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FS ADVISORY

Regulatory Update

June 2026

BDO

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.

Richard Barnwell
Partner

+44 (0)7717214818
richard.barnwell@bdo.co.uk

Lynne Cooper
Senior Manager

+44 (0)7831973556
lynne.cooper@bdo.co.uk

REGULATORY ROUND UP

General

CP26/16 Registration of Authorised Fund Assets

The FCA has issued a consultation paper proposing rule changes to facilitate delegation of certain fund asset registration and custody functions for authorised funds, particularly AIFs, to address legal ownership risks and support private market investments.

What firms are impacted?

Firms involved in authorised funds, including Authorised Fund Managers (AFMs), Alternative Investment Fund Managers (AIFMs) (full-scope and small), depositaries of authorised funds (AIFs and UCITS) and custodians subject to CASS 6.

Summary of the regulatory update:

CP26/16 proposes targeted reforms to authorised fund rules (COLL and CASS 6) relating to how fund assets are registered and held by depositaries, particularly for private market assets (e.g. real estate and partnership interests). The FCA's objective is to:

- Remove united barriers to investment in private markets
- Reduce legal and operational risk for depositaries
- Preserve investor protection while supporting economic growth

The proposals respond to concerns that current rules are restricting authorised funds' ability to invest in certain asset classes, particularly UK real estate and infrastructure. Key proposed changes are as follows:

Allow greater delegation by depositaries: the FCA proposes allowing depositaries of authorised AIFs to delegate asset registration functions to third parties in certain cases, and delegate custody functions under CASS 6 for some assets.

New model for private market assets: for assets such as real estate or certain partnerships. Proposals include, allowing AFM affiliates to hold legal title to assets and introducing additional safeguards to protect fund investors.

Clarification and alignment of rules: align rules for full-scope vs small AIFMs. Clarify interaction between COLL rules and CASS 6 rules.

When does it take effect?
The FCA is seeking feedback by 9 July 2026. Comments can be sent to the FCA via the website, or in writing to James Ridgwell, Financial Conduct Authority, 12 Endeavour Square, London, E20 1JN, or via email cp26-16fca.org.uk

What should firms be thinking about?
Firms should consider their exposure to authorised AIF structures, review how assets are held and registered, engage with depositaries to understand planned changes, consider ownership structures of fund assets, and ensure operational readiness.

REGULATORY ROUND UP

General

Reforms to Money Market Fund Regulations

HM Treasury and the FCA have announced plans to reform UK Money Market Fund Regulations (MMFRs) to strengthen the resilience of money market funds (MMFs)

What firms are impacted?

Firms involved in the operation, management or distribution of MMFs

Summary of the regulatory update:

The UK Government and FCA have announced plans to reform the UK MMFR framework to strengthen resilience in the non-bank financial sector, following risks observed during periods of market stress. Key themes are as follows:

Strengthening liquidity resilience: a central reform objective is to ensure MMFs hold higher levels of liquidity and are better able to withstand periods of market stress.

Shift to FCA-led rulemaking: the existing MMFR framework will be replaced or substantially restructured. Detailed requirements will move into FCA rules and guidance.

Alignment with international reforms: the UK reforms are consistent with Financial Stability Board (FSB) recommendations and EU and global regulatory developments.

Focus on systemic risk and market integrity: MMFs are recognised as an important part of the financial system. Reforms aim to reduce run risk, liquidity mismatches, and transmission of stress into broader markets.

Cross-border market access: Recognition of the importance of EU-domiciled funds in UK markets. Continued reliance on transitional regimes e.g. TMPR.

When does it take effect?

Implementation is expected by Q4 2026 (subject to Parliamentary approval)

What should firms be thinking about?

Firms should review liquidity buffers and asset allocation and prepare for higher liquidity requirements and potential impact on yield and competitiveness. Reassess reliance on MMFs for cash management and short-term liquidity. Firms should monitor upcoming FCA consultations and final rules and prepare for policy updates, systems and reporting changes and governance adjustments.

REGULATORY ROUND UP

General

Regulatory Initiatives Grid – May 2026

The FCA's May 2026 Regulatory Initiatives Grid has been published, outlining 135 planned initiatives over the next two years, focusing on financial stability, competition and consumer protection.

What firms are impacted?

All FCA-regulated firms.

Summary of the regulatory update:

The Regulatory Initiatives Grid acts as a strategic planning aid to help firms understand the regulatory pipeline, priorities resources and change programmes and manage implementation risk. High-impact areas include:

- Consumer Duty and conduct rules
- Market structure and wholesale market reform
- Operational resilience and cyber resilience
- Sustainable finance and ESG disclosure
- Digitalisation (data, tokenisation, open finance)

Regulatory reforms are aligned to the UK's growth and competitiveness agenda, with a focus on balancing innovation, proportionate regulation and financial stability. Firms should expect ongoing regulatory change aimed at both simplification and strengthening controls.

When does it take effect?

Initiatives are phased throughout the next two years.

What should firms be thinking about?

Firms should develop a centralised regulatory change roadmap, prioritise resource and capacity management, continue to embed the Consumer Duty, align programmes with operational resilience expectations and cyber and technology risk initiatives and prepare for open finance developments and tokensation/digital assets. Firms should carry out regulatory horizon scanning, maintain continuous monitoring of the Grid, and engage with consultations and industry bodies where relevant.

REGULATORY ROUND UP

General

Call for Input: The Future of Tokenisation – A joint vision from the authorities for UK wholesale financial markets

The FCA and Bank of England have issued a joint Call for Input on the future of tokenisation in UK wholesale financial markets, seeking industry feedback to develop a strategic roadmap for adopting digital assets and supporting infrastructure.

What firms are impacted?

Firms operating across the wholesale financial ecosystem.

Summary of the regulatory update:

The FCA and Bank of England (with HM Treasury) have issued a Call for Input setting out a joint regulatory vision for tokenisation in wholesale financial markets. Key points are:

- Tokenisation (use of distributed ledger technology (DLT) to represent financial assets) is expected to be transformational for capital markets.
- Authorities aim to enable adoption while maintaining market integrity, financial stability and investor protection.
- Feedback will inform a future regulatory roadmap and policy framework.

This is an early-stage consultation but signals a major direction of travel for market structure and regulation. Likely outcomes include:

- Faster, more automated markets
- New forms of liquidity and distribution
- Increased competition and tech-enabled entrants.

Early movers may benefit from:

- Operational efficiencies
- Product innovation
- Market positioning advantages.

When does it take effect?

Responses are required by 3 July 2026. Comments can be sent to Matthew Thomson-Ryder, Capital Markets Division, Financial Conduct Authority, 12 Endeavour Square, London, E20 1JN. Or emailed to tokenisedsecurities@fca.org.uk

What should firms be thinking about?

Firms should proactively assess strategic, operational and regulatory impacts to ensure they are prepared for a hybrid, digitally-enabled market environment while maintaining strong risk and control frameworks.

REGULATORY ROUND UP

General
Sanctions Systems and Controls in Firms: FCA Findings
The FCA has published a report following a review of financial firms' controls, highlighting good and poor practices and areas for improvement to support better compliance with sanctions rules.
What firms are impacted? FCA-authorised or registered firms.
Summary of the regulatory update: The FCA has published findings from a multi-year review (since 2022) of sanctions systems and controls across over 150 supervised firms, covering both financial and trade sanctions. Key messages are: UK sanctions regimes have become significantly more complex and wide-ranging in recent years, firms have made progress since 2022, but material weaknesses remain, the FCA expects firms to strengthen controls to prevent breaches and sanctions evasion. Key regulatory themes and findings are as follows: Sanctions risk is increasing and evolving: sanctions have expanded in scope (more jurisdictions, actors and sectors) and complexity (including trade and service restrictions). Firms face risks from customers, transactions and wider commercial relationships. Common root causes of sanctions breaches: customer due diligence weaknesses, poor screening systems (names and transactions), ineffective alert handling and escalation, weak management of frozen assets, failures relating to licence compliance. Trade sanctions are a growing area of risk: trade sanctions controls are less mature than financial sanctions, harder to implement due to limited transaction visibility and complex supply chains. Governance and oversight gaps: strong governance correlates with better outcomes. Weaknesses observed include, lack of clear accountability, insufficient senior management oversight. Firms need to act quickly to remediate weaknesses and ensure effective escalation frameworks. Weak or inconsistent management information (MI): many firms provide MI to senior management, but, quality is inconsistent and insight into real risk exposure is often limited. Beter practice includes clear metrics on exposure, control effectiveness and emerging risks. Screening and systems weaknesses: issues identified included failure to detect name variations or transliterations, over-relieance on vendor tools without sufficient oversight, and poor system configuration and testing.
When does it take effect? N/A. This is not new regulation, but a clear supervisory signal of heightened expectations and likely future scrutiny.
What should firms be thinking about? Firms should carry out an end-to-end sanctions framework review, ensure clear ownership of sanctions risk, provide high-quality, actionable MI, and consider if enhancements to screening capability are required. Firms should review oversight of third-parties and provide targeted sanctions training to relevant staff.

REGULATORY ROUND UP

General

Memorandum of Understanding between the Office of Trade Sanctions Implementation and the FCA

The FCA has signed a non-legally binding Memorandum of Understanding with the Office of Trade Sanctions Implementation (OTSI) to facilitate cooperation and information sharing in enforcing trade sanctions and financial regulations, with a focus on data exchange, compliance, and joint investigations.

What firms are impacted?

All FCA-authorised and supervised firms.

Summary of the regulatory update:

The FCA and OTSI have entered into a formal MoU to strengthen co-operation, coordination and information sharing in relation to trade sanctions enforcement. Key features include:

- Establishes structured information sharing arrangements between regulators
- Covers both financial sanctions and trade sanctions
- Supports joint detection, supervision and enforcement activity

The MoU is not legally binding, but it represents a significant enhancement of regulatory coordination, particularly in relation to trade sanctions risk.

The MoU is most relevant to firms that:

- Have cross-border business models
- Facilitate or finance international trade or supply chains
- Operate in wholesale markets or complex client structures
- Firms that deal with commodities, structured finance and trade-related financial services.

When does it take effect?
The MoU was signed on 28 May 2026.

What should firms be thinking about?
Firms should review whether current sanctions frameworks adequately cover trade sanctions exposure.

REGULATORY ROUND UP

General
Market Watch 85
The FCA has published Market Watch 85, which highlights how the Economic Crime and Corporate Transparency Act (ECCTA) 2023 enables firms to share customer information to combat economic crime.
What firms are impacted? All firms in scope of ECCTA 2023
Summary of the regulatory update: Market Watch 85 focuses on how firms can use new information-sharing powers under the ECCTA 2023 to prevent, detect and investigate economic crime, including market abuse and market manipulation. The FCA is encouraging firms to make more proactive and effective use of lawful information-sharing mechanisms to improve market integrity and reduce financial crime risks. Key themes are as follows: **New statutory "safe harbour" for information sharing**: the ECCTA introduces a legal gateway allowing firms to share customer information where certain conditions are met, without breaching confidentiality or incurring civil liability. There are two principal conditions: **warning condition** - where a firm has taken (or would take) action (e.g. restricting services) due to criminal conduct, and **request condition** - where a firm seeks information from another firm to support prevention/detection/investigation of economic crime. **Information sharing complements, it does not replace, existing obligations**: Firms must still submit SARs and STORs. Information sharing is optional, not mandatory. **Expectation of proactive and risk-based use**: the FCA expects firms to assess how ECCTA applies to their business model, consider when information sharing is appropriate, and improve understanding of client risk and behaviours across firms. **Broader intelligence sharing is encouraged**: beyond ECCTA's legal gateway, the FCA also encourages voluntary sharing of market abuse typologies and emerging risks, and greater industry collaboration to strengthen detection capabilities.
When does it take effect? The rules are already in place. This is guidance only regarding how firms should use their information-sharing powers.
What should firms be thinking about? In scope firms should map relevant business areas e.g. trading, surveillance, onboarding etc. and define governance for approving information sharing. Where necessary, firms should update financial crime and market abuse frameworks to incorporate ECCTA sharing triggers (warning/request conditions) and define decision-making criteria and escalation processes. Integrate ECCTA into surveillance and monitoring processes and client risk assessments. Ensure audit trails for what information is shared, legal basis for sharing, and outcomes and actions taken. Consideration should be given to compliance with UK GDPR and data protection laws. Training and awareness should be provided to relevant staff.

REGULATORY ROUND UP

General

FCA, Bank of England and Treasury Joint Statement on Frontier AI Models and Cyber Resilience

The Bank of England, FCA and Treasury have issued a joint statement emphasising the importance of cybersecurity resilience in the face of rapidly advancing frontier AI models.

What firms are impacted?

All FCA-regulated firms.

Summary of the regulatory update:

The FCA, Bank of England and HM Treasury issued a joint statement highlighting the cyber risks arising from "frontier AI models" – advanced AI systems with rapidly increasing capabilities. Key message is that frontier AI represents a step-change in cyber threat capability enabling attacks to be faster, more scalable and lower cost to execute. Key themes are:

Frontier AI significantly amplifies cyber risk: AI models can identify and exploit vulnerabilities at scale. Capabilities already exceed those of skilled human attackers in speed and efficiency.

Link to operational resilience: the statement explicitly links AI-driven cyber risk to firm safety and soundness, customer outcomes and market integrity and financial stability.

Expectation of proactive risk management: firms are expected to actively plan for and mitigate AI-driven cyber threats, including, protective controls, detection capabilities and incident response and recovery mechanisms.

Board and senior management accountability: Boards must understand frontier AI risks. Senior management set risk appetite and oversee cyber strategy and controls.

Third-party and supply chain risk: AI can exploit vulnerabilities across entire technology ecosystems. Firms must manage risks from suppliers, open-source software and external service providers.

The statement does not create new regulatory requirements; however, it consolidates and reinforces the importance of FCA operational resilience rules and PRA/BoE cyber resilience expectations.

When does it take effect?

N/A – reinforcing existing rules.

What should firms be thinking about?

Firms should ensure there is Board-level understanding and oversight and review existing cyber strategy and investment to consider if funding for cyber tools and skills should be increased. Firms should ensure they have sufficient vulnerability management capability. Any third-party and supply chain controls should be considered and if necessary, due diligence, ongoing monitoring and contingency plans should be enhanced.

REGULATORY ROUND UP

General

Whistleblowing Quarterly Data Q1 2026

The FCA has published its Q1 2026 whistleblowing data, detailing the number and nature of reports received, actions taken, and engagement with international regulators.

What firms are impacted?

All FCA-regulated firms subject to SYSC whistleblowing requirements.

Summary of the regulatory update:

The FCA's Q1 data shows that 355 new whistleblowing reports were received during the period, which was up from 281 in Q1 2025, indicating a material increase in whistleblowing activity, and signalling a rising willingness to report concerns.

Of the 355 reports received, there were 906 separate allegations, which suggests that individual reports often include multiple issues.

Of the 265 cases closed in the period, the following actions were taken:

- 9% resulted in significant action e.g. enforcement, skilled persons reviews (s166) or permissions restrictions.
- 30% resulted in action to reduce harm, e.g. firm engagement, information requests, and attestations.
- 51% were used to inform FCA supervisory work.

When does it take effect?

For information purposes only.

What should firms be thinking about?

Firms should consider the effectiveness of their internal speak-up culture and ensure employees feel safe raising concerns internally. Firms should review the adequacy of their whistleblowing frameworks including policies and procedures, independence of whistleblowing channels and confidentiality and protection mechanisms. Where reports are received internally, firms should analyse internal whistleblowing and complaints data to identify recurring issues, control weaknesses and cultural indicators. Where weaknesses are identified, action should be taken to remediate.

REGULATORY ROUND UP

General
FCA reviews whether investment firms are doing enough to support bereaved customers
The FCA is reviewing how investment firms support bereaved customers, focusing on communication, vulnerability support, service standards, and fee handling, to improve customer experience and trust.
What firms are impacted? Consumer investment firms
Summary of the regulatory update: The FCA has announced a targeted review of how consumer investment firms support bereaved customers, assessing whether firms are delivering appropriate outcomes at a time of vulnerability. While this is a supervisory review, rather than a rule change, it signals heightened regulatory scrutiny and potential future intervention. Only 47% of bereaved customers felt they received adequate support from financial firms. The FCA sees bereavement handling as a key test of firms' culture, service standards and Consumer Duty compliance. Key areas of FCA focus are as follows: Customer journey and service delivery: handling of bereavement notification, speed and efficiency of account freezes/updates and asset transfers or closures. Avoidance of delays and repeated requests for information. Communication quality: clarity, tone and sensitivity of communication. Avoidance of technical jargon or standardised responses. Ensuring processes are customer-centred rather than operationally driven. Treatment of vulnerable customers: recognition of bereavement as a vulnerability trigger. Adjustments to service delivery to reflect emotional distress and reduced financial capability during bereavement. Fees and charges: how firms apply or waive fees on accounts of deceased customers. Transparency and fairness of charges applied during the process. Culture and governance: the FCA explicitly links bereavement handling to firm culture and delivery of good customer outcomes.
When does it take effect? The FCA will contact selected firms from May 2026 and publish findings later in 2026.
What should firms be thinking about? Firms should carry out an end-to-end bereavement process review to identify delays, friction points and operational inefficiencies. Ensure bereavement processes are aligned with the Consumer Duty. Integrate the bereavement process into the vulnerable customer framework. Review all written and verbal communications to consider if the tone is empathetic and clear. Boards and senor management should receive MI on bereavement cases. Frontline staff should be provided with appropriate training.

FOR MORE INFORMATION:

Richard Barnwell

+44 (0)77 1721 4818
richard.barnwell@bdo.co.uk

Lynne Cooper

+44 (0)78 3197 3356
lynne.cooper@bdo.co.uk

www.bdo.co.uk

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