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FS ADVISORY

Regulatory Update

January 2026

BDO FS Advisory contact points

BDO's Managed Compliance Services Regulatory Update summarises the key regulatory developments.

Our FS Advisory team supports hundreds of clients with various regulatory and non-regulatory matters. Our breadth and depth of expertise gives us a broad perspective on the issues facing the financial services sector. We have aggregated insights from our in-house research, client base, the regulators and professional bodies to support your regulatory considerations and activities.

We hope this pack provides value to you and your colleagues; please do share with us any feedback you may have for our future editions.

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REGULATORY ROUND UP

General

Regulators Forum Publishes Regulatory Initiatives Grid to Support Innovation and Stability

The Financial Services Regulatory Initiatives Forum has published the 9th edition of the Regulatory Initiatives Grid which sets out the regulatory pipeline for financial services for the next two years.

What firms are impacted?

All authorised firms.

Summary of the regulatory update:

The Forum is comprised of the FCA, the PRA/Bank of England (BoE), the Payment Systems Regulator (PSR), the Competition and Markets Authority (CMA), the Financial Reporting Council (FRC), The Pensions Regulator (TPR), and the Information Commissioner's Office (ICO), with HM Treasury attending as an observer member.

The edition includes 124 live initiatives. Of these, 45 are joint initiatives, where there is strong collaboration across regulators and government departments.

The grid also highlights work to support the Government's Financial Services Growth and Competitiveness Strategy. Key initiatives include:

- Financial stability and regulatory efficiency: Implementation of Basel 3.1 standards, the Strong and Simple framework, Prospectus Regime Reform and Wholesale Markets Review.
- Innovation: Supporting the creation of a UK issued stablecoin regime, reforms to the UK captives insurance regime, and the National Payments Vision to deliver world-leading payment solutions.
- Consumer confidence and investment: The Advice Guidance Boundary Review and new regulation of Buy Now Pay Later products.

When does it take effect?
The initiatives are ongoing and being implemented continuously across regulators.

What should firms be thinking about?
Firms should monitor joint initiatives and regulatory reforms that may impact capital, payments, innovation, and consumer-facing activities in the UK.

REGULATORY ROUND UP

General

PS25/23: Tackling non-financial misconduct in financial services

The FCA has published Policy Statement 25/23: Tackling non-financial misconduct in financial services (PS25/23).

What firms are impacted?

All non-bank firms authorised and regulated by the FCA.

Summary of the regulatory update:

In July 2025, the FCA confirmed new rules to align the conduct rules in banks and non-banks for cases of serious non-financial misconduct (NFM). The FCA has published PS25/23, amending the Code of Conduct (COCON) to provide greater clarity on how NFM can amount to a breach of the FCA's conduct rules. The guidance confirms that misconduct such as bullying, harassment, discrimination or other serious inappropriate behaviour may be relevant to regulatory standards even where it occurs outside a regulated activity or workplace setting, where it calls into question an individual's integrity, reputation or suitability.

The policy also clarifies how NFM should be considered as part of the Fit and Proper (FIT) assessment for employees and senior personnel, including how firms should assess honesty, integrity and reputation. The FCA's aim is to promote consistent, fair and well-evidenced decision-making across firms, while reinforcing expectations that firms take timely and proportionate action when behavioural standards are breached.

This publication concludes the FCA's policy development on NFM, with the regulator indicating that supervisory attention will now focus on how firms implement the guidance in practice. Firms are reminded of their obligations under section 64B of FSMA to notify conduct rules staff of the guidance and to take all reasonable steps to ensure individuals understand how the conduct rules apply to their behaviour and responsibilities.

When does it take effect?

The amended guidance will come into force for non-banks on 1 September 2026.

What should firms be thinking about?

Impacted firms should review their conduct rules training, disciplinary frameworks and fit-and-proper assessments to ensure they adequately reflect the FCA's clarified expectations on non-financial misconduct.

REGULATORY ROUND UP

General

PS25/20: Supporting Informed Decision Making: Final Rules for Consumer Composite Investments

The Financial Conduct Authority (FCA) has published a policy statement setting out its final rules for providing information regarding Consumer Composite Investments (CCIs).

What firms are impacted?

Firms that manufacture or distribute CCIs.

Summary of the regulatory update:

The policy statement (PS) summarises the feedback to the FCA's consultations in December 2024 (CP24/30) and April 2025 (CP25/9) and explains how this feedback has been considered. The FCA has carried out behavioural and consumer testing to inform the final CCI rules. Alongside the PS, the FCA has published the findings of consumer testing that informed the requirements for disclosing cost information.

The CCI regime will replace the Packaged Retail and Insurance-based Investment Products (PRIIPS) regime and the Undertakings for Collective Investments in Transferable Securities (UCITS) disclosure requirements with a singe framework tailored for UK consumers and markets. Products explicitly included in the regime are open ended funds, closed ended funds, recognised funds, structured products and structured deposits, contracts for difference (CFDs), insurance-based investment products (IBIPs), other complex products like derivatives (this is not an exhaustive list).

Summary of the CCIs regime:

1. **Scope:** To provide better product information to consumers when they are investing in CCIs.
2. **Product Summary:** Manufacturers must produce a consumer-friendly product summary. This must include comparable key information about costs, risk and return and past performance.
3. **Pre-sale:** Distributors make the product summary available to investors and highlight key information to help consumers make effective and informed investment decisions.
4. **Post-sale:** Distributors provide investors with the product summary in a durable medium.
5. **Design:** Manufacturers have freedom over the design of the product summary. Distributors have flexibility to provide information to investors in innovative ways that support customer understanding.

When does it take effect?

The new rules will come into effect on 8 June 2027.

What should firms be thinking about?

Firms in scope of the new rules should consider the policy statement and changes that need to be implemented throughout the customer journey. Manufacturers should consider whether to opt into the optional transition period that commences on 6 April 2026.

REGULATORY ROUND UP

General

PS25/22 Supporting Consumers’ Pensions and Investment Decisions: Rules for Targeted Support

The FCA has published its near-final rules for a new regulatory framework for targeted support in pensions and retail investments.

What firms are impacted?

Firms offering pension and investment products and services to retail customers.

Summary of the regulatory update:

The FCA wants customers to be confident about making decisions about their pensions and investments, therefore they are introducing targeted support to allow firms to provide suggestions designed for groups of consumers with common characteristics to help them make important decisions across their pensions and investments. The targeted support framework covers the design, delivery and purpose of targeted support, enabling millions of consumers to receive high-quality, meaningful support in a range of circumstances.

An overview of the framework is:

- **Consumer segments** - targeted support helps consumers with shared financial support needs or objectives.
- **Ready-made suggestions** - ready-made suggestions will help consumers take action to address their needs.
- **Product governance** - the FCA’s product governance rules will apply.
- **Communications** - firms must communicate the nature and limitations of targeted support and the common characteristics of the consumer segment.
- **Monitoring outcomes** - firms must review outcomes regularly, but no ongoing responsibility for individual suitability assessment.

When does it take effect?

Subject to legislation, the FCA expects the rules to take effect from 6 April 2026. Firms wanting to offer targeted support should be able to apply for permission from March 2026. The FCA’s pre-application support service (PASS) is available to firms planning to apply for targeted support permission. Pre-application meetings can be requested via the Connect system.

What should firms be thinking about?

Impacted firms should consider the near-final rules and decide if they would like to offer targeted support. Firms that want to offer targeted support should ensure they have the appropriate policies and procedures, and systems and controls in place to offer this support to consumers. Firms should set up pre-application meetings prior to submitting their application.

REGULATORY ROUND UP

General

PS25/19 Improving the Complaints Reporting Process

The Financial Conduct Authority (FCA) has published a policy statement which summarises feedback to Consultation Paper 25/13 'Improving the Complaints Reporting Process' (CP25/13).

What firms are impacted?

All FCA-authorised firms subject to Dispute Resolution (DISP) rules.

Summary of the regulatory update:

CP25/13 published in May 2025 set out the FCA's proposals to improve the usefulness and comparability of the complaints data it receives, while reducing unnecessary reporting burdens where appropriate. This Policy Statement (PS) summarises the feedback to CP25/13, confirms the FCA's final rules and guidance and sets out the next steps for implementation.

The FCA will implement the following changes:

- **Consolidated complaints return** - there will be a single, unified complaints return to replace five of the existing complaints returns (DISP 1 Annex 1, Consumer Credit Return (CCR), Funeral Plans (FP), Claims Management Companies (CMCs), and Electronic Money and Payment Services Return (PSR).
- **Permission-based reporting** - complaints reporting will be based on firms' permissions.
- **Simplified way to complete a nil return** - The option to report nil complaints will be provided upfront at the start of the new return.
- **Removal of group reporting** - firms will now be required to submit complaints data at the individual legal entity level.
- **Updated complaints taxonomy** - the revised taxonomy aims to improve how complaints are categorised and understood.
- **Identifying customers as vulnerable when firms report complaints** - firms will be required to report whether complainants are in vulnerable circumstances.
- **Retain contextualised complaints data for Retail Banking, Insurance, Payment Services and CMCs firms only.**
- **Fixed reporting periods** - all firms will now report their complaints data on a fixed 6-monthly and calendar year basis.
- **Improved guidance for firms** - this includes clearer definitions and clarifying key terms to promote consistency in how firms interpret and report complaints.
- **Publishing individual firms' data for firms reporting 500 or more complaints** - generally only the complaints data of larger firms will be published individually.

When does it take effect?

Comments on Chapter 4 of the policy statement (consultation of collection of customer vulnerability by Payment Services, Funeral Plans and CMCs firms) should be submitted by 2 February 2026. The first 6-monthly reporting period for the new return is 1 January 2027 to 30 June 2027.

What should firms be thinking about?

Impacted firms should make the appropriate internal process and system changes to meet the requirements set out in the policy statement.

REGULATORY ROUND UP

General

CP25/36 Client Categorisation and Conflicts of Interest

The FCA has published CP25/36: Client categorisation and conflicts of interest

What firms are impacted?

All authorised firms offering services to more than one client type.

Summary of the regulatory update:

On client categorisation, CP25/36 explains that the FCA is reviewing its rules, to reset how firms distinguish between retail and professional clients. It has proposed changes to:

- Remove the current Code of Business Sourcebook (COBS) 3.5.3R(2) ‘quantitative test’;
- Enhance the qualitative assessment that firms carry out on clients;
- Introduce an alternative wealth assessment; and
- Improve safeguards around clients opting out of retail protections.

For conflicts of interest, the FCA proposes to rationalise the rules in the chapters ten and three of the Senior Management Arrangements, Systems and Controls Sourcebook (SYSC 10 and SYSC 3). The FCA's intention is to reduce the complexity of the current rules.

Responses are requested by 2 February 2026.

When does it take effect?
Responses to CP25/36 are requested by 2 February 2026, after which the FCA will review feedback and publish final rules

What should firms be thinking about?
Impacted firms should assess whether their client categorisation processes, client-facing disclosures, opt-out procedures, and conflict of interest controls will align with the FCA’s proposed reforms and be ready to adjust governance, documentation, and staff training accordingly.

REGULATORY ROUND UP

General

CP25/38 Enhancing Fund Liquidity Risk Management

The FCA has published a consultation paper asking for feedback on its proposals to make sure authorized fund managers (AIFMs) have the right tools and systems to manage their funds liquidity and use them effectively.

What firms are impacted?

Firms operating in the authorised fund management market. Particularly those aimed at retail investors.

Summary of the regulatory update:

The consultation paper (CP) proposes target enhancements to liquidity risk management for open-ended funds. While the existing framework is considered robust, the FCA seeks to align its rules with the International Organisation of Securities Commissions' (IOSCO) revised international standards and the Financial Stability Board's (FSB) recommendations.

The proposed new rules and guidance in the CP are targeted at AFMs of UCITS schemes and non-UCIT retail schemes (NURS), both of which are aimed at retail investors.

In summary, the FCA wants to cement existing good practice by proposing targeted changes to the current framework for fund liquidity risk management. The FCA's proposals aim to:

- Promote effective use of anti-dilution tools (such as swing pricing) by AFMs of UCITS schemes and NURS, which would help prevent the value of investors' investments being diluted over time due to bearing the costs of other investors entering and exiting the fund.
- Ensure that AFMs of UCITS schemes and NURS have robust liquidity risk management processes, especially where they have exposure to less liquid assets.

When does it take effect?

Firms should respond to this consultation by Monday 23 February via the FCA's online survey.

What should firms be thinking about?

Impacted firms should consider the proposed new rules and should respond to the consultation paper prior to the deadline.

REGULATORY ROUND UP

General

CP25/37 Targeted Clarifications of Handbook Materials

The FCA has published a consultation paper seeking views on its proposals to simplify their requirements while ensuring they continue to support and protect consumers.

What firms are impacted?

Authorised insurance and investment firms. Particularly those offering products and services to retail customers.

Summary of the regulatory update:

The consultation paper proposes targeted clarifications and simplifications to the FCA's rules and guidance to reduce unnecessary complexity and administrative burden for financial firms, while maintaining high standards of consumer protection. The changes include streamlining investment rules for UK UCITS, updating client asset rules (CASS), simplifying insurance and funeral plan requirements, and clarifying references to older principles covered by the Consumer Duty. The FCA aims to make its Handbook clearer and more accessible, support innovation and growth, and provide better guidance for smaller firms.

The proposals in this consultation are designed to:

- Resolve uncertainty in the FCA's rules and guidance, that have been wholly or in part superseded.
- Introduce greater proportionality and clarity to existing rules.
- Resolve clear cases of conflict and duplication in the rules.
- Seek views on how the FCA could enhance its support for smaller firms.

When does it take effect?
Comments should be submitted on, or before, 27 January.

What should firms be thinking about?
Firms should consider the consultation paper and share views with the FCA prior to the deadline.

REGULATORY ROUND UP

General
DP25/3 Expanding Consumer Access to Investments
The Financial Conduct Authority (FCA) has issued a discussion paper (DP25/3) exploring ways to improve the retail investment landscape in the UK.
What firms are impacted? Regulated firms that provide investment services to retail investors.
Summary of the regulatory update: The amount of investible assets held in cash remains high and the FCA has seen a persistent mismatch, at both ends of the risk spectrum, between consumers stated risk appetite and what they actually invest in. The FCA wants to help consumers have more confidence to take on the right level of investment risk for them. The paper considers recent changes in the market, including new investment products and digital platforms, and the FCA wants to be in a position to balance consumer protection alongside informed risk taking. Key areas of focus include reviewing financial promotion and distribution rules, improving consistency in the treatment of similar investment products, and addressing gaps in consumer understanding of investment risks and protections. The FCA is therefore seeking views on how they can improve and streamline the FCA Handbook to increase consumer confidence in investing and how they should prioritise future work on this.
When does it take effect? The FCA is looking for feedback on the discussion paper by 6 March 2026.
What should firms be thinking about? Firms operating in the retail investment market should consider the discussion paper, and if they have any views that may inform potential future consultations on this subject, as well as regulatory changes aimed at supporting a stronger and smarter retail investment culture in the UK, these should be shared with the FCA prior to the deadline.

REGULATORY ROUND UP

General
Engagement Paper: Market Risk Capital Requirements for FCA Investment Firms
The FCA has published an engagement paper with a view to seeking views on difference approaches they could take for specialized investment firms.
What firms are impacted? Firms dealing as principal and managing a trading book as part of their regulated activities.
Summary of the regulatory update: The FCA is looking at how they can change their specific rules on market risk capital to make them more appropriate for investment firms. The FCA wants views on how different approaches could: • Encourage wholesale trading • Improve market liquidity • Reduce barriers to entry for specialised trading firms The engagement paper covers the background to the paper, as well as design considerations for the review and possible approaches. Chapter 4 includes a list of questions for firms to consider and provide feedback on.
When does it take effect? Firms should submit comments to the FCA by 10 February 2026.
What should firms be thinking about? Firms should consider the contents of the engagement paper and provide comments to the FCA ahead of the deadline.

REGULATORY ROUND UP

General

FCA sets out expectations of firms promoting investment products

The FCA has published guidance outlining its expectations for firms that promote investment products, as well as addressing common misunderstandings regarding risk warnings.

What firms are impacted?

Authorised firms promoting/marketing investment products.

Summary of the regulatory update:

The FCA has issued guidance emphasizing that consumers should receive a fair, clear, and balanced description of the risks associated with investment products, alongside any presentation of potential benefits. This guidance specifically targets mainstream investment products, which are defined as products not subject to the FCA's high-risk marketing or distribution restrictions, including those outside chapter 22 of the Conduct of Business Sourcebook (COBS), restricted mass-market investments, or non-mass-market investments.

The guidance is part of the FCA's ongoing work to improve transparency in product disclosures and promote informed decision-making by investors. It has been developed in coordination with the Investment Association and supported by HM Treasury as part of a broader review of risk warnings in the UK financial sector. The FCA notes that firms should ensure that risk communications are proportionate, clear, and consistent, avoiding overly technical or complex language that could obscure key risks.

Firms are expected to review marketing materials, prospectuses, product sheets, and other client communications to ensure that the risks of their investment products are clearly explained and that promotional content does not overstate potential benefits. The guidance also reinforces the importance of embedding a culture of clear and fair disclosure within governance, compliance, and product oversight frameworks, ensuring senior management can demonstrate that products are marketed appropriately and in line with regulatory expectations.

When does it take effect?

Firms are expected to apply these principles immediately in their marketing and client communications.

What should firms be thinking about?

Impacted firms should ensure any product communications, marketing materials, and client-facing risk disclosures present risks clearly, fairly, and in line with FCA expectations.

REGULATORY ROUND UP

General

Notification and Disclosure of Net Short Positions

The FCA has updated its guidance on the notification and disclosure of net short positions under the EU Short Selling Regulation (SSR).

What firms are impacted?

Investment firms, issuers and other market participants.

Summary of the regulatory update:

The FCA has updated its consultation paper page to incorporate timings of implementation and aggregated net short positions information for firms. The consultation paper (CP25/29) details the FCA's proposals on disclosure of aggregated positions, reporting of net short positions, relevant exemptions, and the FCA's emergency powers.

To accompany the consultation paper, and to further support firms' understanding of the FCA's proposals, the FCA has produced a derivation and changes table. This details how the FCA has proposed to transfer rules and guidance from the current short selling regime.

The FCA's proposals intend to create a more efficient, effective and coherent short selling regime that retains sufficient visibility and controls over short selling activity to manage any risks and maintain orderly and effective functioning of UK markets, while removing disproportionate costs.

The FCA is proposing a phased approach to implementation to accommodate changes to operational arrangements for both the FCA and industry:

Phase 1:

1. April 2026 – Policy Statement, final rules, Statement of Policy and draft of reportable shares list.
2. June 2026 – Phase 1 implementation on main commencement day: Updated reportable shares list, aggregated net short positions disclosure, reporting rules and new rules / forms for market maker exemption.

Phase 2:

1. December 2026 – Phase 2 implementation: bulk upload feature to submit multiple net short position notifications and a new system for market maker exemption notifications that will require firms to renotify previous notifications, made both before and following the main commencement day.
2. 1 June 2027 – end of transitional period for market maker exemptions.

When does it take effect?

The consultation has now closed. The FCA will publish feedback on responses and will issue a Policy Statement once they have reviewed all comments.

What should firms be thinking about?

Impacted firms should read the Consultation Paper and consider the timelines to implementation.

REGULATORY ROUND UP

General

Primary Market Bulletin 60

The Financial Conduct Authority (FCA) has published primary market bulletin 60 for primary market participants.

What firms are impacted?

Investment firms, issuers and other market participants.

Summary of the regulatory update:

The FCA has published the latest edition of its newsletter for primary market participants. This edition includes information on the following:

1. FCA's recent Consultation Paper (CP25/29) proposing changes to the UK short selling regime;
2. the publication of a Derivation and Changes Table to support firms' understanding of the new proposals;
3. details about a recent industry event discussing the key proposals; and
4. a call for feedback on CP25/29, which is open until 16 December 2025

When does it take effect?
N/A. The bulletin was published on 28 November 2025

What should firms be thinking about?
Market participants should read the bulletin, alongside the Consultation Paper and Derivation and Changes Table.

REGULATORY ROUND UP

General, rep

Understanding the UK ESG Ratings Market: Findings from the FCA's Surveys

The Financial Conduct Authority (FCA) has published its research notes summarising findings from its surveys on the UK ESG Ratings Market.

What firms are impacted?

Investment Firms using ESG Ratings Providers.

ESG Ratings Providers.

Summary of the regulatory update:

The FCA recently launched a consultation (CP25/34) on its proposed regulatory regime for ESG ratings. The FCA is proposing a new regulatory regime to reduce the risks of harm by supporting high-quality, reliable and clear ESG ratings. To inform its policymaking and its Cost Benefit Analysis, the FCA collected data from ESG rating providers and users in the financial sector to address their main research questions.

The FCA has structured its analysis and findings around four key questions about the use of ESG ratings, the risks of harm uses face in the market, as well as the business structure of their providers and their practices. The notes provide a summary of the FCA's findings, broken down into the four key questions:

1. How ESG ratings are used in the financial services sector;
2. What risks of harm regulated firms face when using ESG ratings;
3. What the primary business models employed by ESG rating providers are; and
4. What the current practices of ESG rating providers are.

When does it take effect?
N/A. The research note was published on 1 December 2025.

What should firms be thinking about?
Firms that use ESG ratings providers should consider the FCA's analysis and findings to better understand the market, and the risks of harm posed by rating providers.

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