporting under CSRD. The final draft NESRS should be delivered to the European Commission by the end of 2025 at the latest and should be adopted by the Commission by 30 June 2026. Art. 40a companies are not required to report in accordance with CSRD until 2029, for the 2028 financial year.
- In November 2024, EFRAG published draft implementation guidance on transition plans for climate change mitigation, designed for use by large listed and unlisted companies that are subject to the European Sustainability Reporting Standards (ESRS). The guidance is non-authoritative and accompanies, but does not form part of, the ESRS. EFRAG plans to seek public feedback on the draft in early 2025 and finalise the guidance in the spring of 2025.
- ESMA is consulting on draft RTS for a European Single Electronic Format (ESEF) for sustainability reporting under the Accounting Directive (as amended by CSRD). The consultation paper was published in December 2024 and closes on 31 March 2025. ESMA expects to submit final draft RTS to the European Commission for endorsement in Q3 2025.

The next wave of firms to report under CSRD—namely, large EU companies not subject to the NFRD and large non-EU companies with securities listed on an EU regulated market which do not meet the >500 employees threshold—will need to begin preparing this year for their CSRD reporting obligations, which come into effect in 2026 for the 2025 financial year. EU and non-EU listed SMEs and certain small and non-complex institutions and captive insurance undertakings will need to report in 2027 for the 2026 financial year (subject to some exceptions).

[1] Except for those that only have wholesale denominated debt securities on an EU regulated market.
[2] Except for those that only have wholesale denominated debt securities on an EU regulated market.

DUE DILIGENCE

The CSDDD came into force on July 2024 and must be transposed into EU Member States' national regimes by 26 July 2026. This requires, among other things, due diligence on supply chains and sustainability matters by large EU companies with over 1,000 employees on average and a net worldwide turnover exceeding EUR450 million, non-EU companies with over EUR450m net turnover in the EU, as well as franchises meeting certain turnover and royalties tests. For further details on CSDDD and how companies can prepare, see our bulletin, "The EU Corporate Sustainability Due Diligence Directive is Final - How Can Companies Prepare". Although there are no significant CSDDD developments planned for 2025, the European Commission is planning to publish an Omnibus Regulation (discussed above) which may introduce changes to the CSRD, CSDDD and Taxonomy Regulation, with implications for firms' compliance planning.

LISTING REQUIREMENTS

The much-anticipated EU Listing Act package (see the Financial markets section below) came into force on 4 December 2024. As part of the package, the European Commission has asked ESMA to produce a building block of information to be included in prospectuses by issuers of non-equity securities that are advertised as taking ESG factors into account or pursuing ESG objectives. The Commission is seeking to protect against the risk of greenwashing from the issuance of these securities while avoiding overly burdensome regulation and overlaps or inconsistencies with the rest of the EU's sustainability-related legislation (including CSRD). ESMA consulted on the proposed building block at the end of 2024 and plans to publish its final technical advice in Q2 2025.

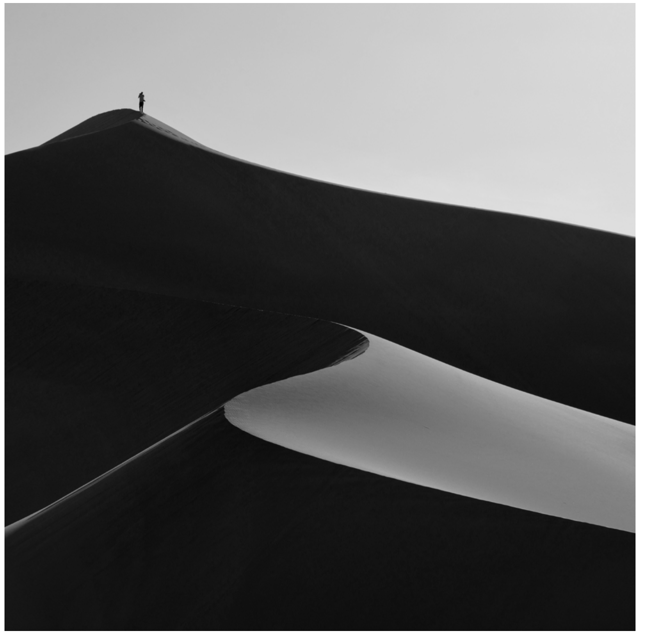
TAXONOMY

The Taxonomy Regulation is a key plank of the EU's overall sustainable finance strategy, intended to create a shared understanding of what activities can be considered "green" or environmentally sustainable. It also requires certain businesses and firms to make statements about whether, and to what extent, their activities (or in some cases, products) align with the taxonomy.

The European Commission is required to develop technical screening criteria on the different economic activities that fall within scope of the Taxonomy Regulation. The Platform on Sustainable Finance provides input on these criteria and itself relies on stakeholder requests on the scope of activities to be captured. The stakeholder requests are assessed by the Platform and Commission at specified "cut-off dates". In 2025, the Platform will publish a summary of the requests it had received at the first cut-off date on 15 December 2023, together with an explanation of how they were assessed and the recommendations that the Platform made as a result. The decision on the timing of the next cut-off date will be taken in 2025.

On 1 January 2024, three delegated acts under the Taxonomy Regulation were published. In November 2024, the European Commission published a draft notice containing FAQs on the interpretation and implementation of certain aspects of these delegated acts, which will be formally adopted in 2025 once versions are ready in all EU languages.

Please also see Sustainable Finance Disclosure Regulation (SFDR) and labelling section below which notes the ESMA Common Supervisory Action which is relevant to the Taxonomy Regulation.



SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR) AND LABELLING

The European Commission launched a consultation on the implementation of SFDR in Q4 2023 to collect feedback on the strengths and weaknesses of the regime and views as to how it may evolve going forward, with the possible introduction of a product labelling regime. The Commission had been expected to publish a report in Q2 2024, but instead produced a summary of responses to the consultation with the full report still outstanding. The European Supervisory Authorities (ESAs) published a joint opinion in June 2024 with various recommendations for the future development of SFDR, including replacing the current method of product categorisation under Articles 8 and 9. The Platform on Sustainable Finance published its own proposal on categorisation of products in December 2024. It remains to be seen whether these will be reflected in the Commission's report, but they are certainly likely to influence the Commission.

In parallel, in December 2023, the ESAs published their final report on aspects of the operation of the SFDR Delegated Regulation including disclosures of principal adverse impacts (PAI) of investment decisions on sustainability factors and the introduction of disclosure requirements around decarbonisation targets. Specifically, the report covers various topics including: (i) extension of social PAI indicators; (ii) other changes to the PAI disclosure framework; (iii) disclosure of greenhouse gas emission reduction targets; (iv) improvements to product templates; and (v) certain other minor technical amendments. The Commission had been expected to review the report in 2024 but there has been no update. If it does take this forward in 2025 and the proposals are endorsed, they will proceed to be reviewed and approved by the European Parliament and Council.

Also related to PAI, the ESAs have proposed that their annual report on the extent of voluntary PAI disclosures under SFDR should be delivered only every two to three years, to allow the ESAs and national competent authorities to focus more resources on meaningfully analysing PAI disclosures and reflecting on lessons learnt. The Commission has not yet responded to this proposal and ESMA has stated that the ESAs do intend to publish the report in 2025.

In July 2023, ESMA launched a Common Supervisory Action (CSA) on sustainability-related disclosures and the integration of sustainability risks, which was due to conclude in Q3 2024. Among other things, the goal was to assess the compliance of firms with SFDR and the Taxonomy Regulation, as well as the provisions in the UCITS and AIFMD regimes on the integration of sustainability risks. The exercise also aimed to consider greenwashing risks in the investment management sector, and whether additional regulatory intervention is required. A complete assessment of the outcome is expected in early 2025, after which ESMA will coordinate supervisory case discussions with national competent authorities building on the findings of the exercise.

GREENWASHING RISKS AND ISSUES

Greenwashing continues to be an area of concern for many European regulators, with ESMA, the EBA and EIOPA publishing reports on greenwashing for the financial sector in 2024. ESMA has confirmed that it intends to intensify its focus on the issue in 2025.

ESMA's 2024 report on greenwashing identified various actions that national competent authorities should consider to enhance supervision of the sustainable investment value chain.

In 2025, ESMA intends to clarify its supervisory expectations on managing greenwashing risks, develop tools to support national competent authorities in addressing those risks and improve the quality and effectiveness of ESG disclosures.

ESMA published guidelines on funds' names using ESG or sustainability-related terms in August 2024. The guidelines are designed to ensure that investors are protected against exaggerated or unsubstantiated claims in fund names and to give asset managers clear and measurable criteria to determine whether they can use certain terms. The guidelines began applying on 21 November 2024 and any new funds created on or after that date should apply the guidelines immediately. For funds existing before that date, there is a six month transitional period until 21 May 2025 before the guidelines apply.

In December 2023, ESMA announced the launch of a CSA with national competent authorities on ESG disclosures under the Benchmarks Regulation (BMR). The CSA will focus on supervised benchmarks administrators that have acquired an authorisation, registration, recognition or endorsement of their benchmarks under the BMR and will conclude in Q1 2025. The goal is to assess compliance with the ESG disclosure requirements in the BMR.

ESG RATINGS

The EU ESG Ratings Regulation came into force on 1 January 2025 and will apply from 2 July 2026. It aims to improve the reliability, comparability and transparency of ESG ratings in order to bolster consumer and investor protection and prevent greenwashing. The Regulation establishes an authorisation and supervision regime for EU rating providers, together with organisational, governance and transparency requirements. Third country providers will need to obtain either an endorsement of their ESG ratings by an EU-authorised provider, a recognition decision by ESMA, or an equivalence decision by the European Commission. By 2 October 2025, ESMA must submit various draft RTS and guidelines under the new Regulation to the European Commission.

NEW EU GREEN BOND REGIME

The EU's Green Bond Regulation came into force on 20 December 2023 and applies (for the most part) from 21 December 2024.

The regime introduces the European Green Bond label as a designation which can be used on a voluntary basis by bond issuers. Issuers seeking to use the label must: (i) comply with the allocation requirements; (ii) provide pre and post-issuance disclosure; (iii) have that disclosure externally reviewed; and (iv) be willing to submit to the oversight of the competent authority of its home Member State under the EU Prospectus Regulation.

Alternatively, an issuer could instead provide sustainability disclosures for: (i) use of proceeds bonds not using the label but marketed as environmentally sustainable; or (ii) sustainability-linked bonds, although competent authority supervision will still apply in this case.

Importantly, an issuer will also still be able to continue to follow the ICMA Principles instead, should they prefer.

The regime also establishes a system to register and supervise external reviewers of European Green Bonds. Until 21 June 2026, there will be a transitional period during which reviewers can provide these services without having been registered with ESMA. During the transitional period they will need to notify ESMA of their activity, as well as making their best efforts to comply with relevant provisions of the Green Bond Regulation.

ESMA is required to submit draft ITS and RTS under the Regulation to the European Commission in two tranches. It consulted on the first tranche during 2024, although has not yet published the final report as anticipated at the end of 2024. The consultation on the second tranche, together with the final report on the first tranche, are expected in 2025.

In December 2024, the European Commission published a draft delegated regulation on establishing the content, methodologies and presentation of the information to be voluntarily disclosed in the templates for periodic reporting of post-issuance information disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds. Feedback on this draft can be provided until 28 January 2025.

OTHER INITIATIVES

In the latter part of 2024, ESMA and the EBA published their 2025 work programmes which confirm their ESG priorities.

Key 2025 objectives for ESMA are:

- Contributing to facilitation of the financing of the EU transition towards a more sustainable economy, while preserving market integrity and financial stability as well as a high level of investor protection.
- Promoting efficient and consistent integration of sustainability-related factors in supervisory, convergence, risk assessment and regulatory activities.
- Maintaining investors' confidence in ESG investments by promoting high quality sustainability disclosures and addressing the risk of greenwashing.
- Systematically monitoring ESG market developments and climate risk including when performing stress tests.

Particular initiatives for ESMA include assessing the vulnerabilities that financial products and market participants may have to adverse climate-related financial shocks, producing guidance on sustainability claims to financial market participants, as well as monitoring the need for additional guidance under ESG legislation including SFDR, CSRD, the Taxonomy Regulation and the BMR. ESMA will also publish a statement in 2025 on its 2024 CSA on the integration of sustainability preferences in firms' suitability assessments and will report on its 2023/2024 CSA on sustainability in investment management. The EBA will continue building a risk monitoring framework for the banking sector in 2025, as well as delivering ESG-related technical standards, guidelines and reports in accordance with ESG-related legislation and pursuing its aims under the EBA roadmap on sustainable finance.

PRUDENTIAL

Climate-related financial risks remain firmly on the radar at all levels. In the international arena, addressing financial risks from climate change was a key priority for the Financial Stability Board (FSB) in 2024. The FSB's 2024 annual report promoting global financial stability includes a summary of the FSB's continuing work to assess climate-related vulnerabilities and to enhance supervisory and regulatory practices. It will issue its next report on progress with the 2021 roadmap for addressing climate-related financial risks in mid-2025.

The Basel Committee on Banking Supervision (BCBS) is considering how climate scenario analysis can be practically used to help strengthen the management and supervision of climate-related financial risks. The outcome of a discussion paper, which closed in July 2024, is anticipated imminently as is a final proposal for a Pillar 3 disclosure framework for climate-related financial risks, the implementation date for which was suggested to be 1 January 2026 in the BCBS's November 2023 consultation.

U.K.

The Bank of England's Financial Policy Committee confirmed in November 2024 its intention to publish further detail on its approach to evaluating the impacts of climate change on financial stability. It is also considering a range of potential metrics to help monitor climate-related risks to the financial system systematically over time.

Managing the risks to firms' safety and soundness from climate change remains a key priority for the PRA. It continues to focus on identifying and addressing emerging risks internationally, working closely with the BCBS on its response to consultations including disclosures for climate-related risks.

Domestically, the PRA continues to monitor firms' progress in managing climate-related risks and is expected to consult in Q1 2025 on updating its supervisory statement on enhancing banks' and insurers' approaches to managing the financial risks from climate change, first published in April 2019.

For now, U.K. banks should continue to expect discussion with the PRA around their climate-related risk policies and maintain a watching brief on the PRA's expectations to ensure that those policies are aligned.

The FCA has been reviewing feedback on its 2023 discussion paper seeking views on sustainability-related governance, incentives and competence in regulated firms and is considering whether there is a case for further regulatory measures in the area to support the role of finance in contributing to positive change.

Further, unlike EU investment firms which have been required to make disclosures on ESG-related risks since December 2022, U.K. investment firms are not currently required to make specific disclosures under MIFIDPRU concerning ESG issues. The November 2023 Regulatory Initiatives Grid indicated that the FCA intended to publish a consultation paper on ESG disclosures and MIFIDPRU clarifications in Q2 2024. However, this was not published, and the initiative was not mentioned in the October 2024 interim grid.

EU

Directive 2024/1619 (CRDVI) contains requirements to improve the way banks measure and manage ESG risks, and to ensure that markets can monitor what banks are doing. CRDVI was published in the Official Journal in June 2024, and Members States have until 10 January 2026 to transpose the requirements into national legislation with an application date of 11 January 2026.

EU firms will be anticipating relevant draft national legislation transposing these requirements in 2025 to confirm the details.

Credit institutions will require robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of ESG risks over an appropriate set of time horizons. The EBA is mandated to produce guidelines on the criteria for the assessment of ESG risks, including how they should be identified, measured, managed and monitored as well as how credit institutions should draw concrete plans to address and internally stress test resilience to, and long-term negative impacts of, the ESG risks by 10 January 2026. It consulted on draft guidelines in Q1 2024. Again, firms will maintain a watching brief to ensure that their internal compliance processes match the EBA's expectations.

Regulation 2024/1623 (CRR III) extends the requirement to disclose ESG risks to all banks, with proportionality for smaller banks, and mandates the EBA to draft implementing technical standards to specify uniform disclosure formats. Any EU bank not already disclosing their ESG risks will need to expand their 2025 disclosures with an eye on any future BCBS standards in this area.

On the prudential treatment of credit risk exposures to entities that operate or finance physical structures or facilities, systems and networks that provide or support essential public services originated after 1 January 2025, CRR III will permit a favourable risk weight treatment only where the relevant bank finances an infrastructure project that has a positive environmental impact assessment. Firms may seek to revisit their investment and lending policies to reflect these changes.

Prudential *regulation*

INTERNATIONAL STANDARDS FOR INTERNATIONALLY ACTIVE BANKS

The BCBS is continuing to pursue a series of follow-up initiatives building on the findings of its analytical work of the 2023 banking turmoil. These include prioritising work to strengthen supervisory effectiveness and identify issues that could merit additional guidance at a global level. They also include additional follow-up analytical work to assess whether specific features of the Basel Framework for internationally active banks, such as liquidity risk and interest rate risk in the banking book, performed as intended during the turmoil. An update on this work is expected in early 2025. Work on addressing 'window dressing' behaviour by some banks in the context of the framework for global systemically important banks will also continue in 2025.

Meanwhile, the BCBS continues to encourage full, timely and consistent adoption and implementation of the Basel standards. The final Basel III standards were agreed by the Group of Central Bank Governors and Heads of Supervision in December 2019 with adjustments to the market risk framework endorsed in January 2019.

The final Basel standards have been designed to restore credibility in the calculation of risk-weighted assets (RWAs) and improve the comparability of banks' capital ratios by: (i) enhancing the robustness and risk sensitivity of the standardised approaches for credit risk, credit valuation adjustment (CVA) risk and operational risk; (ii) constraining the use of the internal model approaches, by placing limits on certain inputs used to calculate capital requirements under the internal ratings-based (IRB) approach for credit risk and by removing the use of the internal model approaches for CVA risk and for operational risk; (iii) introducing a leverage ratio buffer to further limit the leverage of global systemically important banks (G-SIBs); and (iv) replacing the existing Basel II output floor with a more robust risk-sensitive floor based on the Committee's revised Basel III standardised approaches.

The implementation date, initially set for 1 January 2022, was deferred by one year in response to the Covid-19 crisis to 1 January 2023 with a five-year phase in for some elements (notably the output floor). The Bank for International Settlements (BIS) reported in October 2024 that as at the end-September 2024, around half of the BCBS's 27 member jurisdictions had published final rules for the revised credit risk, market risk and operational risk standards and the output floor. As a result of this progress, the BIS further reports that more than two-thirds of member jurisdictions have now published final rules for all the final elements of Basel III and these standards are in force in more than a third of member jurisdictions.

Notably, however, efforts in the U.S. to implement Basel III have stalled, and it remains unclear whether, when and how the U.S. will implement the standards.

The EU and U.K. have published final (or at least "near-final" in the U.K.) rules to implement the final Basel III standards. Implementation is set for 1 January 2025 in the EU, and the PRA has proposed 1 January 2026 for implementation in the U.K., though given ongoing uncertainty around implementation in the U.S., firms await the final rules for certainty. As jurisdictions take differing approaches to the substance and timing of implementation, firms are faced with the challenges arising from differential capital requirements in different jurisdictions. Given the prominence of the U.S. banking sector, any retreat from the international standards may have knock-on effects elsewhere, with banks in those jurisdictions which have implemented Basel III likely to lobby for more favourable treatment to enable more effective competition in international banking.

U.K.

In line with the U.K.'s post-Brexit regulatory framework for financial services, implementation of the final Basel III standards in the U.K. (referred to as Basel 3.1) will be affected mainly by additions and amendments to the PRA Rulebook and other PRA supervisory materials. HMT will revoke provisions of the U.K.'s version of the Capital Requirements Regulation (CRR) that was assimilated into U.K. law as the new standards come into effect.

The PRA has published its policy on the implementation of Basel 3.1 in two parts. In each instance the PRA describes the policy as "near-final" rules but confirms that it does not intend to change the policy or make substantive alterations to the instruments before the making of the final policy material.

The first set of near-final rules on market risk, CVA risk, counterparty credit risk and operational risk was published December 2023. The second, containing the final policy on credit risk, the internal ratings based (IRB) approach to credit risk, credit risk mitigation, the output floor, disclosure and reporting, was published in September 2024. In that second policy statement, the PRA deferred the implementation date from 1 July 2025 to 1 January 2026 with a transitional period expiring on 1 January 2030. HMT also published a policy update on its approach to revoking the U.K. CRR, including issues relating to Basel 3.1 in September 2024.

The PRA intends to publish the final versions of the rules and related supervisory material on the Basel 3.1 reforms in a single final policy statement after HMT has made commencement regulations to revoke the provisions in the U.K. CRR that will be replaced by PRA rules. The PRA has indicated that this should be in Q1 2025, but again, given residual uncertainty around implementation in the US, it remains subject to change. It expects to publish the final version of the reporting taxonomy for the technical implementation of Basel 3.1 at the same time.

EU

Regulation (EU) 2024/1623 (CRR III) and Directive (EU) 2024/1619 (CRDVI) were published in the Official Journal of the European Union on 19 June 2024. The package contains the EU's implementation of the final Basel III standards, ESG prudential requirements (see Sustainability and ESG section above) and proposals to provide stronger tools for supervisors overseeing EU banks. In particular, (i) a clear, robust and balanced "fit-and-proper" set of rules, where supervisors assess whether senior staff have the requisite skills and knowledge for managing a bank (see Cross Sector section discussion of individual accountability above); (ii) better tools to oversee fintech groups, including bank subsidiaries; and (iii) proposals seeking to harmonise the authorisation and supervision of third country banks and systemic investment firms.

Non-EU banks are avidly anticipating individual member state transposition of the new branch requirements in CRDVI, assessing the impact on their various business lines and planning for compliance. National implementing legislation will emerge in 2025 with the deadline for transposition being 10 January 2026 and the prohibition on the provision of cross-border banking services taking effect from 11 January 2027. The EBA is to report by 10 July 2025 on whether to extend an exemption to the prohibition on cross-border services provided to credit institutions to include other financial sector entities. See our briefings on "EU proposal to regulate third country providers of financial services" "CRDVI cross-border rules take shape, CRDVI what EU branches of third country banks need to know" and "New licensing requirements for cross-border lending into Europe" for further information.

CRR III contains the EU's final Basel III implementation and applies generally from 1 January 2025. In July 2024, the European Commission adopted a delegated act to postpone by one year (i.e., until 1 January 2026) the date of application of the Fundamental Review of the Trading Book (FRTB) standards for banks' calculation of own funds requirements for market risk. This was considered necessary "to preserve the global level playing field for internationally active European banks in respect to their trading activities" given that other major jurisdictions have yet to finalise their rules and communicate their timelines for implementation. During the one-year postponement period, institutions should continue to use their current (pre-FRTB) methodologies to calculate their own funds requirements for market risk. In parallel, the FRTB Standardised Approach will be used for the output floor calculation. These elements therefore need to continue to be reported to competent authorities based on the current reporting requirements.

Investment firms prudential regimes

U.K. IFPR

MIFIDPRU, the prudential sourcebook for solo-regulated investment firms, defines regulatory capital through a number of cross-references to a "frozen in time" version of the U.K. Capital Requirements Regulation. The FCA intends to remove these references, bringing the definition into MIFIDPRU, amending where necessary to be more applicable to investment firms. It intends to consult on removing these references in Q1 2025, which may result in changes to the eligibility or quantum of regulatory capital of U.K. investment firms.

EU IFR/IFD

In February 2023, the European Commission sent a call for advice to the EBA and ESMA asking for their joint report on the prudential framework for investment firms that has applied since June 2021. This call for advice was in relation to the Commission's mandate to report, with legislative proposals if necessary, by 26 June 2024 on topics including: the conditions for investment firms to qualify as small and non-interconnected firms, the modification of the definition of credit institution in the CRR to include systemically important investment firms, the framework for equivalence in financial services, the Article 1(2) conditions for investment firms to apply the requirements of the CRR, the provisions on remuneration in the IFD and the IFR as well as in the AIFMD and the UCITS Directive with the aim of achieving a level playing field for all EU investment firms, and the co-operation of the EU and member states with third countries in the application of the IFD and IFR.

In June 2024, the EBA and ESMA issued a joint discussion paper and data collection concerning the European Commission's call for advice. The deadline for responses was 3 September 2024. The EBA and ESMA intended to publish the final report in response to the Commission's call for advice by December 2024. As such, 2025 may see legislative proposals from the European Commission to amend the EU's prudential framework for investment firms and or the boundaries between the prudential regimes for credit institutions and investment firms.

CRDVI will amend, from 11 January 2026, Article 8a of the Capital Requirements Directive which prescribes the requirements for the authorisation of significant investment firms as credit institutions. In particular, the amendments clarify that the group asset test threshold applies to all "undertakings in the group established in the EU, including any of its branches and subsidiaries established in a third country". The EBA's final RTS to specify the methodology for calculating the thresholds may now follow in 2025. Those investment firms for which the relevant EUR30bn threshold cannot be determined without the guidance provided in the EBA RTS will keenly anticipate any such development to identify the relevant prudential regime to be applied.

PRUDENTIAL REGIMES FOR CRYPTOASSET EXPOSURES

The BCBS has also published standards for internationally active banks on the prudential treatment of cryptoasset exposures which it initially expected its members to implement by 1 January 2025. In May 2024, it was announced that the implementation date would be deferred by a year to 1 January 2026, to ensure that all members were able to implement the standard in a full, timely and consistent manner.

The standards divide cryptoassets into two groups. Tokenised traditional assets and stablecoins with effective stabilisation mechanisms that meet classification conditions will attract the same own funds requirements as their reserve assets or the assets they refer to, with the possibility for supervisors to impose add-ons. The second group, which comprises the riskiest forms of cryptoassets, are to be risk-weighted at 1,250% unless they meet certain hedging recognition criteria, in which case they must be treated according to market risk rules. Holding limits will also apply to the second group of assets. Banks would also be required to perform due diligence to ensure that they have an adequate understanding of the stabilisation mechanisms of stablecoins to which they are exposed, and the effectiveness of those mechanisms. As part of the due diligence performed, banks would be required to conduct statistical or other tests demonstrating that the stablecoin maintains a stable relationship in comparison to the reference asset.

The BCBS published its final expectations on disclosure requirements related to banks' cryptoasset exposures in July 2024, which include a standardised disclosure table and set of templates for banks' cryptoasset exposures. Banks are expected to make qualitative disclosures on an annual basis on their activities related to cryptoassets and the approach used in assessing the classification conditions. They should also make disclosures on a semi-annual basis on: (i) cryptoasset exposures and capital requirements; (ii) accounting classification of exposures to cryptoassets and cryptoliabilities; and (iii) liquidity requirements for exposures to cryptoassets and cryptoliabilities.

U.K.

On 12 December 2024, the PRA published a data request for information on firms' current and expected future cryptoasset exposures and firms' application of the Basel framework for the prudential treatment of cryptoassets. This data gathering exercise will inform the PRA and Bank of England's work on the calibration of the prudential treatment of cryptoasset exposures, the analysis of costs and benefits of different policy options, and how the regulators will monitor the financial stability implication of such cryptoassets. Firms are asked to complete the information request at the highest level of U.K. consolidation, to the extent it is relevant to their business, exposure or activities. The deadline for comments is 24 March 2025.

The FCA will publish a discussion paper on trading platforms, intermediation, lending and staking and prudential requirements (prudential considerations for cryptoasset exposures) and a consultation paper on stablecoins, custody and prudential requirements (proposing to introduce a new prudential sourcebook, including capital, liquidity and risk management) in H1 2025. This will be followed by consultation on trading platforms, intermediation, lending and staking, and on remaining material for a prudential sourcebook (groups and reporting) anticipated in Q4 2025/Q1 2026. The FCA anticipates that all policy statements and final made rules will be published in 2026, with the FCA's cryptoasset regime going live later in 2026. See the Fintech/Digital Assects section below for further discussion of the U.K.'s future cryptoasset regime.

EU

In the EU, CRR III requires the Commission to submit a legislative proposal by 30 June 2025 to implement the BCBS standard and specifies the prudential treatment applicable to banks' cryptoasset exposures in the transitional period until implementation of such legislation. That transitional treatment is required to take into account the legal framework introduced by MiCAR.

During the transitional period, tokenised traditional assets, including e-money tokens, should be recognised as entailing similar risks to traditional assets and cryptoassets compliant with MiCAR and referencing traditional assets other than a single fiat currency should benefit from a capital treatment consistent with the requirements of MiCAR. Exposures to other cryptoassets, including tokenised derivatives on cryptoassets different from the ones that qualify for the more favourable capital treatment, should be assigned a 1,250% risk weight. It also prescribes exposure limits.

CRR III also requires firms to disclose prescribed information on cryptoassets and cryptoasset services as well as any other activities related to cryptoassets. This includes direct and indirect exposure amounts, the total risk exposure amount for operational risk, the accounting classification for cryptoasset exposures, a description of the business activities related to cryptoassets and their impact on the risk profile of the institution and a description of their risk management policies related to cryptoasset exposures and cryptoasset services.

As discussed further in the Fintech/Digital Assets section below, MiCAR commenced application on 30 June 2024 as regards Titles III and IV on issuers of asset-referenced tokens (ARTs) and e-money tokens (EMTs) respectively. The EBA has published its package of final technical standards and guidelines under MiCAR on prudential matters, namely own funds, liquidity requirements, and recovery plans for issuers of ARTS and EMTs. The European Commission adopted Delegated Regulations with regards to the RTS on the adjustment of own funds requirement and minimum features of stress testing programmes in December and they will enter into force in early 2025, 20 days after publication in the Official Journal. The rest are anticipated to follow imminently. The guidelines on recovery plans have applied since November 2024.

PROGRESS ON DEVELOPMENT OF U.K.'S POST-BREXIT REGULATORY FRAMEWORK

Consistent with the general reforms to the U.K.'s post-Brexit regulatory framework for financial services (see the Cross-sector section for further discussion), the U.K. government intends to revoke U.K. CRR and other EU law relating to the prudential regulation of PRA regulated firms, which forms part of assimilated law post-Brexit, and intends for it to be replaced, for the most part, with PRA rules and statements of policy.

The first elements to be revoked are those parts of U.K. CRR that have been or will be replaced by PRA rules implementing Basel standards (see further discussion above) but workstreams are also underway in respect of provisions relating to the definition of capital, TLAC, the level of application of requirements, securitisation capital requirements, counterparty risk, settlement risk and capital buffers.

In 2025, HMT and the PRA aim to finalise their policy on transferring the CRR definition of capital provisions to the PRA Rulebook and consult on transferring the remaining provisions of U.K. CRR into the PRA Rulebook. An update from HMT in September 2024 clarified that while all non-Basel related CRR revocations will likely be covered in one set of commencement regulations, draft commencement regulations covering the definition of capital provisions have been published first as they relate to the PRA's proposed new rules for its small domestic deposit takers regime (see further below). HMT is also expected to set out its intended approach to restating the CRR equivalence regimes in legislation in due course. HMT has already stated that it does not intend to restate the effects of the Article 142 CRR equivalence regime.

In September 2024, the PRA confirmed that it was reviewing the leverage ratio requirement thresholds. If this review identifies a need for changes, the PRA expects to publish a consultation paper in Q1 2025. In the meantime, the PRA published a direction for modification by consent relating to the Leverage Ratio: Capital Requirements and Buffers Part, the effect of which is to disapply the entire Part. The modification is available to a firm that did not meet the leverage ratio requirement thresholds before 10 September 2024 but expects to meet the criteria after the next accounting reference date or any accounting reference date before 31 December 2025. The purpose of the modification is to disapply the Part until the review is complete. It will cease to have effect at the end of 30 June 2026, although the PRA may revoke it earlier, following the completion of the review.

The PRA is also consulting on amendments to the large exposures framework, including proposals to remove the possibility for firms to use internal model methods to calculate exposure values to securities financing transactions, introducing a mandatory substitution approach to calculate the effect of the use of credit risk mitigation techniques, and amending the limits to trading book exposures for third-party exposures and for exposures to intragroup entities. The deadline for responses is 17 January 2025. The PRA intends that these reforms will take effect shortly after publication of the final policy statement, and the draft text indicates that the majority of the reforms are intended to take effect on 1 June 2025. The exception is the proposal to remove the possibility for firms to use internal model methods to calculate exposure values to securities financing transactions, which is expected to take effect on 1 January 2026.

The PRA additionally intends to introduce new rules on step-in risk (the risk that a bank provides financial support to an unconsolidated entity that is facing stress, in the absence of, or in excess of, any contractual obligations to provide such support). Banks that do not qualify as small domestic deposit takers (see further below) will be required to undertake regular assessments to ensure that they are appropriately identifying and managing step-in risk and to consider whether further actions are required to mitigate step-in risk in certain cases. The PRA will also publish a supervisory statement on step-in risk in 2025. The proposed date for implementing these reforms is 1 January 2026.

U.K. STRONG AND SIMPLE REGIME

The PRA continues its work on developing a proportionate prudential framework for PRA regulated banks and building societies that are not systemically important and are focused on deposit taking from, and lending to, households and corporates in the U.K.

The PRA anticipates a layered prudential regime, with the requirements applicable to what the PRA terms "small domestic deposit taker" firms (SDDTs) being the most proportionate through to the application of rules based on the Basel framework applicable to the more sophisticated, large or complex firms.

The scope of the small domestic deposit taker regime was confirmed by the PRA in December 2023 together with the PRA's policy on liquidity and disclosure requirements for SDDTs. This was "phase 1" of the development of the new regime. Proposals on "phase 2" for simplifying all elements of the capital stack and the calculation of regulatory capital and additional liquidity simplifications for SDDTs were published in September 2024 with the final policy anticipated in 2025.

The SDDT regime operates on an opt-in basis. Firms meeting the SDDT criteria (SDDT-eligible firms) can enter the regime by consenting to a Modification by Consent (MbC) to become an SDDT.

SDDT firms will not be required to implement the Basel 3.1 reforms but may choose to do so if they wish. If they do not implement Basel 3.1, they will continue to apply the existing Basel III rules until the SDDT capital regime is implemented (anticipated January 2027). SDDT-eligible firms wanting to take advantage of this interim capital regime should inform the PRA by 28 February 2025 otherwise the PRA will assume that such firms have chosen to be subject to the Basel 3.1 standards from 1 January 2026, subject to any movement of the Basel 3.1 implementation date.

Remuneration

U.K.

In November 2024, the FCA and PRA published a joint consultation on remuneration, which closes for comments on 13 March 2025. Final policy is anticipated in H2 2025 with entry into force the day after publication.

This consultation is the third to chip away at remuneration rules derived from the EU following the removal of the bonus cap and enhancing proportionality for small dual-regulated firms, both in 2023. Sam Woods, Bank of England Deputy Governor for Prudential Regulation and PRA Chief Executive, foretold of some of the proposed amendments in his Mansion House speech in October 2024 on "competing for growth". The stated aim of the proposed amendments is to make the dual-regulated firms' remuneration regime more effective, simple and proportionate, while facilitating each regulator's primary objectives.

The regulators are proposing to: (i) reduce the number of individuals subject to the remuneration rules (Material Risk Takers (MRTs)); (ii) simplify the approach for identifying MRTs, placing more emphasis on firms to own and safeguard the process; and (iii) bring rules on deferral of variable remuneration more in line with international practice and ensure that variable remuneration better reflects risk taking outcomes and individual responsibilities.

Currently, rules governing the scope of the requirements contain minimum qualitative (role based) and quantitative (remuneration based) criteria. The regulators propose to simplify the identification process with a single quantitative threshold (the 0.3% of highest earners).

They also propose to move the MRT identification criteria out of rules and into expectations, giving firms more flexibility and discretion.

The regulators further propose to remove the requirement to seek regulatory approval to exclude from MRT categorisation individuals that qualify solely by tripping the quantitative threshold. Expectations around governance arrangements are enhanced to ensure that relevant functions are involved throughout the process and there will be an expectation that firms document the MRT identification process.

The FCA proposes to change the structure of SYSC 19D so that it largely cross-refers to the PRA's Remuneration Rules for better consistency and alignment.

The regulators intend to consult on the onshoring of relevant European remuneration guidelines or regulations in the future.

EU

The first data collection under the guidelines on the benchmarking of diversity practices, including diversity policies and gender pay gap, under CRD IV and the Investment Firms Directive will be conducted in 2025 with a reference date of 31 December 2024.

Ring-fencing

U.K.

In November 2024, HMT published a response to the September 2023 consultation on “A smarter ring-fencing regime” and laid a draft SI in parliament to implement the new regime. This followed the final report of the Ring-fencing and Proprietary Trading Independent Review, led by Keith Skeoch (the Skeoch Review) published in March 2022 and the previous government’s announcement, as part of the Edinburgh reforms in December of that year, that it intended to take forward a number of the report’s recommendations on near-term reforms.

The Skeoch Review addressed itself to an existential question—whether ring-fencing is really necessary in the post-global financial crisis era given other regulatory developments (in particular, in recovery and resolution)—and to a series of narrower questions around the technical operation of the regime.

The draft Financial Services and Markets Act 2000 (Ring-fenced Bodies, Core Activities, Excluded Activities and Prohibitions) (Amendment) Order 2024 amends the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014 (CAO) and the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 (EAPO) to address the questions around the technical operation of the regime. It also makes minor amendments to the CAO and the EAPO to remove EU-related expressions that are no longer relevant to the U.K.

The draft Order will come into force on the twenty-second day after the day on which it is made, anticipated in early 2025.

The Order amends the ring-fencing deposit thresholds including the introduction of a secondary threshold to exempt retail-focused banking groups from the regime. It makes architectural reforms, in particular removing the geographic restrictions on where ring-fenced banks can operate and introduces a four-year transition period for complying with the ring-fencing regime where ring-fenced banking groups acquire another bank that is not subject to ring-fencing. It also expands the list of permitted products and services including to facilitate investments by ring-fenced banks in SMEs and introduces a de minimis threshold for excluded activities.

The PRA consulted in September 2023 on proposed rule and policy updates in respect of the establishment and maintenance of third country branches and subsidiaries within ring-fenced body sub-consolidation groups. The final policy outcomes of that consultation are anticipated to coincide as closely as possible with the removal of the legislative prohibition on non-EEA branches and subsidiaries. This was initially expected to occur in H1 2024 but there is no mention of this policy development in the interim regulatory initiatives grid published in October 2024. On the basis that the draft Financial Services and Markets Act 2000 (Ring-fenced Bodies, Core Activities, Excluded Activities and Prohibitions) (Amendment) Order 2024 has been laid, we still anticipate this imminently.

The PRA also intends to consult in due course on reforms to the Ring-fenced Bodies Part to reflect the findings set out in its January 2024 report on the review of these rules. Although the review concluded that most rules were performing satisfactorily and that no significant gaps had been identified, it did identify a number of areas that might be the subject of further consultation. In particular, the PRA is considering changes in respect of governance, continuity of provision of services, policies and procedures on arm’s-length transactions and data reporting and notifications. Again, however, it has not indicated its timetable for these reforms.

Recovery and resolution

On the existential question, recognising the increasing alignment and overlap between recovery and resolution, the Skeoch Review made a long-term recommendation to align the ring-fencing regime with the resolution regime. In September 2023, HMT published a summary of responses to its call for evidence on the issue. The interplay between the two regimes, and questions as to how far each secures financial stability and imposes costs, are complex and politically and commercially sensitive. The responses to the call for evidence reflect the divergence of views and interests across stakeholders, and as a result do not present a coherent way forward on the questions raised by the Skeoch Review. The previous government indicated that it would continue to consider options for reform over the medium-to-long term. Although the November 2023 Regulatory Initiatives Grid indicated that the policy response to the call for evidence would be published in the second half of 2024, it has not been and there is no mention of this policy development in the interim regulatory initiatives grid published in October 2024. Perhaps this simply means that it is now to be expected post Q1 2025 (the horizon covered by the interim regulatory update).

In December, the FSB published its resolution report for 2024. The report takes stock of the resolution-related work of the past year and sets out the FSB's 2025 priorities in the resolution area.

Ensuring an effective resolution framework for the banking sector has been a significant focus for the FSB. The bank failures in 2023 provided several lessons for resolution planning and for the broader elements of the crisis management framework for banks. In the coming year, the FSB will continue to address areas that remain outstanding, specifically: (i) advancing the work on operationalising the use of transfer tools in resolution; (ii) sharing information and enhancing monitoring of implementation of public sector backstop funding mechanisms; (iii) supporting the work on open bank bail-in execution and securities law compliance, building on the 2024 technical work; and (iv) promoting cross-border cooperation and information sharing with authorities outside of crisis management groups. The FSB will also seek to advance the resolution framework for insurers and central counterparties.

U.K.

Consistent with the general reforms to the U.K.'s post Brexit regulatory framework for financial services (see Cross-sector section for further discussion), the U.K. government intends to revoke assimilated law relating to the implementation of Directive 2014/59/EU (BRRD), including delegated regulations that supplemented the BRRD, replacing it with regulator's rules and statements of policy. To date, no timeframe for this revocation has been given.

In September 2024, HMT announced its intention to bring into force the revocation of certain U.K. CRR requirements, including the total loss absorbing capacity (TLAC) provisions and the Bank of England is consulting on restating in the minimum requirements for own funds and eligible liabilities (MREL) statement of policy, with modifications, most of the U.K. CRR TLAC provisions. The Bank of England aims to take the opportunity of the U.K. CRR revocation to consolidate, simplify, clarify and remove opportunities for arbitrage between the two existing regimes, without significantly increasing the burden on firms in practice. To do so it proposes to combine the previously separate (but largely similar) onshored TLAC regime with the existing U.K. MREL regime set out in the Bank's MREL statement of policy.

The Bank of England is also consulting on broader amendments to its approach to setting MREL and is expected to finalise its policy in H1 2025 with the majority of proposed changes set to apply from 1 January 2026.

DEPOSITOR PROTECTION

The U.K.'s Deposit Guarantee Scheme Regulations 2015 require the PRA to review the compensation protection limit every five years and the deadline for the next review falls on 31 December 2025. The PRA has indicated that it intends to consult in Q1 2025.

THE BANK RESOLUTION (RECAPITALISATION) BILL 2024-25

In the U.K., in 2024 HMT published proposals to "enhance and keep up to date" the U.K.'s special resolution regime, in response to lessons learned from the March 2023 events. The government proposes to introduce a new mechanism which would provide for greater optionality in terms of sources of capital for a small firm and would be used alongside the existing resolution powers.

The new mechanism would allow the Bank of England to use funds provided by the banking sector to cover costs associated with a resolution, including those associated with recapitalising and operating the failed bank. As with the current depositor protection arrangements, these funds would be provided by the FSCS as needed in the event of a failure, and subsequently funded by a levy on the banking sector. The government expects that this would be used primarily to resolve small banks, given that larger banks are already required to hold a certain amount of their own equity and debt that can be drawn on to recapitalise them when they fail.

The Bank Resolution (Recapitalisation) Bill 2024-25 will introduce the necessary legislative changes required to implement this new mechanism. It had its first reading in the House of Lords in July 2024 and its third reading on 12 November. It has now passed to the House of Commons where it had its first reading on 13 November. The date of its second reading in the House of Commons is yet to be announced but it is likely to make progress in early 2025.

An opposition amendment to the Bill made in the House of Lords specified that the Bank of England cannot use these powers in respect of a bank that is required to maintain an end-state MREL exceeding minimum capital requirements. The effect of this is that these powers could only be used in respect of small and medium-sized banks, and those on the MREL glide path. It is unclear whether the government will reverse this amendment in the House of Commons.

HMT will update the Code of Practice that supports the special resolution regime to reflect the use of the new recapitalisation mechanism introduced by the Bill. A draft of the revised Code was published in October 2024 and the final version will be issued when the Bill is passed and comes into force.

Similarly, the PRA will consult on changes to the Depositor Protection Part of its Rulebook to implement the new mechanism.

RESOLVABILITY ASSESSMENTS

In 2024, the Bank of England published its second assessment of the eight major U.K. banks under the Resolvability Assessment Framework (RAF). The assessment found that the major U.K. banks have continued to make progress in improving their preparations for resolution, including embedding resolution preparations into their everyday business, and in addressing issues outstanding from the first assessment in 2022.

This second assessment focussed on having adequate financial resources in the context of resolution, one of the three outcomes major U.K. banks need to achieve to be considered resolvable. The next RAF assessment will focus on the continuity and restructuring outcome, including an assessment of the readiness of the major U.K. banks to quickly plan for and execute restructuring options to address the causes of failure and restore viability.

Considering the progress made to date on resolvability and to give the Bank of England and the major U.K. banks time to further enhance and progress testing of their resolution capabilities ahead of the next assessment, the PRA has proposed rule changes to postpone the third RAF assessment by one year, to 2026-27 rather than 2025-26. The PRA is also proposing to amend its rules so that the timing of future submissions and disclosures would no longer be fixed to two-year cycles. Firms would continue to be subject to reporting and disclosure obligations on their resolvability but on a periodic basis. The PRA's expectations on firms as to the reporting and disclosure dates would be communicated in advance of each cycle, taking account of the need to provide time for firms to plan and prepare their reports. The PRA proposes that the changes would come into effect on publication of the final policy, envisaged for Q1 2025.

SOLVENT WIND-DOWN AND SOLVENT EXIT EXPECTATIONS

In May 2022, the PRA finalised its expectations of certain firms in relation to the full or partial orderly wind-down of trading activities in recovery and post-resolution restructuring. Systemically important banks that have the full or partial wind-down of their trading activities as a recovery and post-resolution restructuring option are expected to address specific trading wind-down issues as part of their recovery planning. Firms are expected to meet the expectations by 3 March 2025.

The PRA also finalised a new framework governing solvent exit planning for non-systemic banks and building societies in 2024 and firms are preparing for implementation by 1 October 2025. Firms are required to prepare for a solvent exit and produce a document setting out their preparations.

EU

Recovery and resolution is one of five areas identified by the EBA's Advisory Committee on Proportionality (ACP) suitable for enhanced proportionality. In its 2025 work plan, the EBA includes anticipated activities and deliverables in the area of recovery and resolution.

The EBA will maintain its focus on whether any elements of secondary legislation need review. Consideration will also be given to earlier recommendations of the ACP on proportionality, in particular related to the resolvability assessment process and the update of resolution plans. It will maintain its focus on cooperation between supervisory and resolution authorities, with due consideration of proportionality, as suggested by the ACP, related to the update, review and standardisation of the resolution planning.

CRISIS PREPAREDNESS

In the context of crisis preparedness, the EBA will continue to monitor evolving practices in relation to recovery planning, focusing in particular on improving the usability of recovery plans through appropriate testing and the interaction with the supervisory review and evaluation process (SREP).

The EBA will continue to monitor convergence through the EREP (European Resolution Examination Program). Key 2025 EREP topics are the operationalisation of resolution strategies, the management information system for valuation and the operationalisation of liquidity strategies in resolution. New elements introduced for 2025 reflect policy and market developments, progress and expertise gained by resolution authorities, and embed a testing dimension which is considered central for resolution readiness. Building up own funds and eligible liabilities is not a separate priority anymore, given that most banks have met their MREL targets. However, to increase the effectiveness of the bail-in tool, MREL qualitative aspects are to be further monitored as part of the operationalisation of resolution tools, and quantitative aspects will be followed and disclosed by the EBA in its MREL Dashboard.

The SRB's 2025 annual work programme includes streamlining the resolution planning process and resolution plans to make them more efficient and better focused on the most important issues. With a focus on resolvability, the SRB will continue to develop operational guidance for bank-led stress tests and develop comprehensive multi-annual testing programmes spanning from 2026 to 2028 and to be complemented by deep dives and on-site inspections.

2025 may see follow-up actions arising out of institutions' first self-assessment reports, the deadline for which was 31 December 2024. Crisis communication also continues to be a focus and the SRB, together with national resolution authorities, will further develop its strategy, plans and cooperation in this area.

In November 2024, the SRB published its minimum bail-in data template documentation package. On the basis of the minimum bail-in data template (MBDT) guidance, approximately 10-15 banks have been requested to take part in pilot exercises to test the MBDT in 2025. These banks have been notified via priority letters.

From 17 January 2025, the new requirements stemming from Regulation 2022/2554 as regards digital operational resilience for the financial sector (DORA) will apply (see the Outsourcing and operational resilience section for more information), including a number of changes to the BRRD. Institutions under the SRB's remit may be requested to submit to the SRB the results of the digital operational resilience testing done in accordance with DORA, in order to allow for the assessment required under point 4a Section C of the Annex to the BRRD (as amended by DORA).

CRISIS MANAGEMENT AND DEPOSIT INSURANCE

Development of the crisis management and deposit insurance framework is regaining momentum. In April 2023, the Commission adopted proposals for amendments to the BRRD, Directive 2014/49 on deposit guarantee schemes (DGSD) and Regulation 806/2014 (SRM Regulation) resulting from its review of the EU bank crisis management and deposit insurance framework, with a focus on medium sized and smaller banks.

The package seeks to revise the powers of competent authorities to intervene in the affairs of banks that are in financial difficulties but that are not yet failing or likely to fail (FOLTF) and the application of the public interest assessment (PIA) as part of the process for determining whether to trigger resolution. It contains new provisions on the conditions for the use of public funds in the form of extraordinary public support and measures intended to promote the use of deposit guarantee schemes (DGSs) in resolutions.

There are proposed revisions to the hierarchy of claims in insolvency, to introduce a general depositor preference with a single-tiered ranking and revisions to the scope of DGS protection. The Commission does not intend to adjust the current coverage level of EUR100,000 per depositor per bank but there are provisions to harmonise the protection of temporary high balances.

The proposals seek to revise MREL provisions concerning issues including the use of subordinated eligible instruments, calibrating MREL for transfer strategies leading to a bank's market exit, and the power to prohibit certain distributions.

The Council and the European Parliament have each agreed their respective negotiating positions and the file entered trilogues in December 2024 which continue into 2025.

The EBA expects further calls for advice or opinions in 2025 and is set to be mandated to prepare certain standards under the legislation, potentially from Q4 2025.

CCP RECOVERY AND RESOLUTION

As the systemic importance of central counterparties (CCPs) has and continues to increase in the wake of the post-crisis reforms, the importance of effective regimes for the recovery and resolution of such financial market infrastructure has been amongst the priorities of the reform agenda for some years now.

U.K.

In the U.K., the Bank of England's existing resolution powers for CCPs have been enhanced by FSMA 2023. Throughout 2024, the Bank of England developed its policy relating to its powers under and operation of this enhanced regime. The Bank of England also intends to publish a document setting out its approach to CCP resolution in "due course". HMT is also still expected to make a set of regulations covering compensation and valuation under the regime.

EU

Regulation 2021/23 on a framework for the recovery and resolution of central counterparties was published in the EU's Official Journal in January 2021. The regulation requires ESMA to submit a report to the Commission on the publication of administrative penalties and other administrative measures by Member States on an anonymous basis and whether there have been significant divergences between Member States in that respect. That report shall also address any significant divergences in the duration of publication of administrative penalties or other administrative measures under national law of Member States. The deadline for that report was initially 12 August 2022 but it was delayed to 2025 due to a "very limited volume of penalties and conflicting priorities".

Operational resilience and outsourcing

INTERNATIONAL

Noting that cyber and operational resilience risks continue to pose a threat to financial stability, the FSB has proposed a common Format for Incident Reporting Exchange (FIRE). FIRE is designed to enhance convergence in incident reporting, address operational challenges arising from reporting to multiple authorities and foster better communication amongst authorities. The final version of FIRE is expected by Q2 2025.

U.K.

Operational resilience remains a priority for the U.K. regulators. Firms will have identified their important business services, set impact tolerances and identified vulnerabilities under the framework published by the FCA and PRA in March 2021. By the end of the transitional period on 31 March 2025, firms should be capable of showing that they are able to remain within their impact tolerance(s) for each important business service in the event of a severe but plausible disruption. The PRA expects firms to have a clear plan to identify and remediate any vulnerabilities which could impact their ability to deliver their important business services.

The PRA and FCA are now consulting on a new way for firms to report operational incidents, proposing to introduce rules to clarify what constitutes an 'operational incident', when to report and standard templates. In addition, the regulators are proposing to expand the scope of existing obligations to report on material outsourcing to also encompass material non-outsourcing arrangements. It is proposed that firms be required to maintain a register of all material third-party arrangements.

Non-outsourcing arrangements would include the purchase of data, hardware, software and other ICT products and would include intra-group arrangements. The regulators plan to publish final rules in H2 2025. The implementation date for the proposals will be no earlier than H2 2026. Further detail on the proposals can be found in our client bulletin, here. See the Financial Markets - Operational I/c r for resilience section below for details of the Bank of England's related proposals. These proposals echo the intended outcomes of some of the EU's Digital Operational Resilience Act (DORA).

The collection of the data under the above proposals would also assist the regulators to understand firm-specific and systemic risks posed by third-party providers and help the regulators to identify critical third parties (CTPs) for potential designation under the new CTP regime. See our blog for details of the regulators CTP rules. The PRA and FCA rules on CTPs took effect on 1 January 2025, although will only apply to individual CTPs from the date their HMT CTP designations come into force. HMT has not yet made any such CTP designations. See our blog for details of HMT's approach to designations.

EU

DORA, and the related guidance and technical standards, has applied since 17 January 2025. DORA implementation was a major focus for EU financial entities over 2024, impacting their suppliers and counterparties as changes to ICT supply arrangements were implemented.

In 2025, regulated firms will be focussing on ongoing implementation of the DORA requirements, including undertaking gap analysis and monitoring of new ICT service providers.

Financial entities need to have their registers of ICT third-party providers' contractual arrangements available for national competent authorities (NCAs) early in 2025, as the latter must report the registers to the ESAs by 30 April 2025. NCAs must submit to the ESAs by the end of March, the list of financial entities, excluding credit institutions, that are considered to be systemic. The first designation of critical third-party service providers is expected to take place in H2 2025.

AML/*Financial crime*

U.K.

REVIEW OF AML AND CTF REGIME

HMT's final policy following its 2023 consultation on reform of the anti-money laundering and counter-terrorism financing supervisory system is yet to be published. The consultation builds upon a 2022 review of the U.K.'s AML/CTF regulatory and supervisory regime, which concluded that weaknesses in supervision may need to be addressed through structural reform. The 2023 consultation assessed four models proposed in the 2022 review and sought views on whether to expand requirements on supervisors and their regulated populations relating to sanctions compliance.

HMT's response and policy relating to its consultation on improving the effectiveness of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (known as the MLRs) is still to be published.

The Economic Crime Plan 2023-6 also sets out the government's intentions for 2025 in relation to, among other items, (i) exploring options for targeting supervisory activity more effectively and for testing the effectiveness of firms' policies, controls and procedures, including through new technologies (Q1), (ii) pilots of Public Sector Fraud Authority data partnerships with the banking sector (Q1), and (iii) enhancing law enforcement and regulatory enforcement action through increased use of regulatory and criminal powers to tackle unlawful cryptoasset activity in the U.K. (Q3).

THE ECONOMIC CRIME AND CORPORATE TRANSPARENCY ACT 2023

The Economic Crime and Corporate Transparency Act 2023 is an important legislative development in the U.K.'s fight against economic crime with the introduction of a new 'failure to prevent fraud' offence, amendments to the 'identification principle' relevant to corporate liability and granting additional powers to law enforcement to aide seizure and recovery cryptoassets which are the proceeds of crime or associated with illicit activity such as money laundering, fraud and ransomware attacks. While many of the substantive provisions of the Act are in force or partially in force, implementation work continues, and we expect further developments in this area in 2025. Significantly, the new corporate criminal offence of failure to prevent fraud comes into effect on 1 September 2025 and firms should consider the Home Office guidance which provides an overview of the offence, illustrated by theoretical examples.

FCA—FINANCIAL CRIME GUIDE

Firms will need to continue to consider the adjustments that may be needed to their financial crime systems and controls following the changes made by the FCA to its Financial Crime Guide, which took effect at the end of November 2024. Further changes to other areas of the guide may come in 2025.

FCA—TREATMENT OF PEPS

The FCA's review into the treatment of politically exposed persons (PEPs) identified areas for improvement which called upon firms to, among other things: (i) ensure their definition of a PEP, family member or close associate is tightened and in line with the MLRs and the FCA's guidance; (ii) review the status of PEPs and their associates promptly once they leave public office; (iii) communicate to PEPs effectively and in line with the Consumer Duty, explaining the reasons for their actions where possible; (iv) effectively consider the actual level of risk posed by the customer, and ensure that information requests are proportionate to those risks; and (v) improve the training offered to staff who deal with PEPs.

The FCA consulted in 2024 on amendments to its guidance on the treatment of PEPs. The FCA proposed to amend the guidance to: (i) reflect that the starting point for a firm's risk assessment is that U.K. PEPs should be treated as lower risk than foreign PEPs; (ii) make clear that non-executive board members of civil service departments should not be treated as PEPs solely for that reason; and (iii) give greater flexibility in who can approve or sign off PEP relationships within firms, provided the MLRO continues to have oversight of all PEP relationships. The FCA stated that where it had identified improvements in the review (discussed in the previous paragraph), firms should implement those changes and not wait for the final updated guidance to be published. The amended guidance has not yet been published.

EU

AML PACKAGE

The EU's package of key AML and CTF reforms was published in the Official Journal of the European Union in June 2024. The package comprises:

- The Regulation on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (AML Regulation), which will apply from 10 July 2027, except in relation to football agents and certain transactions conducted by professional football clubs, to which it will apply from 10 July 2029. The requirements set out in MLD4 that apply to obliged entities are being moved to the AML Regulation so that they become directly applicable provisions with a view to ensuring supervisory convergence within the EU. However, the provisions in the AML Regulation are more detailed and granular that the former MLD4 requirements and, furthermore, will be supplemented by technical standards and guidelines.
- The Regulation establishing the Anti-Money Laundering Authority (AMLA Regulation), which will mostly apply from 1 July 2025. AMLA will be a central authority co-ordinating all national AML and CTF supervisors (i.e., not just those in the financial services sector). AMLA will not replace national AML and CTF supervisors, however, it will have some direct supervisory powers over certain high-risk credit institutions and other financial institutions.
- The Sixth Money Laundering Directive (MLD6), which EU Member States must generally transpose into national laws, regulations, and administrative provisions by 10 July 2027. MLD6 will repeal and replace the MLD4, as amended by MLD5, and complement the AML Regulation. It contains provisions that organise the institutional AML and CTF system at national level, including provisions on the powers and tasks of national supervisors, as well as the establishment and access to beneficial ownership and bank account registers.

2025 and into 2026 will see the transfer of powers from the EBA to AMLA. The EBA has announced that it will retain its AML/CFT powers and mandates until December 2025. After transferring AML/CFT powers to AMLA, the EBA will remain responsible for addressing ML/TF risk across its prudential remit. The EBA will also be providing the European Commission with technical advice on important aspects of the future EU AML/CFT framework—the EBA plans to provide this advice in October 2025. Many provisions in the AML Regulation are detailed and granular, and there will be more technical standards, which the AMLA is tasked with preparing.

EU GUIDELINES ON GOVERNANCE ARRANGEMENTS FOR EU AND NATIONAL RESTRICTIVE MEASURES

In addition, in 2025, firms should consider any changes needed to implement and ensure compliance with the EBA's two sets of final guidelines on the governance arrangements and the policies, procedures, and controls that financial institutions should have in place to be able to comply with EU and national restrictive measures. In this context, restrictive measures applicable to financial institutions comprise targeted financial sanctions and sectoral measures, e.g., economic and financial measures. Both sets of guidelines will apply from 30 December 2025.

Please refer to the FinTech/Digital Assets section for details of the EU Wire Transfer Regulation.

Financial *markets*

U.K.

PRIMARY MARKETS

2024 has seen significant progress made regarding the U.K.'s development of its new post-Brexit prospectus regime, as part of the U.K.'s wider efforts to reform its capital markets and enhance its attractiveness as a listing venue. As part of this, the U.K. regime will be replaced by the Public Offers and Admission to Trading Regulations 2024, with all detailed requirements relating to admission to trading to be covered in FCA rules. The FCA published its consultation paper (CP 24/12), and a second consultation paper (covering retail bonds and related points) is expected in January 2025. Final FCA rules are expected towards the end of H1 2025, with application anticipated at the end of 2025 or early 2026. A number of expected changes include streamlining the disclosure framework, introduction of the option for future financial information to be incorporated by reference without the need to publish a supplement, increasing the cap applicable to tap exemptions, and an alleviated liability regime for protected forward-looking statements. As with many of the U.K. "smarter regulatory framework" developments which are occurring in parallel with EU changes, there is some overlap but also some clear divergence in approach and detail.

SECONDARY MARKETS

In 2025, the U.K. will see the launch of PISCES—the Private Intermittent Securities and Capital Exchanges System—a new type of innovative secondary market. This has arisen following industry feedback to the U.K. government following the U.K.'s Wholesale Market Review, which found (amongst other things) that there was industry appetite for a new type of trading venue facilitating intermittent trading. PISCES will be a regulated secondary market for trading of existing shares in intermittent trading windows. Only shares in companies whose shares are not admitted to trading on a public market (in the U.K. or other jurisdictions) will be eligible for trading on PISCES, and the market will only be open to institutional investors, employees of participating companies and high-net-worth individuals and self-certified or certified sophisticated investors.

In terms of the FCA's progress on the launch of PISCES, on 17 December 2024, the FCA published its consultation on the regulatory framework for PISCES. It is intended for PISCES to be launched, and run for five years, using the FCA's sandbox powers, as derived from FSMA 2023, which allows the FCA to disapply and flex existing regulatory rules on a temporary basis to support and promote innovation. The FCA will publish further information in early 2025 about pre-application engagement, and the necessary regulations (which were published in draft form in November 2024) are expected to be laid before parliament by May 2025, after which the FCA will publish final rules.

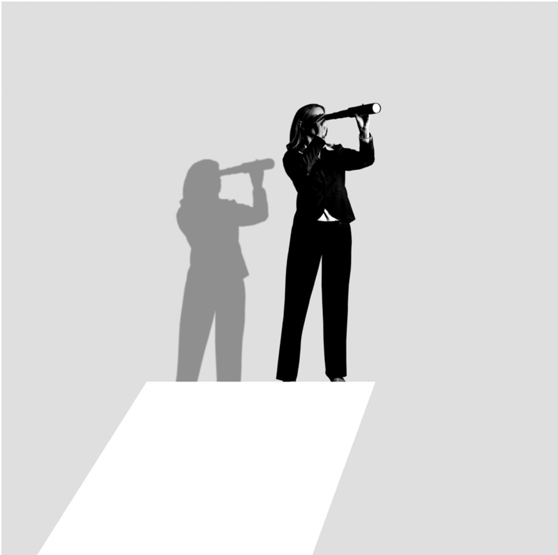
On transparency (including the new U.K. designated reporter regime) and transaction reporting, the FCA is expected to continue progressing the various changes that have been made under the transitional amendments of MiFIR by FSMA 2023, and others which have been the subject of consultations during the course of 2024. Of note is the development of consolidated tapes in the U.K., which was an action originally identified during the U.K.'s Wholesale Market Review. Please also refer to the Cross sector section above which discusses some of these changes under the U.K. Smarter Regulatory Framework heading.

The U.K. prioritised a U.K. bond consolidated tape, and accordingly the tender process was launched for the appointment of a consolidated tape provider in bonds in December 2024. The FCA has confirmed that the consolidated tape is not required to go live before bond transparency regime changes take effect on 1 December 2025. On the equities side, industry engagement on a proposed U.K. consolidated tape for equities will be starting from January 2025. In 2024, the FCA carried out some preparatory work including appointing consultants to analyse the issues around including pre-trade data in an equities consolidated tape, which was published in December 2024. The FCA has stated that it will work towards publishing a consultation paper later in 2025.

The FCA will also be continuing its work on investment research and its function in the U.K. markets throughout 2025. By way of background, in July 2023, the U.K. Investment Research Review was published with seven recommendations for improving the U.K. regime for investment research. One recommendation was the introduction of payment optionality (i.e., revisiting the "unbundling" rules that were brought in under MiFID II). Previously, U.K. regulation, which came from MiFID II, forced research to be paid for separately. However, there were various discussions in the industry around whether the "unbundling" changes achieved their aims.

The FCA has now implemented a new permissive approach intended to address the situation.
The changes also seek to ensure that U.K. investment managers can access research from other jurisdictions, particularly the U.S. For 2025, it will be interesting to see the extent of any uptake of this new payment optionality and whether there is an increase in firms reverting to commission sharing arrangements which may now be possible. Also in 2025, the FCA is expected to confirm its changes for asset managers as the FCA, in Q4 2024, consulted separately on rolling out the new payment optionality for pooled funds. More broadly, the FCA is also expected to look at access to investment research for retail investors, clarify other aspects of the regime, and address wider industry concerns such as corporate access, FICC macro-economic research, trial periods, and the definition of research.

Also in 2024, the U.K. saw developments in relation to the short selling regime and the U.K. government laid updated draft Short Selling Regulations 2024. These will replace the existing U.K. regulations on short selling and move some of the directly applicable requirements to the FCA's rulebook. The FCA is due to consult on its proposed detailed rules, which will provide further clarity on the obligations applicable under the new U.K. short selling regime, and the revised U.K. regime is expected to come into force at some point during 2025. For discussion of the key expected changes to the U.K. short selling regime as made by the draft regulations, please see our bulletin.
We also discuss the new short selling designated activities above (please see commentary under the heading The Designated Activities Regime in the Cross-sector section).



DERIVATIVES AND SECURITISATION MARKETS

As with EU financial markets, the current headline for derivatives markets is EMIR 3, and in particular its impact on U.K. CCPs. For further discussion, please see below in the EU section under the Derivatives and securitisation markets heading.

From a U.K. perspective, there is some overlap and some differences when looking at changes in the context of U.K. EMIR. The U.K. has already dealt with some of the issues the EMIR 3 changes seek to address (such as those resulting from Brexit). The U.K. has also separately considered or is already taking forward a number of other aspects covered by EMIR (for example, the U.K. has already considered initial margin model validation and is considering whether the exemption from single-stock options and equity index options should be permanent). There are however some important differences, and it remains to be seen whether and when any similar changes may be considered under U.K. EMIR.

U.K. EMIR has been identified as part of "Tranche 3" of the U.K. Smarter Regulatory Framework reforms in respect of provisions relating to CCPs, but there has not yet been any indication of the likely timing of the review of the remainder of U.K. EMIR.

SETTLEMENT AND CLEARING

The U.K. has, over the course of 2024, made progress towards transitioning the U.K. securities settlement cycle to T+1. The U.K. Accelerated Settlement Taskforce published recommendations for the U.K. government in March 2024, which were accepted. One recommendation was to form a technical group, which was duly established and made a further set of draft recommendations in September 2024, setting out expected tasks for completion in 2025, 2026, and 2027.

For 2025, the draft recommendations include making certain operational changes by the end of the year to ensure a smooth transition to a T+1 settlement cycle and in particular recommends that all U.K. regulated venues for equities should introduce adequate compliance mechanisms for the use of standardised dividend procedures by the end of 2025. The U.K. is expecting to make the transition before the end of 2027 (as per the recommendations made in March 2024) with further details of a transition plan published in good time to allow market participants and other parties to prepare for the move. The U.K. government is also expected to progress the legislation needed to amend the U.K. CSDR to reflect the move to T+1 settlement.

With regard to clearing, please also see the comments above, and in the EU section below under the Derivatives and securitisation markets heading in relation to EMIR 3.

OPERATIONAL RESILIENCE

Operational resilience remains a priority for the U.K.'s regulators, including in relation to financial market infrastructure. The Bank of England is now consulting on a new way for CCPs, CSDs, RPSOs and SSPs to report operational incidents and expanding the scope of existing obligations to report on material outsourcing, including a proposal that FMIs be required to maintain a register of all material third-party arrangements. The proposals would amend the rules applicable to CCPs and CSDs, and the payment systems code of practice applicable to RPSOs and SSPs, as well as introduce a new supervisory statement on operational incident reporting and amend existing supervisory statements for FMIs on outsourcing and third-party risk management. The implementation date for the proposals will be no earlier than H2 2026.

See the Prudential regulation section above for details of the PRA and FCA related proposals. These proposals echo the intended outcomes of some of the EU's Digital Operational Resilience Act (DORA).

MARKET ABUSE

Please note the commentary in the EU section below under the Market abuse heading on international developments in relation to pre-hedging.

For discussion of the proposed market abuse regime for cryptoassets, please see our FinTech/Digital Assets section below.

EU

PRIMARY MARKETS

In 2025, we expect ongoing development of the initiatives under the banner of the EU Capital Markets Union work. During the course of 2024 there were a number of recommendations made in regard to driving this work forward, including statements made by the Eurogroup, ESMA, the Letta report and the Draghi report (please see comments under the Competitiveness and Growth heading in the Overview of the year ahead section above). We are expecting an update in February 2025 by the new European Commission on their planning for initiatives and proposals on the Capital Markets Union for the next legislative cycle (2024-2029).

The main primary markets focus in the EU for 2025 will be the transposition and implementation of the provisions of the EU Listing Act package. This forms a key plank of the 'capital markets union' plan. The package comprises an EU regulation and directive (referred to as the Listing Regulation and the Listing Directive) with a further directive on multiple vote share structures.

As of Q4 2024, ESMA has issued various consultation papers on proposals for the various Level 2 and 3 measures, with the first tranche of final reports expected in Q2 2025, followed by further final reports due in Q4 2025.

These measures represent a further attempt at establishing a successful listing regime for the EU, following the replacement of the EU Prospectus Directive (Directive 2003/71/EC) by way of the EU Prospectus Regulation (Regulation (EU) 2017/1129) legislative package, and other refreshes. The new measures aim to encourage greater listing activity in the EU and streamline the rules applicable to companies, particularly small and medium-sized enterprises, going through a listing process. The new rules will also apply to companies already listed on EU public markets. The new rules, like other iterations, aim to counterbalance two competing objectives: (i) alleviate administrative burdens, costs and liabilities on issuers and their directors; while (ii) preserving a sufficient degree of transparency, investor protection and market integrity.

The Listing Regulation (EU 2024/2809) introduces various changes to the EU Prospectus Regulation. The changes are mainly aimed at simplifying and streamlining access to the EU capital markets, without overhauling fundamental features of the EU prospectus regime.

There is some overlap with expected changes to the U.K. prospectus regime (discussed above in the U.K. section under the Primary markets heading), including on streamlining disclosure, future incorporation of financials and wider tap exemptions, although there is also some clear divergence in approach and detail.

The directive on multiple vote share structures (EU 2024/2810) will create a minimum harmonisation at EU level that removes obstacles for the access of SMEs with multiple-vote structures to SME growth markets and any other multilateral trading facility open to trading of SME shares. The directive protects the rights of shareholders with fewer votes per share by introducing safeguards on how key decisions are taken at general meetings and also helps investors to take decisions by mandating transparency measures for companies with multiple-vote share structures.

The Listing Directive (EU 2024/2811) also amends the EU requirements on how payments are made for investment research, on which key publications are expected in 2025. These include changes to the MiFID research regime and are covered under the Secondary markets heading below.

SECONDARY MARKETS

Of particular significance in 2024 was the publication of texts resulting from the EU MiFID Review. The amending directive and regulation entered into force on 28 March 2024, and Member States will have until 29 September 2025, to bring into force the necessary changes. However, many provisions are not yet in force pending Level 2 legislative measures, which will be progressed during 2025. As of December 2024, ESMA has published its final reports on equity and non-equity transparency, and technical standards for commodity derivatives. Various topics discussed during the 2024 consultations have been the subject of significant industry debate, including the calibration of changes to the transparency regimes and the function of systematic internalisers (and the new Designated Publishing Entity regime).

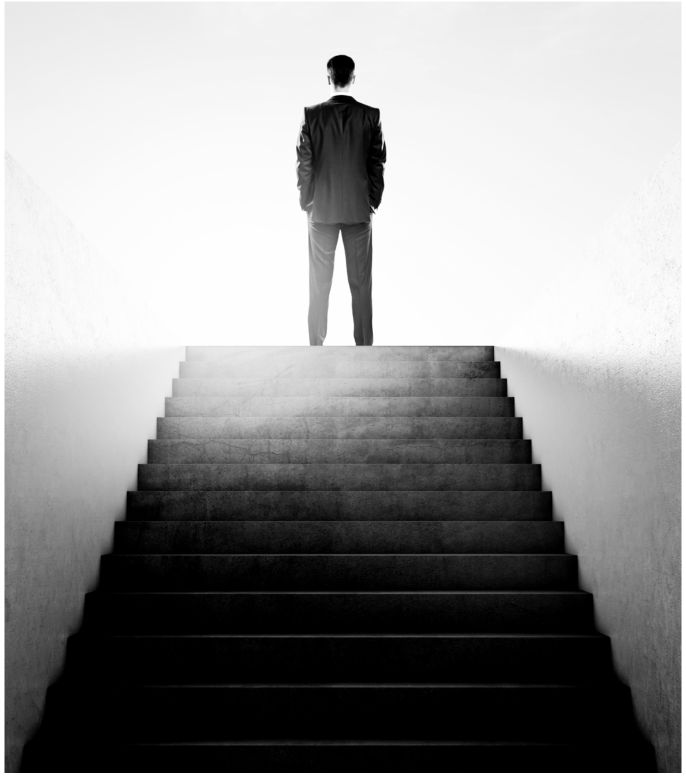
Further to the EU MiFID Review changes, 2025 will also see a fresh attempt at launching a 'consolidated tape' of transaction data for bonds and for shares and Exchange-Traded Funds (ETFs), with the intention being for a provider to be selected by the end of 2025. Timing-wise, the MiFID legislation introduces a selection procedure for the bonds consolidated tape provider to be launched by 29 December 2024, with the procedure for the shares and ETFs consolidated tape provider to follow within six months (so by 29 June 2025).

The Listing Directive (discussed above under the Primary markets heading) also amends the EU requirements on how payments are made for investment research, on which some key publications are expected in 2025. As an overview, MiFID II had prevented the bundling of research and execution commissions by investment firms.

This led to greater transparency in costs and reduced execution costs but has also resulted in the EU market for research decreasing and many issuers lacking research coverage. The latest EU amendments to MiFID II, amongst other things, will introduce a high market capitalisation threshold for issuers in-scope of the unbundling of research and execution services and allow EU firms to choose whether to make joint or separate payments for third-party research and execution services. There is also an exemption for short-term trading commentary, clarification that independent research providers are exempt from the research inducements rules, and a new framework for issuer-sponsored research based on a code of conduct. These mirror, but are not identical to, reforms that have already been brought into force in the U.K. (please see our bulletin for further discussion of these).

For 2025, ESMA will be considering feedback from its consultation (which closes in January 2025) on amendments to the MiFID research regime and expects to publish a final report to submit its technical advice to the European Commission in Q2 2025. ESMA is also currently consulting on draft regulatory technical standards for the establishment of an EU code of conduct for issuer-sponsored research, which are expected to be submitted to the European Commission for endorsement by 5 December 2025.

The EU Retail Investment Strategy will continue to be a driving force for developments in EU secondary markets over the course of 2025. Please see further commentary in the Asset management and retail section below.



DERIVATIVES AND SECURITISATION MARKETS

The EU derivatives markets headline for 2024 was of course EMIR 3, which entered into force on 24 December 2024 (although various provisions remain to come into force, as Level 2 measures are published). One of the key aims of EMIR 3 is to incentivise the development of clearing in the EU and reduce exposures to and usage by EU entities of third country CCPs. This has led to the introduction of the new "active account" requirement, which requires in-scope EU counterparties to maintain an account at EU CCPs and clear a representative number of trades of in-scope products through that account. The active account requirement remains the subject of an ESMA consultation which will continue into 2025.

In addition to the new active account requirement, further notable changes are introduced by EMIR 3, including exemptions relating to third country pension schemes and post-trade risk reduction services, changes to the cross-border intragroup exemption, calculation of the clearing thresholds, additional requirements for clearing members and clients that provide clearing services as well as amended requirements that apply to CCPs themselves.

2025 will see further work carried out on the development of Level 2 and Level 3 measures required as a result of EMIR 3, prescribing requirements in respect of (amongst other things) the scope and nature of the active account requirements, post-trade risk reduction, information disclosure on client clearing services, information on clearing activity carried out by recognised CCPs, initial margin model validation, and penalties for breach of reporting and transparency. ESMA will also be focussing on EMIR 3 implementation via its supervision of third country and EU CCPs (see further on Settlement and clearing below).

2024 also saw a renewed focus on the securitisation market as part of the Capital Markets Union work, as part of the work to create deeper capital markets and support EU competitiveness. In 2024, the European Commission consulted on a broad range of issues in relation to the EU securitisation framework, including its effectiveness, scope, the STS standard and prudential treatment. The consultation closed on 4 December 2024. No specific timings or progress steps have been confirmed going forward, but there may be further discussion of legislative proposals regarding the EU securitisation regime during the course of 2025.

SETTLEMENT AND CLEARING

Accelerated settlement continues to be a topic in the spotlight. On 18 November 2024, ESMA published its final report proposing shortening the settlement cycle under CSDR on 11 October 2027, moving to T+1 from the current T+2 settlement cycle. This is the same timing proposed for the U.K.'s move to T+1 (see above in the U.K. section under the Settlement and clearing heading). ESMA has made it clear that it expects the industry to initiate preparations for the move to T+1 now, and not wait for the amending measure to be published in the Official Journal. A Commission proposal for the legislative amendment to CSDR is expected in due course. The industry's move to T+1 is not limited to the EU; as mentioned above, the U.K. intends to make a similar change (see above in the U.K. section under the Settlement and clearing heading) and many jurisdictions have already made this move (including the U.S. and Canada earlier in 2024).

Clearing in the EU has of course been significantly impacted by EMIR 3, which is discussed above. ESMA has made it clear that it will continue to focus on third country CCPs as part of its supervisory approach throughout 2025, monitoring relevant risks related to their activities in the EU as well as developments in relation to equivalence decision-making. On the EU CCP front, work will be undertaken in 2025, in particular on the EMIR 3 changes in relation to the CCP supervisory colleges.

MARKET ABUSE

The market practice of pre-hedging (where trading is undertaken to manage risk in respect of an anticipated client transaction) remains a topic to watch in 2025, with ongoing concerns around market integrity and fragmentation prompting internal work and efforts in this area. The 2023 ESMA feedback on its earlier call for evidence has, as expected, been followed in 2024 by further progress made internationally on coordinating an approach to acceptable market practices for pre-hedging activities.

In November 2024, IOSCO published its consultation report (CR/11/24) which includes recommendations addressed to IOSCO members, with a view to ensuring pre-hedging as a genuine risk management technique does not present an unacceptable market abuse risk. Amongst other things, the consultation report proposes a definition of pre-hedging (which has some differences from definitions used elsewhere in industry, for example, by the FX Global Code) and suggests circumstances where pre-hedging should be deemed acceptable.

As has happened with previous pre-hedging initiatives, it is expected that there will be a substantial amount of industry collaboration in responding to the proposals (although, of course, there is naturally a difference between the approaches of the buy-side and the sell-side). IOSCO is aiming to publish its finalised recommendations in 2025. The IOSCO consultation follows (in addition to the ESMA report mentioned above) IOSCO's earlier survey on pre-hedging (published in Q4 2023), and the FMSB's review of pre-hedging published in July 2024, and final recommendations are expected in 2025 (no specific timeframe has yet been given).

Also noteworthy on the topic of market abuse is the set of amendments made to MAR by the EU Listing Act package, which introduces a number of clarifications and other amendments. One particular point which has attracted industry attention includes the clarifications to the market soundings regime which provides a "safe harbour" for the proper disclosure of inside information in the context of gauging prospective investor interest (this change is one of the changes that came into force on 4 December 2024—other changes to MAR will apply from 5 June 2026).

Payment services *and payment systems*

U.K.

NATIONAL PAYMENTS VISION

HMT has published its National Payments Vision (NPV), outlining the government's plans for bolstering the U.K. payment's sector. The NPV responds to the findings of the independent Future of Payments Review 2023, led by Joe Garner, and takes action to address key issues across the landscape. In the NPV, the government has outlined its priorities for U.K. payments through a joint remit letter to the FCA and Payment Systems Regulator (PSR) and welcomes the regulators' commitment to revise their existing memorandum of understanding on cooperation in relation to payments regulation. Another significant objective is ensuring payments infrastructure is resilient. The government has also concluded that the New Payments Architecture programme is not sufficiently agile. It is therefore establishing a Payments Vision Delivery Committee which will, through work led by the Bank of England and the PSR, clarify the upgrades required to the existing Faster Payments System, assess longer-term requirements and the appropriate funding and governance arrangements needed to deliver this—including proposals to reform Pay.U.K.

The government has also provided direction on two priority areas: Open Banking and tackling fraud. The NPV seeks to clarify regulatory responsibilities for Open Banking, transitioning away from current arrangements to the FCA acting as the U.K.'s regulator in the future (see the item below on Open Banking for further information).

The NPV also reaffirms the government's commitment to continue exploring a potential retail central bank digital currency (see the Fintech/Digital assets section for more information on the digital pound). To further build the effectiveness of payments fraud regulation, the FCA will lead work to manage existing overlaps between itself and the PSR, and the PSR has committed to an independent post implementation review of the authorised push payment fraud reimbursement rules, after 12 months.

Alongside the NPV, HMT also published a letter it sent to the FCA and PSR setting out recommendations for the regulators in relation to payments regulation. HMT's priorities for the regulators include: (i) enhancing coordination to address congestion in the regulatory landscape, including through the FCA's commitment to lead work on enhancing the management of overlaps between the FCA and PSR's exercise of their functions, including on fraud and Open Banking policy; (ii) supporting the development of Open Banking. In this regard, the government welcomes the FCA's commitment to fulfil the function of the U.K.'s regulator for Open Banking, whilst ensuring mechanisms to support cooperation with the PSR on matters related to designated payments systems; (iii) ensuring high standards of consumer protection and that people and businesses can make payments efficiently and safely; and (iv) driving an agile approach to delivering the U.K.'s retail payments infrastructure needs, including through work of the Payments Vision Delivery Committee to examine and refresh the requirements for the U.K.'s retail infrastructure and the governance and funding arrangements required to deliver this.

CHANGES TO SAFEGUARDING REQUIREMENTS FOR PAYMENTS AND E-MONEY INSTITUTIONS

The FCA's long-awaited consultation on changes to the safeguarding regime for payment and e-money institutions was published in September last year. As expected, the FCA proposes to bring the safeguarding regime more closely in line with the FCA's Client Assets Sourcebook (CASS), which many other financial institutions, such as brokers and custodians, must comply with when they hold client money and assets.

The FCA proposes to make changes to the safeguarding regime in two stages, the interim and end-state, and is consulting on rules and guidance for both stages of the proposed regime. The interim rules aim to: (i) support a greater level of compliance with existing safeguarding requirements in the Electronic Money Regulations 2011 (EMRs) and Payment Services Regulations 2017 (PSRs); (ii) support more consistent record keeping; and (iii) enhance reporting and monitoring requirements to identify shortfalls in relevant funds and improve supervisory oversight.

The proposed end-state rules replace the safeguarding requirements of the EMRs and PSRs with a 'CASS' style regime where relevant funds and assets are held on trust for consumers. This second stage will address remaining shortcomings of the regime when the revocation of the safeguarding requirements in the PSRs and EMRs by the Financial Services and Markets Act 2023 is commenced.

The deadline for comments was 17 December 2024. The FCA plans to publish final interim rules with an accompanying policy statement within H1 2025. The FCA recognises that some of these proposals are a significant shift in how payments firms safeguard their relevant funds and so proposes to give firms a transition period of six months to implement the changes in the interim rules from when the final version is published, and 12 months to implement the final end-state rules. The FCA will publish the final end-state rules (including new rules for when a payments firm fails or where a third party used for safeguarding purposes fails) when the government commences it revocation of the safeguarding requirements in the EMRs and PSRs. The end-state rules will then apply after a 12-month transition period.

Following this consultation, the FCA plans to continue to work with HMT to review and consult on the rest of the regime currently set out in the PSRs and EMRs. The FCA also plans to introduce rules for where a payments firm fails and enters an insolvency regime other than the Payments and Electronic Money Special Administration Regime (PESAR), and to make rules to mitigate the impact of the failure of a third party used for safeguarding purposes. The FCA will consult on these rules separately, at a later stage but before implementing the end-state rules.

APP FRAUD MANDATORY REIMBURSEMENT REQUIREMENT

The U.K.'s authorised push payment (APP) fraud reimbursement scheme came into force on 7 October 2024. It requires in-scope payment service providers (PSPs) sending payments through either the Faster Payment System (FPS) or the Clearing House Automated Payment System (CHAPS) to reimburse their customers (consumers, micro-enterprises or small charities) if they are the victim of an APP scam, subject to certain exceptions such as the consumer standard of caution. The sending PSP will have to reimburse the victim and the receiving PSP must send 50% of the cost of a reimbursement claim to the sending PSP. Sending PSPs will be allowed to apply an excess up to GBP100 to a claim under the policy, except for claims made by vulnerable consumers. In addition, the sending PSP is not obliged to reimburse above the maximum level of reimbursement, which the PSR has recently reduced to GBP85,000, for a single APP scam case or to reimburse any APP scam claim where the customer submits the claim more than 13 months after making the last payment in the case. If the PSP has evidence or reasonable grounds for suspicion of either first party fraud or gross negligence on the part of the claimant, it will also have more time to investigate and can delay the payment.

The consumer standard of caution exception only applies where the claimant is grossly negligent in one of four specific circumstances. These are the requirement to have regard to interventions by the PSP, to make prompt notification to their PSP, to respond to reasonable requests for information from their PSP and to report (or permit their PSP to report) to the police. This exception does not apply to vulnerable consumers.

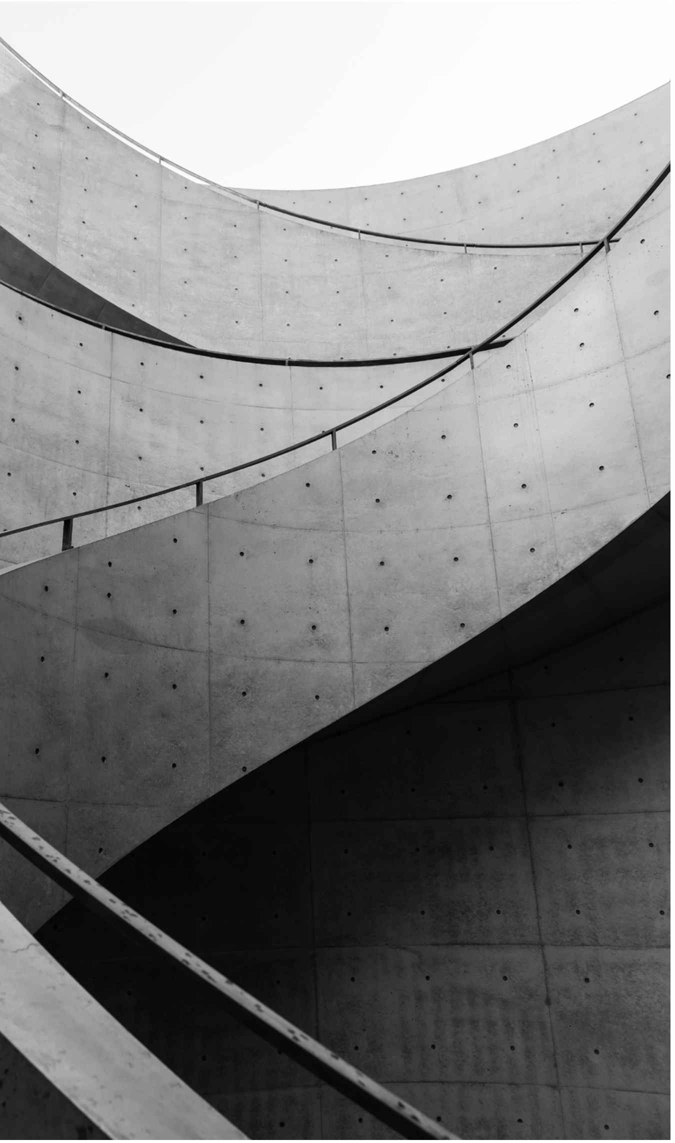
To implement the reimbursement requirement, the Payment Systems Regulator (PSR) has published four legal instruments: (i) Specific Requirement 1—imposed on Pay.UK to include the reimbursement requirement in the Faster Payments scheme rules; (ii) Specific Direction 19—given to Pay.UK to create and implement an effective compliance monitoring regime; (iii) Specific Direction 20—given to direct and indirect participants in Faster Payments, obliging them to comply with the reimbursement requirement and the reimbursement rules; and (iv) Specific Direction 21—given to direct and indirect CHAPS participants to reimburse APP scam payments and comply with the CHAPS rules. In addition, Pay.UK has published amended FPS rules and its FPS Reimbursement Rules: Compliance Monitoring Regime. The Bank of England has added the CHAPS reimbursement rules as an annex to the CHAPS Reference Manual.

In July 2024, the PSR published its final rules on compliance and monitoring in relation to the FPS APP fraud reimbursement requirement. As the operator of Faster Payments, Pay.UK is responsible for monitoring all directed PSPs' compliance with the FPS reimbursement rules. Although Pay.U.K is responsible for monitoring compliance with the FPS reimbursement rules, enforcement remains the responsibility of the PSR. Pay.UK is also providing the reimbursement claim management system (RCMS) and will be requiring all members of Faster Payments (those who are direct participants) to use it by 1 May 2025. This will allow PSPs to effectively manage FPS APP scam claims, communicate in respect of claims and more easily comply with data reporting requirements.

The Payment Services (Amendment) Regulations 2024 amend the Payment Services Regulations 2017 (PSRs) by allowing PSPs to delay the sending of an in-scope payment where they suspect that the payment order is subject to fraud or dishonesty. The amendments apply only with respect to outbound authorised push payments wholly executed in the U.K. in GBP. The Regulations entered into force on 30 October 2024. Following the publication of the Payment Services (Amendment) Regulations 2024, the FCA also published finalised guidance for firms that enables a risk-based approach to payments when deciding whether to delay a payment. The FCA has updated its Payment Services and Electronic Money Approach Document to include the new finalised guidance which came into effect on 22 November 2024.

The PSR has committed to publish a post-implementation review after 12 months of the APP fraud reimbursement policy being in force and we expect to see the results of this in 2026. It will also review the maximum reimbursement level in Q4 2025. The government has also confirmed that it will release an expanded fraud strategy in 2025.

Our guide to the U.K.'s APP fraud mandatory reimbursement scheme can be found here.



OPEN BANKING

Open Banking is a key focus area in the U.K. government's National Payments Vision (NPV) (see item on the National Payments Vision above) and looking ahead to 2025 and beyond, the government has clarified its new regulatory responsibilities and priorities.

The 2017 Competition and Markets Authority (CMA) Order on Open Banking required the nine largest U.K. retail banks to make customer data available for use by authorised third-party providers, through a standard set of Application Programming Interface (API) standards. However, the government now believes that there is significant opportunity for Open Banking to grow beyond the scope of the CMA Order, following the successful implementation of the roadmap in September 2024. For Open Banking to scale and help deliver more competition and innovation in the market, the government believes that it needs to transition to a sustainable long-term regulatory framework. The government is committed to delivering this framework and intends to use incoming smart data powers in the Data (Use and Access) Bill, currently progressing through parliament, to do so. Ahead of that framework being delivered, the FCA and the Payment Systems Regulator (PSR) have been working via the Joint Regulatory Oversight Committee (JROC) and with industry to develop Open Banking beyond the scope of the CMA Order.

However, for Open Banking to further flourish and successfully deliver seamless account-to-account payments, the roles of the regulators need to be clear. Going forward, JROC will be wound down at the earliest opportunity and the government has asked the FCA to be the U.K.'s sole regulator for Open Banking. The government expects the FCA to engage as appropriate with the PSR, including in relation to the interaction of Open Banking overlay services with underlying payment rails which are designated as PSR regulated payment systems.

Under the JROC, the PSR led work over the course of 2024 seeking to develop a commercial model for the phase 1 use cases for Variable Recurring Payments (VRP). The government now expects this model to be delivered quickly and in a way that supports effective competition. Following the delivery of the VRP phase 1 pilot, the government expects the FCA to work closely with the PSR, drawing on its expertise as an economic regulator, as the FCA takes forward work on the overall framework for commercial Open Banking payments, including VRP. The government expects the FCA and the PSR to ensure a fully effective handover of the commercial model once phase 1 is delivered.

The government also believes it is crucial that seamless account-to-account payments—enabling consumers to pay for goods and services in shops and online directly from their bank account without using a card—are developed. The government considers unlocking Open Banking enabled account-to-account payments for e-commerce to be a strategic short to medium term priority and has tasked the FCA with agreeing a sustainable commercial model and consumer protections.

INNOVATION IN MONEY AND PAYMENTS

In 2024, the Bank of England published a discussion paper on its proposed approach to innovation in money and payments. It explains that innovations in money and payments present risks and opportunities for central banks' monetary and financial stability objective and that central banks must be quick to engage with them and prepare for their implications.

The Bank of England's proposed approach includes developing additional functionalities for the Real-Time Gross Settlement (RTGS) service such as extending settlement hours and a synchronisation interface that would allow RTGS to connect to external ledgers, including those based on programmable platforms, and settle assets in central bank money. Central bank money could interact with programmable platforms through the use of so-called 'wholesale central bank digital currency' (wCBDC) technologies. To inform this work, the Bank of England proposes a programme of experiments to test the use cases, functionalities and prospective designs of both wCBDC and synchronisation, and their relative merits.

The Bank of England is seeking views on its overall approach and on specific topics including: (i) the benefits and risks of programmable platforms and the likelihood of them being taken up at scale by wholesale markets; (ii) the pace of innovation in private money, particularly commercial bank money; and (iii) the use of tokenised deposits and stablecoins for wholesale transactions. The deadline for comments was 31 October 2024. The Bank of England will share its feedback to the discussion paper during 2025. It will also continue with its proposed roadmap for RTGS.

PSR MARKET REVIEWS INTO CARD FEES

The Payment Systems Regulator (PSR) is carrying out two market reviews into card fees—one on card scheme and processing fees and one on cross-border interchange fees. The market review of card scheme and processing fees looks in detail at the levels, structure and types of scheme and processing fees. The PSR published a report setting out its interim conclusions on card scheme and processing fees in May 2024. The PSR's provisional findings include that the two largest payment system operators do not face effective competitive constraints. In respect of core scheme and processing services, there is currently no effective competition to these payment system operators. In some optional services, competition and choice is limited and alternative providers, when present, cannot match the schemes' one-stop shop solution for core and optional services. Potential remedies considered by the PSR include: (i) regulatory financial reporting in respect of the card schemes' U.K. activities, in order to provide the PSR with more detailed and accurate information of the profits the card schemes are earning from their U.K. businesses; (ii) measures that would require the card schemes to set out the reasoning and evidence justifying any price increases (or pricing for new services); and (iii) measures to improve the quality of information available to acquirers and merchants, in particular SMEs, to make it more suited to their particular needs, which address the information and transparency problems the PSR has identified. The PSR states that its provisional findings also highlight the importance of the PSR's work to unlock account-to-account payments, and Open Banking in particular, to facilitate greater choice for merchants for retail payments in the longer-term. The PSR intends to publish its final report in Q1 2025.

The PSR's second market review focuses on consumer cross-border interchange fees between the U.K. and the EEA. The PSR wants to understand the reason behind the increase in fees associated with some U.K.-EEA payments, as well as to engage with businesses to better understand how the increases are impacting them. The PSR published a report setting out its interim conclusions on U.K.-EEA consumer cross-border interchange fees on 13 December 2023. A year later, on 13 December 2024, the PSR has published its final report. The final report finds that due to a lack of competition, cross-border interchange fees have increased since 2021/2022 and are costing businesses GBP150-200m extra annually. The PSR did not identify any justifications for the increases and found that the potential detrimental consequences for services users were not considered. Alongside the report, the PSR also launched a consultation on a potential price cap remedy on outbound interchange fees. The PSR proposes a two-stage intervention. Stage 1 would consist of an initial, time-limited cap, set for a transitional period while an appropriate methodology for determining the most appropriate level of the price cap is developed and implemented. For stage 2, during the stage 1 period, the PSR would undertake work to develop an appropriate and longer-lasting cap, which might be higher, lower or the same as the cap set during the stage 1 period. The PSR is currently leaning towards a stage 1 cap of 0.2% for card-not-present consumer debit transactions and 0.3% for card-not-present consumer credit transactions. The PSR envisages that the Direction imposing the stage 1 price cap would include a maximum six-month implementation period. The PSR envisages that stage 1 would last, including the implementation period, a maximum period of 30 months, with a commitment to review the continued application of the price cap no later than 24 months from the commencement of the direction imposing the stage 1 price cap. The deadline for comments is 7 February 2025.

BUY-NOW, PAY-LATER

Over three and a half years after the Woolard Review highlighted the potential risks of unregulated, but easily available, interest free credit facilities, HMT has published draft legislation to bring Buy-Now, Pay-Later (BNPL) lending inside the U.K.'s regulatory perimeter. The consultation sets out HMT's intended policy approach to regulation along with the draft legislation. HMT explains that the proposed legislation aims to ensure people using BNPL products receive clear information, avoid unaffordable borrowing, and have strong rights when issues arise.

HMT is intending to: (i) take certain agreements, referred to as "regulated deferred payment credit agreements", out of the scope of the exemption in article 60F(2) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001; (ii) disapply certain information requirements in the Consumer Credit Act 1974 in respect of these agreements. The FCA will develop rules on a disclosure regime for BNPL agreements in line with its Consumer Duty; (iii) amend the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 to ensure that financial promotions communicated by unauthorised persons offering third-party BNPL agreements will need to be approved by an authorised person; and (iv) establish a temporary permissions regime that will allow unauthorised firms to continue to conduct their BNPL lending activities until their application for full authorisation has been processed.

The consultation also responds to feedback HMT received to its previous consultation that ran between February and April 2023. The deadline for comments was 29 November 2024. After reviewing feedback, HMT aims to bring forward the legislation as soon as possible. The FCA will then consult on detailed rules, focusing on the disclosure requirements that should apply to BNPL agreements. Firms will be subject to full regulation 12 months after the legislation is made.

For more information on the BNPL consultation, please see our blog post here.

EU

PSD3 PACKAGE

On 28 June 2023, the European Commission published the texts of legislative proposals that it adopted concerning reforms to EU payment services. The first proposal is a Directive on payment services and electronic money services (PSD3) which will modernise and repeal the revised Payment Services Directive (PSD2) and the revised Electronic Money Directive (EMD2). The package will also establish a new Payment Services Regulation (PSR). PSD3 establishes the licensing and supervisory requirements for payment institutions. The PSR lays down the conduct rules for payment service providers offering payment and electronic money services in the EU. The package of measures consists of: (i) merging the legal frameworks applicable to electronic money services and to payment services; (ii) strengthening measures to combat payment fraud, by enabling payment service providers to share fraud-related information between themselves, strengthening customer authentication rules, extending refund rights of consumers who fall victim to fraud and making a system for checking alignment of payees' IBAN numbers with their account names mandatory for all credit transfers; (iii) allowing non-bank payment service providers access to all EU payment systems, with appropriate safeguards, and improving their access to bank accounts; (iv) improving the functioning of Open Banking, especially as regards the performance of data interfaces, removing obstacles to Open Banking services and ensuring consumer control over their data access permissions; and (v) further improving consumer information and rights. Please see our bulletin for further information.

The European Parliament announced that it had adopted its position at first reading on the proposed PSD3 and the proposed PSR in April 2024. The European Parliament voted to adopt the proposed texts of PSD3 and PSR that were set out in reports adopted by ECON in February 2024. The texts of these reports were published in March 2024. The European Parliament closed the first reading without agreement with the Council.

The European Central Bank (ECB) has also published an opinion on the proposed PSD3 and PSR, together with drafting amendments to the legislative proposals and an accompanying explanatory text. In the opinion, the ECB addresses the following topics: (i) access to payment systems; (ii) safeguarding of users' funds at ESCB central banks; (iii) safeguarding of users' funds at credit institutions or through safe asset investments; (iv) fraud monitoring and reporting; (v) strong customer authentication; (vi) open banking; (vii) the European Banking Authority's temporary intervention powers; (viii) regulatory technical standards on authentication, communication and transaction monitoring mechanisms; (ix) FX management; and (x) availability of cash.

The European Commission, European Parliament and Council will begin trilogue negotiations on the proposed PSD3 and PSR in Q1 2025. Key areas still for discussion include fraud prevention and transparency requirements. Liability of internet platforms to prevent and fight payment fraud will be a hot topic in negotiations going forward—with several Member States keen to force some liability onto tech firms.

During the course of 2025, the European Commission, the European Parliament, the Council and EU Member States will work towards finalising the new rules. PSD3 will subsequently have to be transposed into national law by the EU Member States. There are currently no clear timelines on the negotiations. However, the legislation is expected to apply 18 months after publication in the Official Journal, which is not likely to be until 2026/27.

INSTANT PAYMENTS

Regulation (EU) 2024/886 on instant credit transfers in euros (the Instant Payments Regulation) entered into force on 8 April 2024 and aims to improve the availability of instant payment options in euro to consumers and businesses in the EU and in EEA countries. The date on which the various obligations begin to apply depends on the type and location of the payment service provider (PSP). For example, PSPs in the Eurozone have shorter implementation deadlines than those outside and non-bank PSPs, payment and e-money institutions, have more time to comply with the new obligations than banks and other PSPs. The Instant Payments Regulation amends the SEPA Regulation to set out new rules on the execution of instant credit transfers as well as obligations for PSPs to provide a verification of payee service to payers (checking that the IBAN and the name of the payee match) in respect of all credit transfers (instant and non-instant). The Instant Payments Regulation also amends the rules on charges for cross-border payments and on the possibility for a PSP to levy additional charges when a user does not provide an IBAN and a Bank Identifier Code (where applicable) as set out in the Cross-Border Payments Regulation.

In addition, the Instant Payments Regulation amends the Settlement Finality Directive and revised Payment Services Directive (PSD2) to introduce rules on direct access to payment systems for non-bank PSPs and new requirements for these non-bank PSPs and payment systems in relation to offering the services of sending and receiving instant credit transfers. Amendments to the Settlement Finality Directive and PSD2 must be transposed by EU Member States in their national legislation and be applicable by 9 April 2025.

The first set of obligations under the Instant Payments Regulation applied on 9 January 2025. From this date, traditional banking PSPs located in the euro area are required to provide a payment service of receiving instant credit transfers, as well as charging the same or lower fees for instant payments as for regular transfers. They will also be required to provide a payment service of sending instant credit transfers in euro and provide the service of verification of payee by 9 October 2025. Traditional banking PSPs located outside the Eurozone will be required to provide a payment service of receiving instant credit transfers in euro, as well as charging the same or lower fees for instant payments as for regular transfers, by 9 January 2027.

Traditional bank PSPs located outside the Eurozone will be required to provide a payment service of sending instant credit transfers and the service of verification of payee where they are the payer's PSP by 9 July 2027. Non-bank PSPs from the Eurozone that already provide a service of receiving/sending credit transfers in euro will be obliged to offer a service of receiving/sending instant credit transfers in euro from 9 April 2027, and non-bank PSPs from outside the Eurozone that already provide a service of receiving/sending credit transfers in euro will be obliged to offer a service of receiving instant credit transfers in euro from 9 April 2027 and also to provide a service of sending instant credit transfers in euro from 9 July 2027. All PSPs, whether located inside or outside the Eurozone, are subject to an obligation to perform daily sanctions screening to verify whether any of their payment service users are subject to targeted financial restrictive measures in the context of the offering of the service of receiving/sending instant credit transfers in euro (this obligation began to apply from 9 January 2025).

For more information on the Instant Payments Regulation, please read our brochure here.

Fintech/Digital assets

U.K.

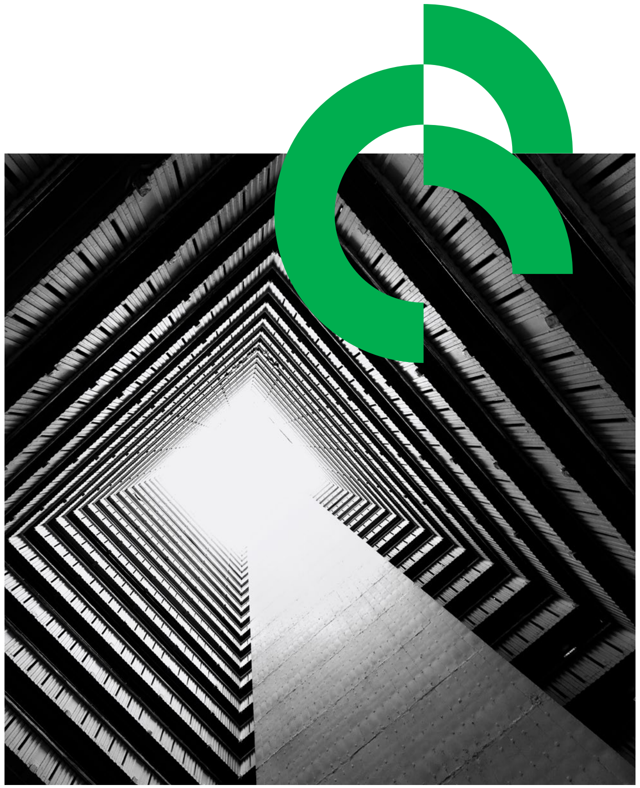
FUTURE U.K. REGULATORY FRAMEWORK FOR STABLECOINS

HMT confirmed at the end of last year that it is proceeding with the proposals for new regulated activities for stablecoins as set out by the previous government. However, these proposals will now be implemented to the same timetable as the rest of the proposed regulatory regime for cryptoassets and will no longer be introduced through a phased approach (see the item below on the Future U.K. financial services regulatory regime for cryptoassets).

On 6 November 2023, the FCA published a discussion paper setting out how it might regulate fiat-backed stablecoins as a means of payment. The paper proposes two means by which a fiat-backed stablecoin may access U.K. payment chains, either, (i) via U.K. based fiat-backed stablecoin issuers and custodians; or (ii) in the case of stablecoins issued overseas, following approval by a U.K. based "payment arranger". Each "gateway" would be facilitated by an extension of the regulatory perimeter. The use of fiat-backed stablecoins in payment chains would be regulated through amendments to the Payment Services Regulations 2017. Activities of issuance and custody of fiat-backed stablecoins where the coin is issued in or from the U.K. would be brought within the regulatory perimeter of the Financial Services and Markets Act 2000 (FSMA) through the FSMA (Regulated Activities) Order 2001. The government has already started to implement this regime through the Financial Services and Markets Act 2023 (FSMA 2023).

FSMA 2023 also provides the Bank of England and Payment Systems Regulator with powers over systemic and recognised digital settlement asset payment systems and service providers, subject to HMT's recognition and designation. The Bank of England's discussion paper, also published on 6 November 2023, deals with the specific issue of how systemic payment systems using stablecoins and related service providers should be regulated. At this stage, the Bank of England's focus is specifically on sterling-denominated payments, because it considers these are the most likely digital settlement assets to be used widely for payments. Currently, the Bank of England hasn't identified any existing stablecoins which would be brought within its remit as systemic. The proposed regulatory regime for systemic stablecoin systems would include oversight of a variety of business models. Whilst the entity providing the payment/transfer function would remain the Bank of England's "regulatory hook", the regime could also capture the stablecoin issuer, the custodian and the provider of the "customer interface" (if different legal entities). The Bank of England is still considering the responses it received in relation to this discussion paper.

HMT has indicated that it will introduce secondary legislation for regulation of activities relating to fiat-backed stablecoins within the FSMA regulatory framework, as early as possible in 2025. The FCA also plans to publish a consultation paper on the proposed regulation for stablecoins in H1 2025.



FUTURE U.K. FINANCIAL SERVICES REGULATORY REGIME FOR CRYPTOASSETS

The proposed U.K. regulatory framework for cryptoassets is still a work in progress. HMT published its response to industry feedback following its February 2023 consultation on the future financial services regulatory regime for cryptoassets. The consultation paper set out HMT's initial policy proposals to extend regulation to a broad suite of cryptoasset activities in the U.K., including the exchange, investment, custody, and lending of cryptoassets. The consultation paper also proposed regimes for a range of cross-cutting issues, which apply across cryptoasset activities and business models, including market abuse and cryptoasset issuance and disclosures.

In its October 2023 response, the U.K. government confirmed its intention to bring these cryptoasset activities into the regulatory perimeter for financial services. Firms undertaking cryptoasset activities will need to be authorised under a new FSMA-based regime and comply with prudential requirements, data reporting, consumer protection, location policy and operational resilience. For more information, please see our blog post here.

Towards the end of last year, the government confirmed that it will implement in full HMT's October 2023 proposals for the financial services regulation of cryptoassets. In addition, on 26 November 2024, the FCA published a crypto roadmap setting out its planned policy publications for cryptoassets, where it is seeking feedback, and the content they are expected to cover.

The roadmap provides a timeline for the publication of discussion papers, consultation papers and policy statements relating to the regulation of both stablecoins and cryptoassets. According to the roadmap, the FCA plans to publish all policy statements and final rules in 2026, with the FCA's cryptoasset regime to go live sometime after that. The FCA notes that the roadmap is not exhaustive, and that all timelines are subject to change according to parliamentary time and future steers from the government.

In December 2024, in accordance with the crypto roadmap, the FCA published its discussion paper 'Regulating cryptoassets: Admissions & Disclosures and Market Abuse Regime for Cryptoassets', marking another step forward in the development of the U.K.'s regulatory framework for crypto. For Admissions and Disclosures, the discussion paper covers key topics on the processes, disclosures, liability, due diligence and use of the National Storage Mechanism. The regime will form part of the other pre-trade regimes for crypto such as the 'travel rule', the financial promotion regime and ESG disclosures. The FCA's starting point is the new public offers and admissions to trading regulations regime (which is currently under consultation), tailored for the purposes of unique crypto features such as the role (or lack) of issuers and the operations of cryptoasset trading platforms.

For the Market Abuse Regime, the discussion paper covers systems and controls, information sharing and disclosure of inside information. The FCA's starting point is the pre-existing market abuse regime and the proposals seek to transfer, conceptually, the key requirements to the crypto environment. On the question of how to maximise market surveillance by enabling cross-platform information sharing, the FCA confirms that it does not intend, currently, to establish an FCA-operated mechanism but expects an industry-led sharing mechanism (which operates on a private-to-private basis) would be better and would allow flexibility. The deadline for comments is 14 March 2025, and the FCA is aiming to publish a follow-up consultation paper in Q3 2025.

As a parallel workstream, the roadmap indicates that in H1 2025, the FCA also expects to publish discussion papers on trading platforms, intermediation, lending and staking, and prudential considerations (with a consultation paper to follow in Q4 2025 or Q1 2026). A consultation paper on conduct and firm standards for all Regulated Activities Order activities, including draft provisions on systems and controls including operational resilience and financial crime, Consumer Duty, conduct (COBS) and governance including the Senior Managers and Certification Regime is also expected in Q3 2025.

DIGITAL POUND

With the belief that 'public' money will become increasingly less useful and useable and of shrinking relevance to a large part of the population, HMT and the Bank of England consulted on a U.K. retail central bank digital currency (CBDC) in February 2023. The digital pound would be issued by the Bank of England and could be used by households and businesses for everyday payments in-store and online. If introduced, it would be interchangeable with cash and bank deposits. In January 2024, the Bank of England and HMT published a response to their joint consultation paper. The Bank of England and HMT have made no final decision on whether they will introduce a digital pound. However, they believe that the design of a digital pound as proposed remains appropriate. They confirm that primary legislation to guarantee users' privacy and control is an important aspect of the proposals, and that neither the Bank of England nor the government would have access to users' personal data.

They also commit to maintaining access to cash for those who prefer it, should a digital pound be introduced. Other key design principles include that a digital pound is reliable and secure, supports innovation, is interoperable, adaptable and scalable, is inclusive and attractive, and is energy efficient.

The Bank of England has confirmed that the earliest it would issue a digital pound would be the second half of this decade. It is now in a design phase which will look at the technology and policy requirements for a digital pound over the next two to three years. In the design phase, the Bank of England will test how the digital pound could work in the real world. It will also carry out detailed assessments to work out exactly how a digital pound would operate. At the end of this phase, the Bank of England will have enough information to make a decision on whether to move into a build phase. Parliament will also have a say before any digital pound is launched, and further public consultation will be held. Whilst continuing to consider a Bank of England-issued digital pound, the Bank of England has also encouraged the development of possible private sector alternatives.

PROPERTY (DIGITAL ASSETS ETC) BILL

The Property (Digital Assets etc) Bill will give effect to recommendations in the Law Commission's 2023 report on digital assets to confirm in statute that a thing that is digital or electronic in nature is not prevented from being personal property. Although the Law Commission's work was focused on cryptoassets in particular, the Bill does not mention cryptoassets specifically, nor is its scope restricted to them. In the explanatory memorandum, it states that the Bill's reference to things that are "digital or electronic in nature" is not necessary in legal terms, but is included for context because digital things such as crypto-tokens are likely to be the main type of thing that users of the law will be concerned with, at least in the short to medium term.

The Bill had its second reading in Grand Committee in the House of Lords on 6 November 2024, before being read formally in the House of Lords Chamber on 13 November 2024. On 19 November 2024, the House of Lords announced that a Special Public Bill Committee established to consider the Property (Digital Assets etc) Bill had issued a call for evidence. The deadline for comments was 20 December 2024.

EU

MiCAR

The European Commission's Regulation on markets in cryptoassets (known as MiCAR) establishes a new EU legal framework for a broad range of cryptoassets that are not covered by existing EU financial services legislation, and introduces specific rules for stablecoins, which are divided into e-money tokens (EMTs) and asset-referenced tokens (ARTs).

MiCAR has applied fully since 30 December 2024, subject to certain transitional measures, whilst the provisions related to issuers of ARTs and EMTs have applied since 30 June 2024.

MiCAR introduces requirements for cryptoasset issuers and cryptoasset service providers (CASPs) relating to: (i) transparency and disclosure for the issuance, offer to the public and admission to trading of cryptoassets. This includes an obligation on all issuers of cryptoassets that fall within the scope of MiCAR to publish an information document, called a white paper, setting out mandatory disclosures. The white paper must be notified to competent authorities, who may require modifications (although there is no pre-approval requirement before publication). Additional disclosures are required for ARTs and EMTs; (ii) authorisation of CASPs and issuers of ARTs (unless they are already authorised under existing financial services legislation); (iii) supervision of CASPs, issuers of ARTs and issuers of EMTs, including powers for the European Supervisory Authorities to supervise certain "significant" issuers and CASPs; (iv) operation, organisation and governance of CASPs, issuers of ARTs and issuers of EMTs; (v) consumer protection in the issuance, offer to the public and trading, exchange and custody of cryptoassets; (vi) prevention of insider dealing, unlawful disclosure of inside information and market manipulation related to cryptoassets; and (vii) a change in control regime governing the acquisition of interests in CASPs.

MiCAR contains around 35 different mandates for delegated acts, regulatory technical standards and implementing technical standards. The European Supervisory Authorities (namely ESMA and the EBA) delivered these drafts in the course of 2024.

The European Commission has since been able to adopt many of these draft standards. Some have, following scrutiny by the European Parliament and Council, been published in the Official Journal. Others have been adopted but are still subject to scrutiny, and some are yet to be adopted. Once these remaining standards are adopted and come into force during the course of 2025, the EU framework for cryptoassets will be complete.

Please see the Prudential Regulation section for further information on the "Prudential regimes for cryptoasset exposures", including the prudential requirements under MiCAR.

The recast revised Wire Transfer Regulation, which extends the scope of the 'travel rule' to the transfer of certain cryptoassets, has applied since 30 December 2024. The European Banking Authority's 'travel rule' guidance under the recast revised Wire Transfer Regulation also started to apply on 30 December 2024. These guidelines specify the steps that payment service providers (PSPs) and intermediary PSPs (IPSPs), CASPs and intermediary CASPs (ICASPs) should take to detect missing or incomplete information that accompanies a transfer of funds or cryptoassets, and the procedures they should establish to manage a transfer of funds or a transfer of cryptoassets that lacks the required information.

For more information on MiCAR, please see our bulletins "MiCAR under the microscope—Part 1: MiCAR is law", "MiCAR under the microscope—Part 2: Are you in or out of scope?", "MiCAR under the microscope—Part 3: The issuance of stablecoins under MiCAR: Scope and requirements", "MiCAR under the microscope—Part 4: The CASP licensing regime", "MiCAR under the microscope—Part 5: Regulatory requirements applicable to CASPs", and "MiCAR under the microscope—Part 6: Acquisition of qualifying holdings of CASPs and ART issuers", together with our "Shaping the future of MiCAR" blog post series.

DIGITAL EURO

The digital euro project is the European Central Bank's (ECB) response to the changing landscape of consumer payments, driven by the rise of cryptocurrency, payment fintechs and electronic transactions. A digital euro would be a new form of digital money, issued and supervised by the ECB as a central bank digital currency (CBDC). To advance the development and implementation of this project, on 28 June 2023, the European Commission presented the digital euro package. This legislative package includes a Regulation establishing the legal framework for a possible digital euro. The digital euro would be a supplement to euro cash. It would take the form of a universal means of payment across the euro area, which would hold legal tender status (as euro cash) and be widely accepted as a means of payment.

The digital euro project is now in its preparation phase, which lays the foundations for the potential issuance of a digital euro. The preparation phase began in November 2023 and will initially last two years, until 31 October 2025. It involves finalising the digital euro rulebook and selecting providers that could develop a digital euro platform and infrastructure. It will also include testing and experimentation to develop a digital euro that meets both the Eurosystem's requirements and user needs, for example in terms of user experience, privacy, financial inclusion and environmental footprint. The launch of the preparation phase is not a decision on whether to issue a digital euro. That decision is only due be considered by the ECB once the European Union's legislative process has been completed. The ECB will take into account any adjustments to the design of the digital euro that may become necessary as a result of the legislative deliberations.

In 2024, the ECB published two progress reports on the preparation phase of a digital euro. On 2 December 2024, the ECB published its second progress report, stating that since the publication of its first report, the ECB has updated its digital euro scheme rulebook. It also sets out that in 2025, among other things, the ECB will: (i) publish the outcome of its call for applications for selecting potential providers of digital euro components and related services. The ECB has already invited selected bidders to tender; (ii) set out the findings from newly launched research and experimentation activities to gather insights into users' preferences and to inform decision-making for a possible digital euro; and (iii) test the proposed methodology for setting digital euro holding limits, balancing user experience with monetary policy and financial stability implications. The next progress report is expected in Q2 2025. At that point, the ECB will publicly consult on the draft rulebook text.

From November 2025, the ECB will decide whether to move to the next stage of preparations, to pave the way for the possible future issuance and roll-out of a digital euro.

Asset management *and retail*

U.K.

FUNDS AND FINANCIAL PRODUCTS

In 2024, significant progress was made regarding the U.K.'s overseas fund regime (OFR) for retail investment funds and money market funds, with HMT and the FCA jointly issuing a "roadmap" on 1 May 2024 setting out expected timings for future milestones. In 2025, it is expected that the government will lay any legislation required to implement decisions on the applicable of SDR and labelling for OFR funds, followed by an FCA consultation on related rules and guidance. Looking further ahead, the final landing slot closes for non-MMF TMPR schemes in September 2026, and in December 2026, the TMPR for non-MMF schemes is due to come to an end (although the government can choose to extend the TMPR).

Other significant progress in 2024 included the development of the Consumer Composite Investments (CCI) regime, to replace the existing U.K. PRIIPs regime. The U.K. government deemed the PRIIPs regime as not fit for purpose and, as part of the Edinburgh Reforms, proposed to repeal it as a matter of priority.
The Consumer Composite Investments (CCI) (Designated Activities) Regulations 2024 were made in November 2024 (for more on the designated activities regime, please see commentary under the heading The Designated Activities Regime in the Cross-sector section above). These serve as a framework to underpin the CCI regime, the detail of which will be set out in the FCA Handbook.

On 19 December 2024 the FCA published consultation CP 24/30 (A new product information framework for CCIs). Products formerly under the PRIIPs regime and UCITS disclosure requirements, including overseas funds in the Overseas Funds Regime (OFR), will now fall under the umbrella of CCIs. The CCI regime will apply not only to U.K. authorised and unauthorised manufacturers and distributors of CCIs but also to firms operating overseas that manufacture or distribute in-scope products (CCIs) to retail investors in the U.K.

The FCA will publish a further consultation with draft rules for consequential amendments and transitional provisions in early 2025, and plans to issue a policy statement with final rules in 2025 with the new regime coming into force when the policy statement is published, or shortly afterwards, but with a substantial transitional period. In the consultation, the FCA propose that existing PRIIPs KIDs or UCITS KIIDs or equivalent disclosure produced and communicated in line with current obligations will be considered compliant until the end of an 18-month transition period, running from the date the policy statement and final rules are published (12 months for certain close-ended investment companies currently subject to an exemption from U.K. PRIIPs). The timing for and extent of changes needed to existing disclosures (including legends and selling restrictions), will depend on the outcome of the above consultations.

On U.K. AIFMD, the FCA consultation expected in 2024 has been delayed and so this may now be published in 2025. The FCA had previously confirmed that there would be a consultation on amending the AIFMD regime in the U.K., and re-evaluating the AIFMD rules for non-UCITS retail funds in Q3 2024.

In the context of asset management more broadly, the FCA has indicated that in light of the M&A activity seen in the market in the last two years, it is planning a multi-firm review of consolidation activity in the market. As mentioned below in the discussion of the FCA's new strategy for investment advisers and intermediaries (under the Treatment of consumers heading), one of the three pillars of the FCA's new strategy for advisers is consolidation. In the FCA's Dear CEO letter regarding the new strategy, the FCA gives guidance on its expectations, including on the delivery of "good outcomes", and refers to some historic guidance in this space. Please see further below on the FCA's intended focus in 2025 on investment advice for retail customers.

CONSUMER CREDIT

A headline topic of 2024, which will continue to be an area of regulatory focus in 2025, is motor finance commission. Key developments are expected in 2025 in terms of the FCA's enforcement and ongoing work in this space (including the pause of the 8-week deadline for motor finance firms to provide a final response to complaints), the approach of the FOS (in particular the High Court's recent finding in favour of the FOS regarding its upholding of a complaint in relation to discretionary commission under a motor finance agreement), and the U.K. courts' other judgments on motor finance commission.

This will be an important topic for lenders and brokers to monitor in respect of any consumer-facing commission arrangements both for motor finance agreements, and more broadly—as there may be read-across to other types of consumer credit business. In terms of key dates for the year ahead for firms, it is worth noting the FCA's extension of time for firms to have to respond to complaints (the most recent extension of the deadline being to 4 December 2025), the expected Supreme Court heading of the appeals in respect of the recent Court of Appeal judgment (which will be in Hilary Term, 2025) and the outcome of the FCA's review of historical motor finance commission arrangements and sales (with next steps currently expected to be confirmed in May 2025).

Also, of particular note, in 2024 the FCA published its review of consumer credit firms and other non-bank lenders, and its strategy for Retail Banks in 2025.

In the review, the FCA split its observations between those firms it classified as consumer credit firms (those offering credit including premium finance, finance for goods and services and student loans) and non-bank mortgage lenders (typically those offering second charge loans and buy-to-let mortgages). As one might expect given the secured nature of the facilities, the non-bank mortgage lenders appear to be better positioned but the overall message is that the majority of lenders could improve their approach to risk governance and risk management. The FCA's strategy for Retail Banks in 2025 confirms that priorities will include compliance with the Consumer Duty and the treatment of customers in financial difficulty.

On the U.K.'s proposed reform of the Consumer Credit Act 1974, no set timeline for further developments has been confirmed. A further consultation on proposals for reform was expected in 2024, however this was not published. Please refer to the Payment services and payment systems section for discussion of the new regulated treatment of BNPL.

TREATMENT OF CONSUMERS

The regulated activity of investment advice provided to the retail market remains in the spotlight and is expected to continue to be an area of regulatory scrutiny. In Q4 2024, the FCA published various materials and announcements, including a Dear CEO letter, on the new strategy for investment advisers and intermediaries. The new strategy is described as having three buckets, or pillars—reducing and preventing serious harm, testing and monitoring standards under the Consumer Duty, and the Advice Guidance Boundary Review.

This first pillar has four focus topics: (i) retirement income advice; (ii) ongoing advice services; (iii) ensuring the polluter pays; and (iv) consolidation. An additional point of interest for firms is that the FCA intends to publish the Investment Advice Assessment Tool, which it currently uses internally to assess investment advice. Please also see comments on the Consumer Duty below.

Alongside the pursuit of this new strategy, in November 2024 the FCA set out its next steps on the Advice Guidance Boundary Review. Initially the focus will be on retirement income, and the FCA has published a consultation paper on high level proposals relevant to this aspect of the Advice Guidance Boundary Review (in December 2024). By the end of H1 2025, the FCA plans to consult on rules for better support for consumers in retail investments and pensions.

Throughout 2024, the FCA carried out substantive work in relation to the Consumer Duty, and it is expected that this focus will continue into 2025. Publications of particular interest include indications of good and poor practice for the price and value outcome and, notably, the call for input in relation to the Consumer Duty, where the FCA will review requirements and identify areas where co-existing and potentially duplicative or conflicting rules and guidance can be usefully amended. In addition, the FCA published the findings of its thematic review into firms' approaches to complaints and root cause analysis in December 2024, to support effective embedding and implementation of the Consumer Duty. Overall, the FCA found that firms have established processes for carrying out root cause analysis of complaints, identifying trends and themes, and that most firms could evidence clear escalation routes and accountability. Finally, in Q1 2025, a review of firms' treatment of customers in vulnerable circumstances by the FCA is expected.

EU

FUNDS AND FINANCIAL PRODUCTS

One of the headlines of 2024 was the publication of AIFMD II, which entered into force on 15 April 2024 and must be implemented by Member States by 16 April 2026. There are a number of changes made to AIFMD by the amending directive, but the new rules for loan originating funds have attracted particular industry attention. The new regime comprises two sets of rules—one which only applies to AIFs falling within the new definition of "loan-originating AIF" and the other being relevant for all AIFs that originate loans, irrespective of whether loan origination is their main strategy or not (although existing AIFs originating loans may benefit from certain exemptions and/or a grandfathering period until April 2029). ESMA has launched its consultation on draft regulatory technical standards on open-ended loan-originating AIFs, which are intended to be finalised by Q3 or Q4 2025. AIFMD II also makes amendments to UCITS legislation, and, over the course of 2025, ESMA expects to develop regulatory technical standards and guidelines on liquidity management tools for both AIFs and UCITS. Separately, ESMA also expects to publish its technical advice on UCITS eligible assets.

The focus on loan origination in the AIFMD review, which led to the AIFMD II amendments, marks a potential move towards certainty for private credit in the EU. A stated purpose of the AIFMD II amendments is to establish an efficient internal market for loan origination by AIFs, recognising the right of AIFs to originate loans and the importance of facilitating access to finance as an objective of the EU's Capital Markets Union action plan.

Private credit, together with other non-bank financial intermediaries, has been a particular area of recent regulatory scrutiny in the EU and more widely, and has been considered extensively by various analyses carried out on the financial resilience of the U.K., EU and global financial systems.

In May 2023, the European Commission issued a legislative proposal for a regulation to amend the EU PRIIPs Regulation (the Proposed Amending Regulation) as part of the EU Retail Investment Strategy aimed at strengthening retail investor protection. A key overall objective of this strategy is to encourage participation in EU capital markets (which has historically seen lower investment levels than the U.S.), and in turn, to stimulate economic growth and fund the EU's net zero goal. Subsequent to this, the EU Parliament agreed its negotiating mandate for trialogue in March 2024, whilst the EU Council agreed its negotiating position in June 2024. The Proposed Amending Regulation makes targeted amendments to the PRIIPs Regulation whilst keeping the main provisions intact and is listed as a legislative priority by the EU Parliament, the Council and the Commission in their July 2024 Joint Declaration.

Whilst it remains to be seen how the differing positions of the EU Commission, EU Parliament and EU Council will be resolved in trialogue, proposed changes include the addition of a new section in the KID entitled "How [environmentally] sustainable is this product?". Clarifications have also been suggested to the scope of the regulation, requirements for revisions of the KID, as well as proposed changes to certain content and format requirements (for example, in relation to performance information, the addition of a new "Product at a glance" dashboard and removal of the comprehension alert and the development of an independent online comparison tool, based on KID data available under the European Single Access Point).

The proposed changes are with an eye to strengthening retail investor protection and the proposed provision of the KID in electronic format by means of an interactive tool. The application date of the Proposed Amending Regulation is subject to debate, but once the final text has been agreed in trialogue, it is unlikely to apply for 18-24 months after entry into force of the Proposed Amending Regulation (likely end 2026 at the earliest).

CONSUMER CREDIT

A key date for the year ahead in terms of consumer credit in the EU is the deadline of 20 November 2025, by which Member States must have adopted and published the laws, regulations and administrative provisions necessary to implement Directive 2023/225 on credit agreements for consumers and repealing the CCD 2008 (CCD II). CCD II makes a number of upgrades and changes to existing consumer credit legislation in the EU; notably, it brings certain "Buy-Now, Pay-Later" (BNPL) products in scope. Please also see the Payment services and payment systems section above on the new rules for the regulation of BNPL in the U.K.

TREATMENT OF CONSUMERS

The EU Retail Investment Strategy will continue to be a driving force for developments in EU markets over the course of 2025. The changes will impact MiFID, IDD, UCITS, AIFMD and Solvency II by way of an omnibus directive, and changes to PRIIPs regulation (which is covered separately—please see above). In 2024, both the Parliament and the Council published their negotiating positions and therefore in 2025 it is expected that there will be progress through the negotiation phase towards finalised texts. There are a number of proposals which are the subject of much debate, in particular the potential changes to the rules on inducements, which has been controversial. For U.K. firms with EU business interests, there is clear overlap between the EU RIS proposals and the U.K.'s Consumer Duty (see above in the U.K. section under the Treatment of consumers heading), the new U.K. retail disclosure regime (which will replace PRIIPs regulation) and changes to payment optionality for inducements, meaning firms may need to keep an eye on continuing divergence and, possibly, re-convergence.

More broadly on consumer legislation, in 2025 the EU Accessibility Directive will come into force on 28 June. The directive applies very broadly to various services and products, but for financial service regulatory firms, it covers (in particular) "consumer banking services", meaning certain MiFID, credit and payment services provided to individuals acting outside their trade/profession and (in terms of related products) ATMs and payment terminals.

Service and product providers have to comply with accessibility requirements to maximise foreseeable use for persons with disabilities, including ensuring accessibility of products used to provide the service, and providing information about the service in an accessible way. Key issues that firms will be navigating in 2025 include looking at how far the scope impacts their services and products (including websites, mobile apps and customer service channels) and how to reconcile the Directive's requirement to provide information in an understandable way when products and service may already be subject to pre-existing prescriptive information disclosure requirements.

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