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BDO Financial Services Quarterly update

Q1 2026

Welcome to your Quarterly Financial Services Sector Update

BDO's Quarterly Financial Services Sector Update summarises the key regulatory developments and emerging business risks relevant for all financial services firms, including banks, building societies, investment and wealth managers, payments and insurance providers.

Our Financial Services team works with a broad range of financial services firms as advisors and auditors, giving us an extensive perspective on the issues facing the sector. We have aggregated insights from our in-house research, client base, the Regulators and professional bodies, to help inform your oversight and assurance activities over the firm's priority risks.

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 initiatives

In this article we review the regulatory initiatives grid, published at the end of 2025, and provide an update on priority initiatives and the wider growth agenda.

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The 9th edition of the regulatory Initiatives Grid was published at the end of 2025. It combines all the initiatives for the Financial Services sector from 10 regulatory bodies and government departments.

The Financial Conduct Authority's (FCA) initiatives should be read alongside the FCA Letter to Prime Minister which sets out the overarching strategic direction of the initiatives. Overall, the key message is that the FCA is supporting growth through initiatives that deliver efficiencies and increase access to financial services. The Prudential Regulation Authority's (PRA) message is supported through its stability initiatives. There are over 100 initiatives on the Grid, 82 are new and 39 of these are from the FCA. The FCA has the largest volume of open initiatives. The general theme is around regulation for new markets like crypto and unlocking or easing existing consumer regulation for pensions and investments. For capital markets, the emphasis is on making London a competitive and agile market. This includes measures to review The Benchmarks Regulation (BMR) and to further accelerate regulatory processes for authorisation and access to UK financial markets.

Consumer Duty

The FCA has spent 2025 consulting on potential changes to the Consumer Duty. This will continue into 2026. The FCA has published a clarification statement about its approach to supervising the manufacturing chain alongside the Grid. It has been challenging in wholesale markets to determine where responsibilities fall. This describes the scenarios where the FCA believes there is confusion and outlines its expectations about manufacturing roles and responsibilities. Firms should clearly document roles and responsibilities and ensure clear agreements between parties are in place. But there are exceptions. Authorised firms working with unauthorised entities take full responsibility, whereas outsourced activities remain the responsibility and accountability of the firm in line with the FCA's Senior Management Arrangements, Systems and Controls (SYSC) framework.

Further consultation about the role of firms in the manufacturer/distribution chain will come in the first half of 2026, and at the time of writing, has not been issued.

Market studies

The interim report into the distribution of pure protection products was published in January 2026. Further work is primarily focused on a protection gap with over 50% of consumers not having protection in place. The Market Study into premium finance was published in early February 2026 and has found APRs have dropped considerably therefore no further interventions in the market are planned.

Redress

The Motor Finance Redress scheme rules were published at the end of March. This is a significant set of proposals which impact banks and non-bank lenders in the consumer motor finance market.

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One of the challenges is the potentially disruptive influence of Claims Management Companies (CMC), which are regulated by the FCA and SRA. Both regulators have issued warnings to CMCs to act in the interests of consumers and avoid situations where consumers are charged exit fees or complications where consumers are signed up to multiple CMCs.

Advice/guidance

Legislative changes to introduce a new regulated activity for targeted support should be welcomed with the long-awaited regime finally coming into force in the Spring. Proposals and a consultation for retirement guidance should be published in 2026 with implementation dates of 2027/28. Office for National Statistic (ONS) data shows 11 million people aged over 65 in 2021, approximately 19% of the UK population, and further ONS data on pensions from 2016 – 2018 records that there is £6.1 tr in private pensions , which comprises 42% of wealth in the UK. In a later report, the ONS notes the inequality in pension wealth is considerable. One third of the population have no pension beyond state pension, whereas "Between April 2018 and March 2020, the top decile held 64% of all private pension wealth while the bottom five deciles held less than 1%." Links to two ONS reports are included below. With the shift towards defined contribution pensions there is demand for targeted support requiring a clear strategy. Proposals to support alternatives to a full suitability review have been controversial as they push greater responsibility for complex decisions onto consumers. For more information, we refer readers to the Saving for retirement in Great Britain and Pension wealth in Great Britain published by the ONS.

Credit

Buy Now Pay Later (BNPL) credit will come into the scope of the FCA's remit from 15 July 2026. Firms will be able to register for the temporary permissions regime from 15 May to 1 July 2026. New regulation will mean improved disclosure, affordability checks, support measures for consumers in financial difficulty and access to the Financial Ombudsman for complaints. Historically, newly regulated products often go through a period of review and supervisory interventions by the regulators until the right standards have been achieved. The FCA plans a review of High Cost Short Term Credit (HCSTC) to assess whether the current HCSTC market remains viable, accessible, and appropriate for its target customer base, or whether there is evidence of reduced access, market withdrawal, product substitution, or consumer detriment. A report is planned for Q3 2026. The evaluation of measures put in place for persistent debt will report later in 2026.

Crypto and stable coins

The UK is embracing the world of crypto and stable coins having held out against these for some time. The full implications may take many years to be realised. Treasury plans to bring forward legislation and a slew of FCA publications were released on 16th December. Consultation Papers CP 25/40, 25/41 and 25/42 cover the whole new regulatory regime for an open, competitive and sustainable crypto market. The papers cover disclosure and market abuse, trading platforms, intermediary standards, lending and borrowing, and prudential standards, although we note consultation closed on 12 February 2026.

Stability

Growth is underpinned by a commitment to stability. A number of measures for the PRA and Bank of England (BoE) include revisions to the resolution regimes. There is also a continued focus on operational resilience. The BoE and PRA intend to consult on policy to further enhance resilience relating to the management of Information and Communication Technology (ICT) and cyber risks. The final rules about incident and outsourcing and Third Party Reporting are expected to be published in H1 2026.

If you would like to better understand what these regulatory initiatives mean for your firm, please contact Partner, Richard Barnwell.

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FCA findings: Financial crime risk assessment processes and controls

In this article, we summarise the FCA's recent multi firm review of financial crime risk assessments and highlight the key practices that firms should reflect on when evaluating their own frameworks.

In November 2025, the FCA published their findings and highlighted both good and poor practices following the multi-firm review they carried out to evaluate business-wide risk assessment (BWRA) and customer risk assessment (CRA) processes. Firms involved in the review included: building societies, platforms, custody and fund services, payments (e-money), and wealth management firms.

The findings aim to assist firms in reflecting on their compliance with existing risk assessment requirements.

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Identifying, understanding and assessing risk

The FCA noted that most firms have a BWRA, however only a few firms are effectively identifying relevant risks and tailoring the BWRA to their specific business needs. Several firms use both qualitative and quantitative data to assess and score inherent risks, mitigating controls, and residual risk. Concerns were raised about some firms'' inability to adequately explain how they manage and mitigate identified risks.

Additionally, examples of poor practices were noted around lack of detail, missing quantitative analysis, unclear process where some BWRAs lacked clarity on how the firm identifies and assesses inherent risks and lack of evidence specifically where low risk ratings were not supported with appropriate evidence.

Mitigating risk

While financial crime risk is often integrated into business strategy, growth, and product development, there was a lack of cohesion between the risk assessments, decision-making, and monitoring activities. Some firms had a clear risk appetite linked to their BWRA, but few had documented actions from their risk assessments. Poor practices involved growth outpacing risk assessments, with some firms failing to develop CRAs in line with business growth, leading to scalability, consistency, and accuracy issues, and a lack of records during rapid expansion.

Managing risk

Most firms had considered how to document and share their risk assessments, with better higher performing firms recording discussions, changes, and approvals. Some firms have integrated dynamic risk assessments into their financial crime frameworks, continually testing and refreshing models and processes. Poor practices that were observed were around the lack of evidence of senior oversight, a narrow focus where Senior management's understanding of financial crime risk is mainly focused on fraud. Additionally, a limited or no testing and reviews of risk assessment processes when enhancements, upgrades, or automation are made and risk assessments are not sufficiently dynamic, potentially leading to outdated risk profiles that negatively impact business strategy and control design decisions.

The findings identified by the FCA, coupled with the notably large number of fines issued for multiple financial crime areas, it stresses highlight the importance in of ensuring that firms' financial crime framework, including risk assessment processes and controls are designed appropriately and proportionate to the firm's business operations and strategy. Further, evidence should be maintained to demonstrate operating effectiveness of key financial crime controls.

If you would like to discuss your risk financial crime risk assessment processes and controls, contact Economic Crime Advisory Partner, Fiona Raistrick.

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Are Financial Services firms poised to realise success from AI?

In this article, we summarise the key findings from our recent survey on AI adoption across the Financial Services sector and explore what they mean for firms' long-term success.

While much has been written about the promise of Artificial Intelligence (AI) in Financial Services, there is noticeably less literature on how firms can successfully implement and gain value from these technologies. Our view is that to realise success, organisations need to rebalance their existing strategic risk and governance frameworks against a new set of demands presented by AI.

In late 2025, we surveyed a selection of 34 Financial Services organisations to investigate their attitudes towards long-term AI implementation, governance, and strategy. The respondents represent a cross-section of sectors, revenues, functions, and seniority levels – offering an expansive and illustrative perspective of this emerging subject.

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Most firms are only just beginning their AI journey

Most organisations are in the early stages of AI implementation. Our survey reveals that only 22% of respondents have one or more applications in wide use, excluding tools like ChatGPT or Copilot, while 78% have yet to implement any AI technology and only half are in the consideration or planning phase. This suggests that AI usage in Financial Services may be less widespread than anticipated. While this data should not encourage complacency, it reassures firms that they can proceed in a measured way, rather than feeling that they need to rush to keep up with the hype.

Many firms lack a coherent AI strategy

Encouragingly, some firms are demonstrating strategic thinking. Principles for AI deployment, such as fairness, sustainability, accountability, and transparency, are acknowledged as important by 50% of respondents. However, many organisations are still struggling to establish a meaningful strategic direction for AI. Only one respondent reported having a well-embedded AI strategy, while 23% have a strategy that is unclear, and 27% have no AI strategy at all. Even if firms have not yet strategically incorporated AI it is crucial for firms to ensure a strategic direction for data governance, given the heightened data risks. Despite this only 17% have a fully embedded data governance strategy.

The need for a clear AI strategy is increasing urgent

While firms might procced with implementing AI applications at a measured pace, there is urgency in developing and embedding a well-informed strategy. Without this, firms may be leaving success to chance and exposing themselves to significant impacts. AI introduces novel risks that require identification, analysis, and management, demanding critical thinking. Despite this, only 27% have assessed AI risk extensively, and alarmingly, 38% report that AI is not embedded in their risk management framework. With the market increasingly inclined towards third-party suppliers, it is concerning that over 70% have made no special provision for managing third-party risk.

Positive attitudes are not fully translating into action

A more optimistic outlook is suggested by some attitudinal indicators. For instance, 65% of respondents said their attitude to risk would be adapted to AI. They identified the main risks as unintentional customer harm, regulatory and legal breaches, and failure to realise benefits. Within 'customer harm,' discrimination, treatment of vulnerable customers, and accuracy of customer data were acknowledged as important factors. This highlights a misalignment between firms' awareness of the risks and their actions to address them, as individuals' positive attitudes are yet reflected in practical steps. As with overall strategy, firms need to develop their approach to understanding, managing, and remediating AI risks through thorough assessments and robust controls.

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Firms are beginning to build internal capability

Further to the point on respondents' attitudes to risk, 74% see more upside to AI than downside. While firms may be positively inclined towards adoption, 56% classify their AI knowledge and capability as inadequate, which could hinder the ability to mobilise new technology. However, firms are proactively addressing this limitation. An encouraging 50% are scoping their needs, and 24% are investing in training. Only 9% expect AI capability to be recruited externally. Positive attitudes towards AI, coupled with recognition of its emerging nature and skill scarcity, are likely to lead more firms to invest in developing their own personnel.

Governance lags respondents' positive attitudes

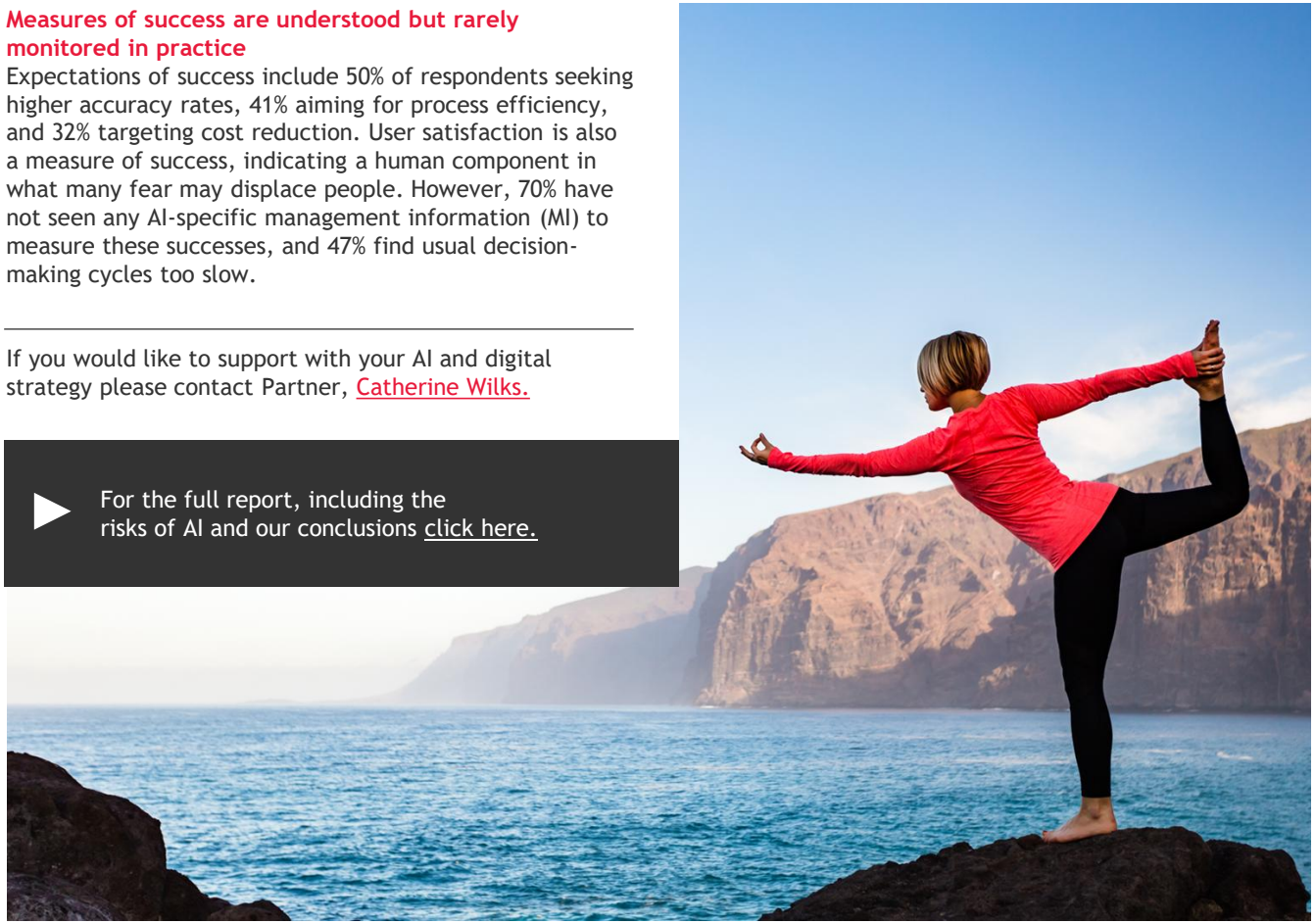
A significant 94% of respondents understand their responsibilities regarding AI, with 82% confident in fulfilling them. With a respondent profile of 62% Board and C-suite members, this bodes well for firms' governance and management. However, only 38% have a specific individual responsible for AI, 32% have AI-specific policies and procedures, and 26% have added specific subject matter expertise into their governance structure. As with risk, this offers a different perspective on how firms are translating positive intentions into practical governance.

Measures of success are understood but rarely monitored in practice

Expectations of success include 50% of respondents seeking higher accuracy rates, 41% aiming for process efficiency, and 32% targeting cost reduction. User satisfaction is also a measure of success, indicating a human component in what many fear may displace people. However, 70% have not seen any AI-specific management information (MI) to measure these successes, and 47% find usual decision-making cycles too slow.

If you would like to support with your AI and digital strategy please contact Partner, Catherine Wilks.

▶ For the full report, including the risks of AI and our conclusions click here.



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R&D tax: Overseas cost exclusion – implications and opportunities

This article is primarily aimed at CFOs, Heads of Tax, CTOs, R&D leads, and compliance professionals within FCA-regulated firms, FinTech scale-ups, and Financial Services organisations with globally distributed technology teams.

The merged R&D tax relief scheme, applying to periods beginning on or after 01 April 2024, significantly changes the treatment of overseas R&D expenditure. For firms relying on offshore development teams, the new restrictions create compliance, operational, and strategic challenges. Organisations must reassess the eligibility of non-UK activities, strengthen documentation to meet HMRC's higher evidential standards, and align tax positions with FCA expectations on outsourcing, resilience, and accountability.

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Overseas R&D expenditure exclusion under the merged scheme

The UK's merged R&D tax relief scheme will continue to play is a significant role for Financial Services and FinTech firms. The new framework consolidates the previous SME and large company 'RDEC' regimes into a single scheme, with an objective of directing relief toward innovation undertaken within the UK. Expenditure on R&D performed overseas is now excluded by default, with limited exceptions in tightly defined circumstances. With many firms having long relied on hybrid delivery models, combining nearshore and offshore development teams, this shift has material implications. Firms will need to reassess their operating models, project governance structures, and documentation standards.

Conditions for claiming overseas R&D expenditure

Firms can only claim overseas R&D expenditure in tightly defined circumstances. To qualify, all three of the following circumstances must apply:

- Required conditions for R&D must not exist in the UK
- Conditions must be present in the overseas location
- Must be wholly unreasonable for the company to reproduce those conditions in the UK.

The qualifying conditions broadly fall under two categories:

- Geographical, environmental, and social factors
- Legal or regulatory requirements

However, neither cost nor the availability of workers counts as a qualifying condition. Although, the assessment of whether replication in the UK would be "wholly unreasonable" is context specific and may be influenced by time pressures linked to scientific, commercial, contractual or regulatory drivers. Please note that what is unreasonable for one business may be reasonable for another, reinforcing the need for well evidenced reasoning when overseas R&D is included. Importantly, each element of the project must be considered on its own merits and meeting the criteria for one project phase does not automatically extend to the entire project.

Example scenarios: FS and fintech firms could be exempt

Scenario 1 - Algorithmic trading & quant execution engines:
Building a latency sensitive, self-optimising execution algorithm capable of microsecond level adaptation to foreign exchange order-book dynamics.

Testing must occur in specific overseas market environments whose order book behaviour, latency topology, and regulatory trade rules cannot be replicated (e.g., Tokyo Stock Exchange or CME Chicago); and where physical proximity to exchange co-location facilities is required for accurate model testing.

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Scenario 2 – cross-border payments platform:
Developing a real-time cross-border payments engine that must integrate directly with local payment rails and central bank settlement systems across multiple jurisdictions.

Testing and validation against live regulatory sandboxes in those overseas markets cannot be replicated in the UK because access to those systems is jurisdiction-specific.

Scenario 3 – AI models using jurisdiction-specific data for asset managers:
Developing machine learning models for macroeconomic forecasting that require training on datasets governed by local data residency laws in the EU and Asia-Pacific.

The data cannot legally be transferred to the UK, meaning the model training and validation must occur within those jurisdictions.

Please note – this is not an exhaustive list and in these (or similar) scenarios, the firm may have a strong basis for claiming overseas R&D expenditure, provided it can demonstrate that the specific regulatory and technical conditions necessitated the work being performed abroad.

This following scenario is like the previous examples but in this case the example of the justification for exemption may not qualify.

Scenario 4 – Software for customers:
Where software for use by financial services customers is linked with local stock exchanges, engineers must have detailed knowledge of the financial regulations in that territory.

As there is a need for specific knowledge, it is plausible that this knowledge is more likely to be accessible by engaging individuals in the location of the stock exchange. However, as this scenario relates to the availability of workers and it could be that this knowledge is transferable, it may be unlikely that the overseas expenditure would qualify.

Strategic considerations for FS and fintech firms

While the overseas expenditure restriction undoubtedly narrows the scope of many claims, forward-thinking Financial Services and FinTech firms can turn this reform into an opportunity for stronger, more resilient R&D tax strategies.

First, firms should conduct a thorough review of their current R&D delivery models, mapping where qualifying activities are performed and assessing which overseas expenditure are genuinely defensible under the new conditions. This exercise often reveals that a significant proportion of qualifying R&D is already UK-based and was simply not being captured effectively.

Second, the reform creates an incentive to strengthen domestic R&D capabilities. Firms that invest in UK-based development teams, innovation labs, and academic partnerships will find their claims more straightforward and less vulnerable to HMRC challenge.

Third, and critically, documentation must evolve. Technical narratives should now explicitly address the geographical dimension of R&D activities, articulating not just what uncertainties were faced and how they were investigated, but where the work was carried out and why. For overseas elements, the justification must be precise, evidence-based, and aligned with legislative conditions.

If you require support to navigate the complexities of overseas R&D costs under the merged scheme, please contact Partner, Carrie Rutland.

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Data protection update for Financial Services

In this article we provide an overview of recent enforcement action taken by the Information Commissioner's Office (ICO) within the Financial Services sector and examine some of the broader themes for firms to be aware of.

We also provide an update on the phased implementation of the Data Use and Access Act (DUAA) which received royal assent in June 2025 as well as an overview of some of the key changes to the data protection regulatory environment that affect Financial Services.

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ICO enforcement action in 2025, what does this tell us?

During 2025, the ICO issued 20 enforcement actions which included fines, individual prosecutions, enforcement notices and reprimands, sometimes using a combination of actions. Overall, the number of enforcement actions is down by almost a third when compared with the prior year, but the root causes of enforcement action largely remains the same.

The top three root causes of enforcement action during 2025 related to:

Inadequate security measures, resulting in data breaches. With several, high-profile cases impacting the retail sector during 2025, many Financial Services organisations (particularly in the Retail Banking and Insurance sectors) will be reviewing and stress-testing internal cyber security and data breach controls, to reduce the risk of a high-profile data breach occurring.

The dissemination of unsolicited marketing emails and consent management. Organisations must have explicit consent from individuals prior to sending marketing related content (unless relying on 'soft opt-in'). In 2025, a Financial Services organisation was issued an enforcement notice after using a public telecommunications service for the purpose of making 14,508 unsolicited direct marketing calls. The enforcement notice was publicised via the ICO website, increasing the risk of reputational damage, which could impact consumer trust.

Failure to managing subject access requests (SAR) within prescribed timescales. Organisations have one calendar month to process a request, which can be extended by 60 days in the event of a lengthy or complex request. These timescales highlight the need for organisations to train employees on how to identify and escalate a SAR, as well as the need to establish effective internal procedures for managing SARs within defined timescales.

There was also an increase in the number of individual prosecutions, (including one case in the insurance sector) in 2025, demonstrating the ICO's willingness to 'go after' rogue individuals.
While organisations cannot eliminate such a risk posed by individuals acting improperly, recent incidents underscore the importance of mitigating the reputational risk. This reinforces the need for firms to maintain robust access controls and deliver regular data protection training to ensure personal and special category data is collected, processed and stored securely.

An update on the phased implementation of the DUAA

The UK Data (Use and Access) Act 2025, (DUAA) received Royal Assent in June 2025 and does not constitute a considerable overhaul of the Data Protection Act 2018/UK GDPR but instead has introduced several enhancements in key areas, with the intention of reducing the burden of the UK data protection legislation for organisations and promoting innovation.

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We note the following key changes brought in by the DUAA that Financial Services organisations should be aware of:

Introduction of recognised legitimate interests
The DUAA sets out a list of 'recognised legitimate interests', allowing certain security-related activities such as fraud prevention, public safety, and national security to be considered as 'recognised legitimate interests' without the requirement to complete a Legitimate Interests Assessment (LIA).

International data transfers
The DUAA places an emphasis on allowing international data transfers to countries where the protection standard is "not materially lower" than that in the UK. This change is intended to enhance flexibility for businesses engaging in global data transfers so long as the right risk assessments have been performed.

Subject access requests
A high volume of data subject access requests (SARs) is common in the Financial Services sector, which can be both costly and time-consuming for firms to manage. The DUAA clarifies that organisations are now required to conduct "reasonable and proportionate" searches. This means that whilst organisations are required to make genuine efforts to locate and provide the information requested, they are not obligated to conduct exhaustive searches that would impose an excessive burden. This clarification aligns with guidance issued by the ICO.

Automated decision-making
The DUAA relaxes automated decision-making (ADM) rules, meaning that organisations can use ADM for low-risk data processing activities, but only if upholding transparency and accountability principles. Organisations using ADM for high-risk data processing activities will need to continue to apply additional safeguards, in line with data protection requirements. Under the previous framework, individuals had the right not to be subject to decisions based on solely automated processing, including profiling.

Complaints
The DUAA requires firms to acknowledge complaints within 30 days and respond to complaints 'without undue delay.' Financial services organisations should therefore review and update existing internal complaints procedures by June 2026, to reflect these changes.

Smart data schemes
One of the most significant pillars of DUAA is the "smart data" scheme. Building on the success of Open Banking the intention is to extend this to other sectors, unlocking access to data but also allowing businesses to securely share customer and business data with authorised third parties, which aims to boost public services and support the UK economy.

Privacy and Electronic Communications Regulations
The DUAA enhances Privacy and Electronic Communications Regulations (PECR) enforcement powers, bringing penalties in line with the Data Protection Act 2018/UK GDPR.

It permits fines of up to 4% of global turnover or £17.5 million, whichever is greater (up from £500,000), significantly raising potential penalties for electronic communication non-compliance. Financial services organisations are therefore advised to ensure compliance with PECR, particularly regarding cookie usage and direct marketing.

In October 2025, the Information Commissioner, John Edwards, outlined his priority areas which included the development of new guidance on the ICO website to reflect DUAA changes. Several consultations are also underway as a result of the DUAA changes, specifically in relation to the new 'recognised legitimate interest' rule.

For Financial Services firms, these developments signal a continued regulatory focus on accountability, transparency and customer trust. Firms that invest early in strengthening governance, improving data management practices and adapting to the DUAA changes will be better positioned to reduce compliance risk, avoid operational disruption and demonstrate resilience in an increasingly data driven environment.

If you would like support with UK and EU data protection requirements please contact Christopher Beveridge, Partner and National Head of Privacy and Data Protection, Christopher Beveridge.

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Navigating the non-financial-misconduct changes

In this article, we explain the key changes introduced by PS25/23, highlight how the FCA expects firms to respond, and set out the practical steps organisations should take to prepare for the new NFM rule and guidance.

The FCA's Policy Statement PS25/23 – Tackling non-financial misconduct in financial services: Guidance in the Code of Conduct (COCON) and the Fit and Proper test for Employees and Senior Personnel (FIT) sourcebooks (published in December 2025 and February 2026, respectively) marks a decisive step in strengthening expectations of workplace culture, conduct and individual accountability across the sector.

Primarily, PS25/23 finalises FCA Handbook guidance clarifying how serious non-financial misconduct (NFM) including bullying, harassment and violence can amount to a breach of the FCA's Code of Conduct (COCON), and how it informs assessments of fitness and propriety (F&P).

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The FCA's direction of travel is clear: firms must be able to demonstrate that they can identify, assess, manage and escalate serious NFM in a way that aligns not only with internal policies, but with regulatory outcomes. PS25/23 applies to all Financial Services and Markets Act 2000 (FSMA) firms with a Part 4A permission, and staff in those firms who are subject to COCON or FIT.

For non-banks, PS25/23 clarifies the expanded scope of COCON, making clear that NFM towards colleagues is within scope when it arises in the performance of an individual's role, rather than only where it is directly linked to financial services activities.

Whilst the scope rule change does not directly impact banks, the FCA's additional guidance will still be relevant and useful to banks and will help inform assessments of whether NFM constitutes a breach of the Conduct Rules, and whether it has bearing on F&P.

The Regulator's approach is intended to support more consistent outcomes across the industry, reduce uncertainty for decision-makers, and improve firms' ability to act when standards are breached.

Implementation date: 01 September 2026

The FCA has confirmed that the relevant rule change and new guidance will take effect from 01 September 2026, giving firms time to operationalise change, particularly where HR and compliance frameworks, "people processes" and Senior Managers and Certification Regime (SM&CR) governance intersect.

What changed from the consultation? (Consultation vs final PS25/23)

The FCA's final approach broadly preserves the consultation's intent, but includes targeted refinements to increase usability, clarity, and alignment with employment law considerations.

Additional guidance
Consultation feedback: Many respondents requested additional guidance, case studies and examples to support consistent application.
Changes: A small number of changes have been made, including new examples to illustrate the scope of COCON and further guidance to support the application of the new rule. This includes a suite of flow diagrams demonstrating how COCON applies and the process for assessing whether NFM breaches the FCA's rules.

Alignment with employment law
Consultation feedback: Some respondents requested further alignment to employment law, raising concerns around divergence increasing firm burdens.
Changes: Where possible, the FCA has further aligned the guidance to employment law, such as including an example to demonstrate that the purpose of the conduct is as important as its effect.

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Manager's responsibility
Consultation feedback: Some respondents raised concerns that guidance placed disproportionate liability on individual managers.
Changes: The guidance has been revised to clarify that managers would not be held responsible had they not reasonably known about the NFM or if they did not have the authority to act in the particular case.

Scope of COCON
Consultation feedback: Several respondents asked the FCA to clarify elements of the guidance relating to the scope of COCON. For example, the exception COCON 1.1.7FR(5) that states that conduct is not within the scope of the new rule if it only relates to a business of the firm that does not involve SMCR financial activities.
Changes: The FCA has added a table of scenarios to illustrate the exclusion at COCON 1.1.7FR(5). In essence, the conduct will be in scope if either the perpetrator or the subject deals with the financial services business of the firm. The conduct would be out of scope if both individuals worked in a separate function that did not deal with the financial services business at all.

Work versus private lives
Consultation feedback: Some respondents requested more guidance on the boundary between work and private life.
Changes: Additional examples have been added to the guidance to support decision-making, particularly around social occasions and social media. The FCA re-emphasised that guidance cannot be exhaustive, and firms must exercise appropriate judgement.

Specific characteristics or vulnerabilities
Consultation feedback: Some respondents raised concerns about one of the factors in the draft guidance for assessing whether conduct met the seriousness threshold. This consideration was 'whether the subject of the misconduct has specific characteristics or vulnerabilities, particularly if this is a factor in the conduct in question'
Changes: Having considered the feedback, the FCA made the decision to remove the proposed factor relating to specific characteristics or vulnerabilities.

Investigating unproven allegations
Consultation feedback: A number of respondents asked for more guidance about how/when to investigate events in an individual's private life and noted the costs and legal risks of such investigations.
Changes: Additional guidance has been added to help firms assess whether they need to take steps to investigate allegations about an individual's private life. In summary, conduct in private life is relevant to F&P if it shows there is a material risk that the individual will breach regulatory standards and requirements.

Social media
Consultation feedback: Some respondents asked for more guidance on when firms would be expected to respond to allegations about social media activity in private life.
Changes: The guidance has been updated to clarify that the materiality threshold for social media activity in private lives is consistent with other private life conduct as described in the row above.

What firms should do now?
With the 01 September 2026 implementation deadline approaching, firms should act early to ensure compliance and avoid fragmented or inconsistent responses to NFM cases. The FCA has also made clear that PS25/23 brings its policy work on NFM to a close, and the Regulator will now focus on "how firms are tackling NFM in practice", which will likely lead to increased supervisory attention and challenge in relation to NFM.

To ensure preparedness, firms affected by these changes should:

- Review PS25/23 in full, including the final COCON and FIT guidance and practical examples
- Conduct a structured gap analysis of current policies, procedures and practices versus the PS (including investigation, escalation, disciplinary and broader "people" impacts)
- Engage all relevant internal stakeholders (e.g., Compliance, HR, Legal, Risk, Conduct teams and Senior Management) to ensure a coordinated approach to implementation
- Develop a clear action plan (including owners, timelines, training, governance, controls, reporting) to ensure full compliance by 01 September 2026.

For further support with achieving compliance with PS25/23, please contact Partner, Sasha Molodtsov.

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IFRS 18: Presentation and disclosure in financial statements

In April 2024, the International Accounting Standards Board ('IASB') issued IFRS 18 Presentation and Disclosure in Financial Statements ('IFRS 18'), replacing IAS 1 Presentation of Financial Statements. This new standard also introduces consequential amendments to IAS 7 Statement of Cash Flows and IAS 8 Basis of Preparation of Financial Statements, formerly Accounting Policies, Changes in Accounting Estimates and Errors.

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IFRS 18 is a significant development in financial reporting, designed to enhance consistency and comparability, specifically in the statement of profit or loss. It responds to longstanding stakeholder concerns regarding the lack of detailed guidance in IFRS Accounting Standards on the classification of income and expenses in the statement of profit or loss.

The UK Endorsement Board has recently adopted IFRS 18 for use in the UK. IFRS 18 will be effective for annual reporting periods beginning on or after 1 January 2027, with retrospective application required.

What are categories of income and expenses and subtotals introduced by IFRS 18?

IFRS 18 reorganises the statement of profit or loss by introducing three categories for classifying income and expenses: 'Operating', 'Investing', and 'Financing' followed by the categories of 'Income taxes' and 'Discontinued operations'. The contents of these categories do not coincide with those of the similarly named existing categories in the statement of cash flows.

The investing category covers income and expenses from investments such as associates, joint ventures, unconsolidated subsidiaries and assets that generate returns independently, for example, investment properties. The financing category covers income and expenses from liabilities arising from transactions that involve only the raising of finance, such as interest on borrowings and interest or valuation changes on lease liabilities. However, the operating category serves as the residual category that reflects the entity's main business activities, covering all income and expenses not classified in the other categories.

IFRS 18 permits operating expenses to be presented in the statement of profit or loss either by nature, by function, or on a mixed basis. However, if any operating expenses are presented by function, that is under the by-function or mixed presentation method, then new disclosure requirements apply.

What is the assessment of main business activity under IFRS 18?

The IASB identified that, if specific entities applied the general requirements outlined above, then they would classify income and expenses from their main business activities in categories other than the operating category.

Consequently, IFRS 18 introduces the concept of a 'specified main business activity' as either investing in particular assets, for example financial assets or investment properties and / or providing financing to customers, such as banks and other financing companies. As an exception to the general requirements, IFRS 18 requires entities with a 'specified main business activity' to classify some of their income and expenses in the operating category that would otherwise have been included in investing or financing. This exception ensures that financial institutions, for example, banks, insurers and investment managers, or asset-intensive entities reflect their core operations accurately.

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Specific entities often manage multi-currency flows. Consequently, foreign exchange differences recognised in the statement of profit or loss are classified in the same category as the underlying income and expenses that generated them.

Furthermore, the assessment of main business activity is performed at the reporting entity level. This means the assessment reached at the group level may differ from that of a subsidiary, requiring certain income and expense items to be reclassified during consolidation.

What are enhanced subtotal presentation and additional line-item requirements?

Once an entity has classified individual items of income and expense into the appropriate categories and it has aggregated those items into appropriate levels of aggregation for presentation in the statement of profit or loss, mandatory and additional subtotals are presented as a result of the two previous steps. Mandatory subtotals are based on how the entity has classified its income and expenses into the five categories. The categorisation of expenses into these categories, and the assessment of whether the entity has 'specified main business activities', is necessary as it affects how subtotals are calculated.

IFRS 18 requires presenting two new defined subtotals: operating profit and profit before financing and income taxes. The use of totals and sub-totals, including new mandatory ones, is more strictly prescribed in IFRS 18. These sub-totals build on and distinguish between the new categories of income and expenses. For example, all entities are required to present 'operating profit' in the statement of profit or loss, which is the total of all income and expenses classified in the operating category.

IFRS 18 also requires entities to present additional line items, which includes subtotals, if such presentation is necessary for a primary financial statement to provide a useful structured summary in line with IFRS 18. Additional subtotals may be presented 'within' other subtotals, including those required by IFRS 18. For example, entities may also present subtotals such as 'gross profit', 'net interest income' or 'net interest margin', as long as those subtotals meet the requirements of IFRS 18.

What are the enhanced requirements for grouping (aggregation and disaggregation) of information?

A new set of principles has been introduced on how assets, liabilities, equity, income, expenses and cash flows should be aggregated and disaggregated on the face of the primary financial statements and in the disclosure notes to the financial statements.

Under IFRS 18, 'aggregation' refers to combining assets, liabilities, equity, income, expenses or cash flows that share characteristics and fall within the same classification while 'disaggregation' refers to the separation of an item into component parts that have characteristics that are not shared, for example, disaggregated information about interest expense such as interest expense on provisions for litigation and interest expense on pension liabilities and lease liabilities.

Entities need to apply judgement to determine how much detail is necessary to provide useful information. The aggregation and disaggregation of items should not obscure material information, for example, avoid omitting useful information by providing insufficient detail and obscuring information by providing too much detail.

What does IFRS 18 require for Management-defined performance measures (MPMs)?

MPMs are a subtotal of income and expenses that:

- an entity uses in public communications outside financial statements;
- an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and
- neither listed in IFRS 18, nor specifically required to be presented or disclosed by IFRS Accounting Standards.

As a result, IFRS 18 limits MPMs strictly to subtotals of income and expenses. For example, 'adjusted profit' that excludes items such as share-based payments and goodwill impairment. In this case, adjusted profit is a subtotal of income and expenses because it comprises only some of the items of income and expenses required to be included in profit or loss by IFRS Accounting Standards.

Furthermore, financial ratios are not MPMs because they are not a subtotal of income and expenses. However, the numerator or denominator of these ratios may meet the definition of MPMs, such that the numerator 'adjusted earning' in the financial ratio of Earning per share.

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Firms should note that IFRS 18 disclosure requirements for MPMs will apply to such a numerator or denominator that meets the definition of MPMs. IFRS 18 also introduces consequential amendments to IAS 33 Earnings per Share in relation to disclosure of additional earnings per share amounts.

What should you do next?

We recommend firms start planning now for the changes, beginning with an impact assessment to understand the effects on your financial statements before 1 January 2027. This includes evaluating changes in financial statement presentation, training your finance team on IFRS 18 requirements, considering system adjustments for income and expense categorisation, updating to chart of accounts, assessing consolidation impacts, identifying MPMs and engaging auditors early for transition planning.

Effect on subsectors:

What effect do IFRS 18 have on Banking and Building Societies?

IFRS 18 brings significant changes to how banks and building societies present financial performance, particularly because these entities often have 'specified main business activities', that is investing in financial assets and / or providing financing to customers. Consequently, certain income and expenses that would typically fall under investing or financing categories are instead classified under operating activities.

Most banks and building societies typically report expenses based on their nature rather than their function.

Nonetheless, if a bank or building society determines that presenting expenses by function offers a more useful structured overview, IFRS 18 requires them to still disclose an analysis of each functional line item by nature in the disclosure notes to the financial statements.

Many banks and building societies issue hybrid contracts that include host liabilities and embedded derivatives. IFRS 18 provides specific requirements on how entities classify income and expenses from these hybrid contracts.

Banks and building societies often include 'non-GAAP' performance measures in their annual reports, such as adjusted earnings, net interest margin and credit metrics. Under IFRS 18, only subtotals of income and expenses qualify as MPMs. Consequently, only some of these 'non-GAAP' performance measures will meet the definition of MPMs under IFRS 18.

What effect do IFRS 18 have on Investment and Wealth Management?

Investment and wealth managers and similar entities are explicitly noted as examples of entities for which investing in assets is a 'specified main business activity'. Asset and wealth managers must carefully assess if they have a 'specified main business activity', such as investing in assets. Consequently, certain income and expenses that would typically fall under investing category are instead classified under operating activities.

If investment and wealth managers present expenses by function on the face of the income statement such as portfolio management costs, then IFRS 18 requires entities to also disclose the underlying "by-nature" components, such as:

- depreciation of property
- plant and equipment
- amortisation of intangibles
- employee benefits
- impairment losses / reversals
- other operating expense breakdowns.

Investment and wealth managers commonly report non-GAAP performance metrics such as AUM-adjusted earnings and adjusted EBITDA in their annual disclosures. However, under IFRS 18, only subtotals of income and expenses qualify as MPMs, meaning that only some of these non-GAAP measures will meet the MPMs definition of IFRS 18.

What effect do IFRS 18 have on Payments and e-money?

Payments and e-money companies typically facilitate payment transactions, hold customer funds that is sometimes held in a safeguarding capacity and earn income from fees rather than investment returns.

Payments and e-money companies must carefully assess if they have a 'specified main business activity', such as providing financing or investing in assets. Income and expenses from investing activities, for example, cash held in safeguard accounts, must be clearly separated from operational payments revenue.

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Payments firms often manage multi-currency transaction flows. Consequently, foreign exchange differences recognised in the statement of profit or loss should be classified in the same category as the underlying income and expenses that generated them.

Payments and e-money entities often include 'non-GAAP' performance measures in their annual reports such as adjusted EBITDA, gross transaction value and take rate margins. Under IFRS 18, only subtotals of income and expenses qualify as MPMs. Consequently, only some of these 'non-GAAP' performance measures may meet the MPMs definition of under IFRS 18.

What effect do IFRS 18 have on Insurance?

Insurers, across various segments such as life, non-life, and reinsurance, typically engage in asset investment and may also offer customer financing, for example, an insurer issuing mortgages. Consequently, certain income and expenses that would typically fall under investing or financing categories are instead classified under operating activities.

Insurance finance income and expenses reported in the profit or loss statement under IFRS 17 Insurance Contracts (IFRS 17) must be classified as operating activities. These arise from issued insurance contracts, reinsurance contracts held, and investment contracts with participation features that are within the scope of IFRS 17. This exclusion also extends to investment contracts with participation features within the scope of IFRS 9 Financial Instruments.

Insurers typically present expenses by function under IFRS 17 such as insurance service expenses and other operating expenses. To comply with IFRS 18 requirements, insurers must disclose a qualitative description of the nature of the expenses and quantitative analyses of certain types of expenses, such as, depreciation of property, plant and equipment, amortisation of intangible assets, employee benefits and impairment losses / reversals. Therefore, under IFRS 18, amounts previously recognised in relation to the liability for remaining coverage, liability for incurred claims and insurance acquisition cash flows on-balance sheet will require analysis in subsequent years to present the information required for the disclosure of depreciation of property, plant and equipment, amortisation of intangible assets, employee benefits and impairment losses / reversals.

Insurers often include 'non-GAAP' performance measures in their annual reports and only subtotals of income and expenses qualify as MPMs under IFRS 18. Consequently, solvency capital ratios, leverage or debt ratios, gross written or earned premiums, combined ratios and new business metrics may not be considered MPMs as they are not derived from subtotals of income and expenses.

Insurance intermediaries such as brokers, agents and distribution platforms operate fee-based service models and typically do not have 'specified main business activities' under IFRS 18 as they neither invest premiums in assets nor do they provide financing as part of their core operations. Consequently, commission and service fee income, along with most operating costs, remain within the operating category, while interest and fair value remeasurements continue to be classified within investing or financing as applicable. However, where expenses are presented by function, IFRS 18 requires intermediaries to provide additional by nature disclosures, including depreciation, amortisation, employee benefits and impairments. Insurance intermediaries must adhere to IFRS 18's enhanced disclosure requirements related to MPMs presented such as adjusted EBITDA or adjusted operating profit.

The changes under IFRS 18 will require thoughtful planning across systems, processes and reporting teams. BDO can support you in navigating the new requirements and implementing the changes with confidence.

If you need support with managing the impact of IFRS 18 or any other part of your financial reporting, please contact Partner, Mark Spencer.

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Navigating a Skilled Persons Appointment

An appointment by Financial Services' Regulators, the FCA or PRA, under s.166 of FSMA is a matter to be taken seriously, yet it need not be a prelude to enforcement action. In this article we explore some of the themes and ways regulated firms should approach these appointments.

We also note BDO LLP's successful appointment to a number of the skilled persons panels, and also the multi firm failure and consulting LOTS.

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An appointment by Financial Services' Regulators, the FCA or PRA, under s.166 of FSMA is a matter to be taken seriously, yet it need not be a prelude to enforcement action. In this article we explore some of the themes and ways regulated firms should approach these appointments.

Skilled Person appointments

Skilled Person appointments (also known as s.166 reviews) have increased in number over the years, as regulators seek to be more intrusive with limited resources. The number of appointments fluctuates year on year. A skilled person review is a tool used by regulators to either directly appoint, or require a regulated firm to appoint, a designated 'Skilled Person' to carry out a detailed assessment of any aspect of a regulated firm's business. The FCA and PRA reported that firms spent in excess of £45m in Skilled Person fees in the year 2024/25. On top of this is the cost of management time, remedial work or reduced business opportunities.

In year 2024/25 the FCA commissioned 47 Skilled Person reviews and the PRA, 28 - 75 in total. Generally, these were across the insurance, wealth and banking sectors. Main areas of focus were conduct, risk and controls, and financial crime. In our experience, most s.166 reviews involve an assessment of governance, systems and controls as well as culture pertinent to the issue more widely.

Choosing and appointing a Skilled Person

The role of the Skilled Person is to fulfil the requirements set out by the regulator/regulators as 'boots on the ground'. It is an analytical and evidence-based review process, typically resulting in a report with recommendations. Unless the appointment has been made directly by the regulator (less common), the firm selects three Skilled Persons from a panel, with a first choice put to the regulator. The regulator can challenge the choice or the scope of the review and can overturn a firm's choice, in which case having a second choice is helpful.
BDO has several partners who can be appointed as a Skilled Person, each leading with individual areas of specialism.

The Requirement Notice (RN)

It is rare that a RN lands 'out of the blue', therefore preparations can start before the letter arrives. A planned approach enables a firm's senior management to make decisions in a considered way and avoids panicked reactions. Early steps can include deciding the key point of contact, conducting a short internal review to understand extent of any gaps, quality of documents and customer impacts. Once received, a draft RN should be checked for factual accuracy. Sometimes, regulators can require a firm to amend its permissions for a period until the extent of issues are known or remediation is completed. Whilst a RN isn't public, a variation of permission is publicised on the register. This might mean communications with internal and external stakeholders are required.

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Planning and Preparation

- A well organised response helps manage costs, demonstrates competence, and can lead to a swifter conclusion
- Start by planning how to organise, govern and communicate the Skilled Person process. Appoint a single person to be the main contact for all requests. Keep track of, and review all documents sent, and debrief after interviews
- Ensure senior management and the Board are clear about governance structures, operations, strategy, and most importantly roles and responsibilities. All SMFs should check responsibility statements and be familiar with them
- In addition, keep track of any emerging themes or findings during the course of the review and proactively consider any potential remedial activity, where appropriate
- Costs and timelines can become challenged in situations where there is a lot of conflicting information, documents arrive late or not at all, and access to systems or people is slow.

Keeping a constructive and open dialogue with regulators

It is essential to maintain an open and constructive dialogue with regulators. Supervisors want to know senior management understand the issue, its importance, and have a desire to fully rectify any findings.

Well thought out and proactive communications can help set the tone for the period of the review. A supervisor's confidence can be undermined with overly defensive responses or denials that anything is amiss. Supervisors can then become concerned which may lead to greater scrutiny.

New PRA and FCA Skilled Person and Consultancy Framework

BDO LLP is pleased to announce it has been appointed to a number of the regulatory Skilled Persons and Consultancy panels as set out in the link below.

This reflects the breadth of skills and capabilities across BDO LLP. We can act as Skilled Persons across a wide range of LOTS, or provide support to firms navigating a Skilled Person appointment.

In 2025/2026, the regulators retendered its Skilled Persons and Consultancy panels. This happens every four-years and is competitive. The Skilled Person panels have been extended to include new panels on transaction reporting and market abuse. Consulting panels have been separated into individual 'Lots' from the previously amalgamated approach. There is also a new panel to support the FCA with insolvency expertise in the event of multiple firm failures.

More information about the framework and information about Skilled Persons appointments under s.166 of the Financial Services and Markets Act 2000 can be found in the attached links.

- Skilled person reviews | FCA
- Skilled Person Panel
- Supervision | Bank of England
- Skilled Person Panel

If you would like to discuss Skilled Persons appointments, or support and advice about Requirement Notices, please contact Partners, Fiona Raistrick or Richard Barnwell.

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Banking and Building Societies

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FCA priorities for Banks in 2026

The FCA has published its regulatory priorities for Retail Banking that sets out its priorities for this sector for the year ahead and is a guide for Boards and leaders about areas of FCA focus. These include good outcomes from products and services, operational resilience and data protection, and fighting fraud and financial crime.

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The FCA has published its Regulatory Priorities for Retail Banking that sets out its priorities for this sector for the year ahead and is a guide for Boards and leaders about areas of FCA focus . These publications mark a shift in how the FCA engages with the industry on its priorities and replace the several portfolio letters that were sent previously.

In setting out its priorities the FCA is conscious that the sector has been evolving at pace as consumers increasingly engage with banks digitally and that new entrants and fintechs are disrupting a market long dominated by a small number of firms. The FCA has stressed that it needs banks to stay accessible to consumers and businesses, provide good outcomes to its customers, be resilient, and robust against frauds and financial crimes.

Retail banking priorities

The FCA has set out four areas it is focusing on to help consumers, fight crime, and support growth:

- Good outcomes from products and services
- Operational resilience and data security
- Fighting fraud and financial crime
- Access to cash and essential banking services.

Good outcomes from products and services

The test is no longer whether banks have implemented the Consumer Duty Regulation, and the FCA has noted the good progress made in driving good outcomes, but how banks evidence that the Regulation has been embedded in their business, operations and culture. Data-led monitoring, thorough scrutinisation of outcomes metrics, and rigorous follow up of issues raised is identified as an area many firms have further to go.

The FCA will be monitoring data and customer outcomes to identify where customers may be experiencing poor outcomes, specifically referencing vulnerability and value as examples. It also intends to undertake risk-led reviews on high-impact topics and support cross-sector work on customer journeys and outcomes monitoring.

Operational resilience and data security

A continuing priority is the risks posed by technology transformations, reliance on critical third-parties, cyber threats, and insider risks. The FCA expects firms to continue to build operational resilience and data security by identifying emerging risks and adding these into scenarios and testing to evolve action plans and continuing to evolve and improve cyber protection and information protection strategies, with tested recovery plans.

The FCA plans to introduce new rules for reporting operational incidence and information on material third parties and engage with firms on technology change programmes.

Fighting fraud and financial crime

The FCA recognises that many firms have invested heavily in systems and controls to detect, disrupt, and prevent financial crime, but there are inherent financial crime risks in this sector that are continuously evolving.

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The FCA expects firms to act to help consumers understand those risks, monitor and mitigate the risks that consumers face, and keep improving systems and controls to combat the evolving threat. It will be engaging with firms delivering system and control improvement programmes, or that have heightened risk, and target proportionate interventions.

Access to cash and essential banking services
The FCA expects firms to avoid causing foreseeable harms through digitalisation of their businesses and operations. It will be researching the harms that reduced in-person banking services may create.

It also expects firms to fill significant gaps in local cash access services and ensure that financial crime controls are not leading to unnecessary or overlong account freezing.

If you would like support on customer outcomes monitoring, operational resilience and third-party oversight and financial crime controls, please contact Partner Richard Barnwell.

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FCA priorities for Mortgages in 2026

The FCA has published its Regulatory Priorities for Mortgages that sets out its priorities for this sector for the year ahead and is a guide for Boards and leaders about the FCA's areas of focus. These include improving consumer outcomes, the quality of advice, responsible lending and supporting borrowers in financial difficulties.

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The FCA has published its Regulatory Priorities for Mortgages that sets out its priorities for this sector for the year ahead and is a guide for Boards and leaders about the FCA's areas of focus.. These publications mark a shift in how the FCA engages with the industry on its priorities and replace the unwieldy portfolio letters that were sent previously. They also combine policy and supervision priorities for the first time, providing a more holistic view of the regulatory agenda for a sector.

Its current priorities build on the five-year strategy published in 2025 aimed at deepening trust, rebalancing risk, supporting growth and helping consumers navigate their financial lives. This strategy is centred on supporting good customer outcomes and encouraging a dynamic, innovative, and competitive market.

Mortgages priorities

The FCA has set out three areas it is focusing on to help consumers, support growth, and be a smarter regulator:

Improving consumer outcomes

The FCA is simplifying and loosening its mortgage rules to support different types of consumers achieve their home ownership goals, enhance later life lending, and enable innovation while also protecting vulnerable consumers. This includes delivering on its Roadmap that includes expanding access to first time buyers and underserved consumers and enhancing later live lending. It will also be developing its monitoring and supervision framework and take action where harms are identified.

For Lenders, loosening LTI requirements will support more consumers achieve their home ownership goals but risks higher default rates and consumers in financial difficulties in an environment where interest rates are volatile and the 'cost of living' is stretched. Alongside this, innovation, such as the use of AI-assisted advice, may speed up the customer journey but risk customers choosing unsuitable products. Firms will want to ensure they have robust risk and control frameworks, and consumer outcomes monitoring, assist in ensuring a firm is well-attuned to consumer needs.

Ensuring the quality of advice

The FCA's work on second charge mortgages found the standards of advice could be improved, particularly for debt consolidation. Record-keeping was also an issue that means it was hard to evidence if advice was tailored and appropriate.

The FCA expects that, where advice is given, it is suitable for consumers' needs and that outcomes are tested across the customer journey. All firms are encouraged to review the findings from the second charge mortgage review on record-keeping and quality assurance.

The FCA will engage with firms individually about remedial action from its second charge mortgage review. It is considering changes to better protect vulnerable customers and consider options to deliver more holistic advice to consumers, such as using their housing wealth as a source of funds in later life.

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Responsible lending and supporting borrowers in financial difficulties

The FCA has seen firms respond to its interest rate stress test rules and the updated LTI flow limit recommendation, which is helping more consumers with home ownership. However, its work on second charge mortgages found issues with affordability assessments, including that some expenditure assessments were based on unrealistic assumptions or overlooked types of regular expenditure and debt consolidation advice may have steered consumers to a second charge mortgage where this was not the best option.

The FCA will consult on changes to its rules, with responsible lending and high standards of conduct remaining core principles, and making sure customers in financial difficulties get appropriate support.

How BDO can support your business

At BDO we have team with extensive experience working with firms across the mortgage sector on ensuring quality advice processes and supporting firms in completing past business reviews. We have also worked with firms cross-sector to deliver effective outcomes monitoring frameworks.

If you would like support on customer outcomes monitoring, operational resilience and third-party oversight and financial crime controls, please contact Partner Richard Barnwell.

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Motor Finance Redress – what do Internal Audit teams need to think about?

The FCA has published its final rules to start motor finance redress. The criteria for receiving redress have tightened meaning 12.1 million are now deemed eligible with a total redress bill around £9bn (including costs), but the value of redress per case has increased from approximately £700 to £829 (or £860 for pre-April 2014 cases). The FCA estimates a participation rate of 75%. This article focuses on the immediate steps to provide a Scheme Implementation Plan to the FCA. It will be of interest to second and third line, as well as those tasked with operating a redress scheme.

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The FCA has published its final rules to start motor finance redress. The criteria for receiving redress have tightened meaning 12.1 million are now deemed eligible with a total redress bill around £9bn (including costs), but the value of redress per case has increased from approximately £700 to £829 (or £860 for pre-April 2014 cases). The FCA estimates a participation rate of 75%. Page 14 of PS 26/3 sets out a helpful table of what has changed in the final scheme rules. PS26/3: Motor finance consumer redress scheme.

The first point to make is the FCA has split redress into two separate schemes limit the risk of disruptions from legal challenges. Scheme 1 is pre-April 2014 agreements (6 April 2007 to 31 March 2014) and Scheme 2 is for post 1 April 2014 agreements. Each scheme has a prescribed timetable for progressing cases. Customers who have already complained will be progressed fastest with shorted deadlines. Scheme 1 customers who have complained can expect payouts by November 2026, and for scheme 2, by January 2027. All scheme 1 cases should conclude by January 2028, and all scheme 2 cases by September 2027.

There are some detailed changes, exceptions and exclusions that have been allowed e.g.
The definition of high commission has been changed to 39% of the total cost of credit and 10% of the loan amount, from 35% and 10% respectively. Cases cancelled from inception or very early into the agreement can be excluded as can 0% APR agreements.

Very high value agreements (luxury car carve out) are not suited to the scheme and can be excluded from the scheme but can still pursue redress through the FOS or courts. A deminimis commission amount has been applied so that redress cases below this are excluded. The amounts are different for scheme 1 and scheme 2. Tied arrangements are still in scope, however the FCA has enhanced the ability to apply a rebuttal that failure to disclose was unfair (for example where the tie wasn't acted upon or for captive arrangements.

Lenders will now be examining the main changes to the schemes. However, it is important to maintain focus on the immediate reporting obligations on lenders.

Implementation periods

The implementation periods have been changed to give firms more time to prepare and deliver a better outcome. The implementation periods are different for the two redress schemes. Scheme 1 will have an implementation period of 5 months to reflect the greater complexity with older agreements. Scheme 2 will have an implementation period of 3 months. It is possible to have a single implementation period of 3 months for both schemes.

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Immediate Deadlines

Two weeks from publication of final rules lenders must notify FCA of intentions to use Scheme 1 or Scheme 2 implementation periods. This means understanding the number of agreements that fall into each time period and therefore each Scheme and implementation period. At this point, the lender must also provide the name and contact details of the Senior Manager (SMF) responsible for scheme oversight.

Six weeks from publication of final rules, the lender must provide a Scheme Implementation Plan and delivery forecast. The FCA intends to scrutinise these to assess where further guidance might be needed, but also to identify where there are outliers and to prioritise supervisory activity.

The FCA wants to see plans that show cases will be processed in line with rules, risks are managed with appropriate controls, and assurance is in place to check progress or identify issues for resolution.

A scheme Implementation Plan should be sufficiently detailed, covering, e.g.

- Volume of cases in each scheme
- Approach to identifying scheme cases, contact strategies, application of rebuttals, limitations or other key decisions that impact consumer outcomes
- Delivery deadlines as required by the schemes
- Case cohorts (grouping cases into clusters with similar traits, for example types of agreements, cohorts potentially subject to a rebuttal decision, cohorts with limited information)
- Cases with CMCs
- Communication and customer contact strategies
- Customer outcomes assessment
- Complaints handling procedures
- Governance, controls and assurance arrangements
- Approach to risk management.

Where firms have outsourced redress programmes, governance, reporting and audit rights will need to be considered. Also, where AI is being used, outcomes testing should be in place to ensure AI outcomes are appropriate. Once the implementation phase is over, the FCA expects monthly progress reporting.

Compliance, Risk and Internal Audit functions all have a role to play in reviewing the Scheme Implementation Plans, and in the ongoing assessment of compliance with FCA scheme rules, accuracy of redress calculators, risks and controls and overall project governance and progress.

The thorny issue of CMCs

Reports suggest that up to 4 million consumers may be signed up with one or more CMCs. The FCA hopes that by writing out to customers, more will opt to join the FCA redress schemes. However, where customers have signed over all rights to a CMC, or wish to pursue a case with a CMC, that seems unlikely. CMCs are consistently saying more redress can be achieved through a court process. Therefore, one complexity lenders need to manage is the cohorts of cases with CMCs.

This may mean a separate stream of remediation running alongside FCA redress schemes to handle CMC driven litigation.

There is also the potentially intractable issue of consumers signed up with multiple CMCs where lenders are unlikely to be able to progress cases without clarity of who they engage with and importantly, who a redress payment is made to.

Financial reporting and provisions

Firms should also be considering how the final rules impact provisions and maintain compliance with FCA and/or PRA financial resource requirements.

If you would like to discuss motor finance redress, please contact Partner, Richard Barnwell.

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SS5/25 explained: new PRA climate risk expectations for Banks, Building Societies and PRA-Designated Investment Firms

The PRA's new Supervisory Statement SS5/25 introduced strengthened expectations for how banks and insurers manage climate related risks in December 2025. For the purposes of SS5/25, banks include building societies and PRA-designated investment firms. The framework emphasises proportionality, requiring firms to scale their approaches according to the materiality of climate risks to their business models and financial stability.

Through the Supervisory Statement, the PRA expects firms to carry out a robust risk identification, scenario analysis and internal reviews. While smaller firms may adopt simpler methods, those with greater exposure must deploy more sophisticated tools to ensure effective, credible and compliant climate risk management.

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The Prudential Regulation Authority ("PRA")'s new Supervisory Statement titled "Enhancing banks and insurers' approaches to managing climate-related risks" ("SS5/25"), sets a more rigorous new basis for climate risk management for banks. For the purposes of SS5/25, banks include building societies and PRA-designated investment firms. Financial climate-related risk has become a core prudential risk management component.

The most significant shift is the emphasis on proportionality. The PRA expects calibration of climate risk according to the materiality of the risk through a clear process of identification and response with controls for managing the risks.

Materiality is another central concept that relates to the significance of climate-related risks to a firm's business model and financial performance. Banks must assess the materiality of the climate related risks and the scale their risk management efforts for managing them. Importantly, a double materiality assessment, which considers both impact materiality (how the bank affects people and the environment) and financial materiality (how sustainability issues affect the company's financial performance), is not required.

SS5/25's expectations apply to all UK Banks, Building Societies and PRA-designated investment firms. The expectations do not apply to branches of overseas entities operating in the UK.

How should banks respond?

Firms must enhance data and scenario-analysis requirements as well as the integration of climate risks into core risk registers and frameworks. This means a more rigorous approach to identifying, assessing and managing climate-related risks, supported by strategies that are robust and well-documented.

Specifically for banks, transmission channels through which climate-related risk affects the bank's risk categories should be accounted for. The banks are expected to demonstrate that they have sound practices for climate-related risks that support timely recognition of such risks in their financial statements, which should be accounted for in accordance with the requirements of applicable accounting standards

Additionally, it is expected that the banks should review and assess their capabilities across governance and financial reporting risk assessments, controls for use of forward-looking data and quantifying the impact of climate related risk on balance sheets and Expected Credit Losses (ECL).

Evidence of the internal reviews and action plans must be maintained and readily available to supervisors and the PRA may request this evidence.

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Furthermore, evidence of strategies to address any gaps must be credible and ambitious. Overall, banks should be able to evidence the judgements they make. Smaller firms may use less sophisticated tools if their risk assessment determines that the risk is low, while firms with a greater exposure or risk should use more advanced approaches.

Banks should carry out an internal review and a gap analysis of their status in meeting the updated expectations set out in SS5/25 by 3 June 2026.

What is new on climate-related risk management expectations?

SS5/25 refines and broadens the PRA's expectations across multiple dimensions, providing clearer guidance on how firms should manage climate risk.

Moving away from one generic approach, the PRA now expects the implementation of expectations to be proportionate to the potential impact of climate risks on its business model through a clear two-step assessment:

Step 1: Risk identification, assessment and sign-off
The first step for banks is to identify the material climate risks they are exposed to and their transmission channels. This includes understanding how these risks could impact the firm's financial stability and operations as well as the impacts on the resilience of their business model over the relevant time horizon and under different climate scenarios. In addition, firms must enhance their understanding of how the climate related risks might evolve over time and impact their PRA regulated activities.

Step 2: Appropriate risk management response
The second step is about adopting a proportionate approach to the climate-related risk profile identified in the first step. The necessity and expectation for firms to use more sophisticated risk management tools will increase as the magnitude and likelihood of material risks to which they are exposed increases. This requirement seeks to ensure appropriate scalations of specific risks faced.

What are the banks firms required to do?

SS5/25 elaborates what banks are required to do specifically in relation to risk management and appetite.

Financial Reporting: It is expected that banks will be able to demonstrate that they have practices for assessing and embedding climate-related risks in their financial statements, which should be accounted for in accordance with the requirements of applicable accounting standards. Additionally, the PRA expects the bank's risk management responses to be proportionate to the potential impact of climate-related risks on the regulated activities, along with demonstrating how climate-related risks may evolve and impact their business models and financial statements in the future.

Quantifying the impact of climate-related risks on ECL: Banks should be able to demonstrate well defined and documented processed to quantify exposures to borrowers most at risk and also quantify the climate related risk drivers that could influence the measurement of ECL. Also, banks should use credit judgement based on experience to incorporate climate-related risk into the measurement of ECL.

Internal Capital Adequacy Assessment Process (ICAAP): Banks, as part of the ICAAP, should be able to evidence the climate related risks are included in the risk register and are appropriately capitalised. Additionally, the relevant physical and transition risks are incorporated into the stress testing programmes to evaluate the Bank's financial position under severe scenarios.

Internal Liquidity Adequacy Assessment Process (ILAAP): It is expected that banks develop processes to identify, quantify and evaluate climate-related risks that may materially impair their liquidity and funding positions over relevant time horizons and incorporate these in their internal liquidity and funding management systems and processes as part of the ILAAP.

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How BDO can help our clients?

Our team of climate, risk and regulatory experts can assist you in multiple areas, including:

Gap Analysis against SS5/25: We can identify specific gaps across governance, risk management, climate scenario analysis, data, disclosures and any specific issues, providing you with a clear actionable roadmap for compliance.

Board training: We can deliver training to maintain appropriate Board knowledge, supporting robust governance and decision-making.

Scenario Analysis Frameworks and Model Development: We can assist in identifying, designing, and developing scenarios, building models, setting up associated governance and data frameworks and managing feedback between risk assessments and Climate Scenario Analysis. We can also link bespoke climate-related scenario analysis and stress testing to your firm's strategy and financial reporting and disclosures.

If you would like to find out more about how BDO can help you to better understand and comply with the PRA's new climate risk expectations, please contact Partners, Mark Spencer, Simon Greaves or Oivind Andresen.

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Insurance

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PRA priorities for insurers in 2026

On 15 January, the PRA published its priorities for the supervision of the UK insurance sector in 2026. The PRA will continue with its focus on key market trends such as pressures in the bulk purchase annuity market, softening underwriting cycles, and investment in operational resilience.

Firms will be expected to consider the current heightened geopolitical risk and pressure on the sovereign debt market within their risk management frameworks to understand impact on business models and strategies.

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Life Insurance

Bulk purchase annuities

The PRA will continue to support firms to diversify into UK productive assets through the Matching Adjustment Investment Accelerator. Besides this, increased competition has raised concerns over pricing discipline and the quality of risk management. The PRA will revisit "Dear CRO" guidance on solvency-triggered termination rights. Monitoring of how firms are managing material risks associated with funded reinsurance, including potential regulatory arbitrage, will continue into 2026. The PRA will update on expected additional policy action in quarter two, following roundtable interaction with firms since September 2025.

Investment strategies

Evolving investment strategies may increase liquidity and credit risks. Liquidity risk management should consider potential leveraging through consideration of appropriate stresses. The PRA expects appropriate risk appetite frameworks and credit assessment frameworks, including robustness of internal ratings, where relevant, with particular attention to exposures to private credit assets. Further insights will be sought post the implementation of new liquidity reporting requirements in September 2026 and system-wide exploratory scenario (SWES).

New capital and ownership structures

The PRA recognises there are diverse ownership structures and will be looking to ensure that entities exhibit appropriate independent governance and conflict management.

Life insurance stress

Insights from the 2025 exercise will inform supervision and future disclosure designs. The PRA will gather feedback from both firms and from those using the disclosures.

General Insurance

Internal model assumptions

With a softening underwriting cycle, the PRA is concerned about internal model assumptions being optimistic. Boards are expected to robustly challenge management's assumptions. The PRA will intensify scrutiny of internal models and underwriting assumptions where material differences in actual and assumed profitability have been observed.

Exposure management and delegated authority underwriting

The guidance emphasised the need for improvements in data quality and investment in exposure management systems. Strong oversight arrangements including clear exit strategies for delegated authority business are expected. The PRA plans to engage with relevant firms.

Dynamic General Insurance Stress Test (DyGIST)

A three-week crisis exercise simulating a market wide event will be held in May 2026. Participants should update crisis management playbooks and test internal communication.

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Cross-sector priorities

Operational resilience
Building on SS1/21, firms are expected to improve operational resilience testing and Boards to embed resilience strategies in decision-making — especially the impact of new products, IT upgrades (including large scale transformations and adoption of cloud-based services) and outsourcing (particularly in respect to important business services). Cyber defence is a key focus area due to the elevated geopolitical risk levels. Robust capabilities are required to be strong across detection, response, and continuity. CBEST and STAR-FS engagement for higher impact firms will continue and CQUEST may be used for others.

Solvent exit planning
Firms must prepare a proportionate Solvent Exit Analysis (SEA) by 30 June 2026, addressing key risks, barriers, required resources, cost/benefit of options, and whether their business is hard to substitute, with the PRA reviewing selectively on a proportionate basis.

Artificial Intelligence
Insurers should innovate with AI while mitigating associated risks such as data accuracy, third party dependency and cyber risk.

Other objectives: facilitating competition and growth

captive insurance regime
Consultation on a new UK captive framework to be held in summer 2026, targeting 2027 implementation.

Insurance-linked securities (ILS)
Reforms implemented to widen UK's ILS offerings and streamline authorisation.

PSMs
All firms will be transitioned to a two-year PSM cycle.

Other growth initiatives
The PRA seeks to accelerate timelines for new firm authorisations and improve support for small/medium insurers on regulatory matters. It is seeking views on alternative life capital options to remove barriers for capital supporting the sector. The PRA is working with the Financial Conduct Authority (FCA) on supporting the mutuals landscape to drive inclusive growth in the UK.

For further detail on the PRA's 2026 priorities for supervision of the UK insurance sector underpinning this report, please read the PRA Insurance Supervision: 2026 priorities.

What should second and third-line functions do?

Second-line (Risk, Compliance and Actuarial) teams should focus on:

- Updating risk frameworks and risk assessments to reflect key risks and relevant PRA and regulatory priorities
- Validating underwriting assumptions and data quality within exposure management processes
- Support the business enhancing operational resilience controls, including dependency mapping, resilience testing and third-party oversight
- Ensuring SEAs are robust, proportionate and integrated into the wider risk management framework.

Third-line, Internal Audit functions must:

- Provide independent assurance over the Solvent Exit Analysis, documenting governance, assumptions and evidence trails to comply with the requirements by 30 June 2026.

Internal Audit functions should consider:

- Assessing the design and operating effectiveness of prudential risk management frameworks against the PRA's expectations across life, general and cross-sector themes
- Testing the adequacy of oversight arrangements for delegated authority, FundedRe and BPA pricing governance
- Reviewing preparedness for DyGIST including scenario execution capabilities
- Evaluating the robustness of cyber resilience controls, including detection and recovery processes.

If you would like support to better understand the PRA priorities and how they impact your firm, please contact Partner, Richard Barnwell.

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FCA priorities for insurers in 2026

The FCA published its regulatory priorities for the Insurance sector in February 2026. This is a summary article of the priorities for risk, compliance and IA functions.

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The FCA published its insurance priorities for the insurance sector in February. This is a new style document that combines policy and supervision priorities in one place, as well as giving an overview of key actions already taken. Policy and supervisory teams were combined into single sector facing teams some time ago and therefore it is a logical step to now have single sector priority communications. As noted in the Executive Summary, these new reports replace over 40 supervisory portfolio letters.

There are four core priorities for insurance:

- Improving consumer understanding, claims handling and service quality
- Increasing access to insurance
- Supporting growth and innovation
- Simplifying regulation.

Improving consumer understanding, claims handling and service quality

This topic has been a 'mixed bag' with criticism from consumer group Which? resulting in a super complaint about claims practices in the home and travel sectors. In particular, the confusing way terms and conditions are drafted and the high volume of rejected claims. The FCA found some areas of good practice in the home and travel insurance sectors, although it found weaknesses where claims processes were outsourced, as well as with storm claims and cash settlements. The FCA will continue with its supervision and enforcement of poor practices. It expects firms to monitor consumer outcomes and act where claims and service experience fall below standards.

In the motor sector, the FCA found issues about offering low settlement offers in vehicle total loss claims which will result in some 270,000 consumers receiving compensation.

Under its policy responsibilities, it will publish its approach to implementing the Digital Markets, Competition and Consumer Act 2024. It will also work with the ABI on storm claims and cash settlements.

This section is likely to be of greatest interest to Risk, Compliance and Internal Audit functions. It shows the FCA is still actively assessing consumer outcomes and acting where these are poor. Claims practices are a particular area of focus where barriers, poor communication or poor practices have surfaced. Therefore, firms should continue to monitor meaningful MI, assess consumer outcomes, carry out root cause analysis, and act where required. This is especially the case where claims services are outsourced. Service levels and monitoring should be in place to assess performance and spot issues. Incentives should be reviewed to ensure behaviours align to desired consumer outcomes.

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Increasing access to insurance

The overall theme is increasing access to insurance and taking action to reduce costs and consolidates work from recent market studies. The theme is to close protection gaps that could benefit consumer resilience. For example, the pure protection market study report found 58% of retail consumers do not hold a protection product where they could benefit from increased protection. One of the challenges in this market is ease of consumer access to tailored advice which would require legislative change, a point made in the market study report.

Supporting growth and innovation

This section is less specific and talks to greater use of AI, supporting initiatives through the Sandbox and supporting evolving products like cyber insurance.

Simplifying regulation

The focus on simplifying rules and rationalising data returns will be welcome. The general insurance sector is one with a significant number of detailed rules and returns and an overhaul is long overdue.

Other areas of focus

Notably, a review of Insurers closed book outcomes for retail consumers post the Consumer Duty has been on the agenda for some time. This year will also see a review of child trust funds, financial crime controls, and the effectiveness of rules for funeral plans.

For support with understanding FCA priorities and how they impact your business contact Partner, Richard Barnwell.

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SS5/25 explained: new PRA climate risk expectations for insurers

The PRA's new Supervisory Statement SS5/25 introduced strengthened expectations for how banks and insurers manage climate related risks in December 2025. The framework emphasises proportionality, requiring firms to scale their approaches according to the materiality of climate risks to their business models and financial stability.

Through the Supervisory Statement, the PRA expects firms to carry out a robust risk identification, scenario analysis and internal reviews. While smaller firms may adopt simpler methods, those with greater exposure must deploy more sophisticated tools to ensure effective, credible and compliant climate risk management.

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The Prudential Regulation Authority ("PRA")'s new Supervisory Statement titled "Enhancing banks and insurers' approaches to managing climate-related risks" (SS5/25), sets a more rigorous new basis for climate risk management for insurers. Financial climate-related risk has become a core prudential risk management component.

The most significant shift is the emphasis on proportionality. The PRA expects calibration of climate risk according to the materiality of the risk through a clear process of identification and response with controls for managing the risks.

Materiality is another central concept that relates to the significance of climate-related risks to a firm's business model and financial performance. Insurers must assess the materiality of these risks and the scale their risk management efforts for managing them. Importantly, a double materiality assessment, which considers both impact materiality (how the insurer affects people and the environment) and financial materiality (how sustainability issues affect the company's financial performance), is not required.

SS5/25's expectations apply to all UK insurance and reinsurance firms and the subsidiaries of subsidiaries operating in the UK; however, the expectations do not apply to branches of overseas entities operating in the UK.

How should insurers respond?

Firms must enhance data and scenario-analysis requirements as well as the integration of climate risks into core risk registers and frameworks. This means a more rigorous approach to identifying, assessing and managing climate-related risks, supported by strategies that are robust and well-documented.

Specifically for insurers, climate related risks can drive underwriting, reserving, market, credit, liquidity and operational risks for insurers as well as reputational and litigation risks. These risks may interact and amplify one another, with their impacts increasing over longer time horizons.

Firms should carry out an internal review and a gap analysis of their status in meeting the updated expectations set out in SS5/25 by 3 June 2026.

Evidence of the internal reviews and action plans must be maintained and readily available to supervisors and the PRA may request this evidence. Furthermore, evidence of strategies to address any gaps must be credible and ambitious. Overall, firms should be able to evidence the judgements they make. Smaller firms may use less sophisticated tools if their risk assessment determines that the risk is low, while firms with a greater exposure or risk should use more advanced approaches.

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What is new on climate-related risk management expectations?

SS5/25 refines and broadens the PRA's expectations across multiple dimensions, providing clearer guidance on how firms should manage climate risk.

Moving away from one generic approach, the PRA now expects the implementation of expectations to be proportionate to the potential impact of climate risks on its business model through a clear two-step assessment:

Step 1: Risk identification, assessment and sign-off
The first step for insurers is to identify the material climate risks they are exposed to and their transmission channels. This includes understanding how these risks could impact the firm's financial stability and operations as well as the impacts on the resilience of their business model over the relevant time horizon and under different climate scenarios. In addition, firms must enhance their understand the risks arising from material relationships with clients, counterparties, investees and policyholders, focusing only those relationships that have a material impact on their climate-related risk profile.

Step 2: Appropriate risk management response
The second step is about adopting a proportionate approach to the climate-related risk profile identified in the first step.

The necessity and expectation for firms to use more sophisticated risk management tools will increase as the magnitude and likelihood of material risks to which they are exposed increases. This requirement seeks to ensure appropriate scalations of specific risks faced.

What are the insurance firms required to do?

SS5/25 elaborates what insurers and reinsurers are required to do specifically in relation to risk management and appetite.

Risk Management: Insurers must assess potential financial losses on existing and planned insurance contracts over the next 12 months, including possible impacts on Technical Provisions and assets. Firms with long tail exposures should evaluate losses over longer time horizons. Insurers are also expected to manage non-financial risks, such as reputational and business model risks, across multiple time periods.

Risk Appetite: Insurers should align their risk appetite statements with the way they measure and monitor risks, ensuring effective management of underlying exposures. Where existing risk appetites are affected by climate-related risks, insurers should reflect these impacts in their risk modelling.

Own Risk and Appetite Statement ("ORSA"): As part of effective risk identification, assessment and ongoing risk monitoring, the PRA expects insurers to assess the impact of reasonably foreseeable adverse scenarios, which include material climate related risks, on capital levels within their capital management plans and as part of the ORSA.

Where a firm chooses to accept a material risk, then then ORSA should clearly justify why this decision is appropriate. This should be further informed by the results of the Scenario Analysis as well as the Stress Testing.

How BDO can help our clients?

Our team of climate, risk and regulatory experts can assist you in multiple areas, including:

Gap Analysis against SS5/25: We can identify specific gaps across governance, risk management, climate scenario analysis, data, disclosures and any specific issues, providing you with a clear actionable roadmap for compliance.

Board training: We can deliver training to maintain appropriate Board knowledge, supporting robust governance and decision-making.

Scenario Analysis Frameworks and Model Development: We can assist in identifying, designing, and developing scenarios, building models, setting up associated governance and data frameworks and managing feedback between risk assessments and Climate Scenario Analysis. We can also link bespoke climate-related scenario analysis and stress testing to your firm's strategy and financial reporting and disclosures.

If you would like to find out more about how BDO can help you to better understand and comply with the PRA's new climate risk expectations, please contact Mark Spencer.

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Insurance regulation in an age of uncertainty

The operating environment for financial services firms has rarely felt more complex. Heightened geopolitical tensions, persistent market volatility and rapid technological change are all reshaping risk profiles at speed. At the same time, UK regulators are signalling very clearly that expectations around governance, resilience and accountability are rising – not falling – even as they emphasise proportionality to encourage growth, innovation and competitiveness.

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For boards and senior executives, this creates a delicate balancing act: responding decisively to short term pressures without losing sight of long-term resilience and regulatory readiness. Recent regulatory messaging from both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) offers a clear sense of where supervisory attention is now focused.

Model risk management: expanding scope, rising expectations

Model Risk Management (MRM) has moved decisively up the regulatory agenda. While capital and solvency models remain critical, supervisors are concerned with the wider ecosystem of models used across firms – from financial, through pricing and underwriting to operational, and even HR related decision support.

The challenge in responding to this is the sheer scale and diversity of models now in scope. There is some room for proportionality and phased implementation. Firms will be expected to identify a full 'library' of in-scope models, but should then prioritise their most material models, establishing clear ownership, and ensuring documentation, validation and governance arrangements are fit for purpose.

Crucially, boards are expected to understand where models materially influence outcomes, what limitations exist, and how those risks are being managed. Effective MI and clear escalation routes matter as much as technical sophistication.

Solvent exit planning: doing the hard work in peacetime

Solvent exit planning is not intended as a theoretical exercise. Firms should be well advanced, with plans ready for board approval and capable of being executed at pace if required.

But what differentiates stronger firms is a focus on a small number of genuinely critical actions rather than exhaustive, overly complex plans. Identifying operational, legal and financial barriers early – and resolving them before stress emerges – is where real value lies.

Firms that started early are generally taking more practical, proportionate approaches. Those that delayed are finding the process more demanding, particularly where governance and decision-making frameworks are unclear.

Stress testing and DyGIST: pressure on governance and judgement

For general insurers, the DyGIST exercise represents a significant test of mobilisation and governance capability. Beyond the technical outputs, regulators are paying close attention to how senior management and boards engage with the results.

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Key areas of focus in preparation for the event include the credibility of management actions, the articulation of risk appetite under stress, and the quality of challenge applied to assumptions. Firms should expect stress testing to be a catalyst for deeper board level discussions rather than a compliance only exercise.

Climate risk: from policy to practice

Climate risk expectations continue to evolve, with more detailed guidance under SS5/25 but a consistent emphasis on proportionality. Regulators are clear that climate risk should now be embedded into business-as-usual processes rather than treated as a standalone topic.

This will require integrating climate considerations into ORSA, and whilst data challenges remain, setting and monitoring decarbonisation targets across scopes 1, 2 and 3, and developing more sophisticated scenario analysis and stress testing. The expectation is not perfection, but demonstrable progress, clear governance and credible plans for capability uplift over time.

Operational incident and third-party reporting

New operational incident and third-party reporting requirements set clearer expectations on reporting requirements and will drive greater standardisation across the sector. While this should ultimately improve transparency and comparability, implementation is rarely straightforward and will require firms to have clear oversight of all their third-party arrangements, as well as incident escalation processes.

Firms need close coordination across compliance, legal, operations, technology and risk teams to ensure consistent interpretation and timely reporting. Boards should be confident that thresholds, escalation routes and accountabilities are well understood and tested.

Non-financial misconduct: a cultural inflection point

Perhaps the most significant cultural shift is the FCA's sharpened focus on non-financial misconduct. Serious misconduct – including bullying or harassment – can now clearly constitute a breach of Conduct Rules, even where behaviour occurs outside the workplace, if there is a sufficient workplace link and it meets certain thresholds. This represents a step change in expectations. Firms must be able to demonstrate fair, consistent judgement, robust documentation and effective governance over sensitive decisions. With implementation in September 2026, the message is to prepare early rather than react late.

Innovation, AI and growth - with guardrails

Across all of this, regulators remain supportive of innovation, competition and the responsible use of technologies such as artificial intelligence. The message is not to slow down, but to ensure risks are understood, governed and controlled.
For boards, this means asking the right questions: where technology is being used, what decisions it influences, how risks are mitigated and who is accountable. Strong governance is the enabler of innovation, not a barrier to it.

The bigger picture

The unifying theme across regulatory priorities is clear. In an uncertain world, regulators are looking for firms that combine strategic ambition with disciplined execution; innovation with control; and growth with resilience.

For boards and senior leaders, the challenge is not simply to comply, but to use these regulatory signals as a framework for better decision making. Those that do so will be better placed not just to withstand future shocks, but to compete and grow with confidence.

If you would like support to better understand the PRA priorities and how they impact your firm, please contact Nicola Ball.

04

Investment and Wealth Management

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Key risks and control priorities for 2026

This article is aimed at UK wealth managers, asset managers, and distributors authorised under FCA permissions for managing investments, advising on investments, arranging deals, and managing AIF/UCITS products.

As private markets continue to expand into the wealth space, the FCA is increasingly focused on valuations, liquidity management, product governance, Consumer Duty outcomes, and the robustness of outsourcing and third-party oversight frameworks.

This article highlights the key risks and control considerations for 2026, and the areas where Risk, Compliance, and Internal Audit should prioritise assurance as private-market products reach a broader retail audience.

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Private markets have moved from the fringes of UK wealth management to a central part of many firms' propositions. Private equity, private credit, real assets and semi liquid evergreen structures are no longer reserved solely for institutional investors. They are increasingly reaching high net worth and even mass affluent clients. Regulatory developments such as ELTIF 2.0 have supported this expansion, and demand is growing as investors look for more diversified sources of return.

But as the market opens-up, the FCA's expectations are rising just as quickly. Wider distribution brings sharper scrutiny, with regulators focusing on governance, product oversight and, importantly, evidence that firms are delivering consistently good outcomes under Consumer Duty. Private market structures often involve more subjective valuations, more complex liquidity mechanics and a heavier reliance on third party providers than traditional retail investments. Firms now need to demonstrate that their controls are strong enough to match the complexity.

Four areas deserve attention:

- Valuation
- Liquidity management
- Product governance and suitability, and
- Outsourcing and third-party oversight.

Valuation: navigating the subjectivity of illiquid assets

Valuation risk remains one of the most challenging aspects of private market investing. Without observable market prices, firms often rely on manager assumptions, comparable transactions or external valuers. This creates room for inconsistency and, in some cases, conflicts of interest, especially where valuations determine performance fees or influence liquidity windows.

Across the market we still see gaps such as unclear valuation methodologies, weak challenge in valuation committees, heavy dependence on manager forecasts and an overreliance on third party valuers without sufficient oversight. Strengthening valuation governance remains essential, particularly in line with the FCA's FUND rules. Firms should be able to demonstrate genuine independent challenge, clear decisions around pricing frequency for semi liquid funds and robust assessment of external valuation agents. Valuation integrity continues to sit at the heart of investor confidence and supervisory expectations.

Liquidity management: balancing client expectations and portfolio realities

Semi liquid and evergreen funds have grown rapidly, but they remain firmly within the FCA's category of higher risk for retail clients. The challenge is to align periodic liquidity with inherently illiquid underlying assets.

Common shortcomings include mismatches between redemption policies and asset liquidity, limited stress testing, poor documentation of gating decisions and operational gaps in dealing processes. Misunderstandings among clients, especially around lock ups or delays, remain a source of foreseeable harm.

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The FCA is paying close attention to liquidity management frameworks, the clarity of disclosures and the extent to which firms have genuinely considered client outcomes in stress scenarios. Firms need to show how they would manage these situations in practice, not only in theoretical models. This remains a core expectation under Consumer Duty.

Product governance and suitability: keeping distribution on solid ground

As private markets become a mainstream part of wealth propositions, expectations for product governance continue to rise. The FCA expects firms to clearly define their target markets, provide evidence of strong challenge at product approval and demonstrate that suitability assessments reflect both complexity and illiquidity.

Across the industry there are still gaps. These include poorly defined target markets, adviser capability issues, blurred responsibilities between manufacturers and distributors and limited post sale monitoring. Many firms also struggle to generate meaningful Consumer Duty management information for these products.

Strengthening product governance committees, improving target market definitions, enhancing suitability tools, and monitoring ongoing client outcomes can all help close these gaps. Clearer guidance and training for advisers is also increasingly important. The FCA will continue to assess how Consumer Duty is being embedded throughout the entire product lifecycle, not just at launch.

Outsourcing and third-party oversight: underpinned by FCA's SYSC and operational resilience rules

Private market investing relies on complex value chains involving administrators, custodians, valuation specialists, general partners, transfer agents and data providers. As a result, the FCA's expectations around outsourcing, SYSC 8 and operational resilience apply particularly strongly in this area.

Common weaknesses include incomplete inventories of critical outsourced services, overreliance on assurance reports, weak oversight of sub outsourcing and fragmented ownership of third-party risk. Firms should focus on mapping all critical third parties, improving due diligence, tailoring service level agreements and regularly testing resilience arrangements. Contracts should support transparency, audit rights and effective reporting. The FCA continues to highlight outsourcing as a systemic vulnerability, particularly where products are offered to retail clients.

Key questions for the Board in 2026

Boards and Executive Committees should consider the following questions to assess whether governance and oversight of private-market products are keeping pace with industry and regulatory expectations:

Valuation and transparency

- Are our valuation methodologies clearly documented, consistently applied, and independently challenged?
- How do we demonstrate independent challenge and mitigation of conflicts of interest?

Liquidity management

- Do our liquidity stress tests reflect severe but plausible scenarios and potential foreseeable harm to clients?
- Are our disclosures clear enough for clients to understand redemption constraints?

Product governance and suitability

- Do we have a well-defined target market for each private-market product?
- Do our suitability assessments adequately capture complexity, illiquidity and long investment horizons?

Third-party oversight

- Do we have full visibility of our critical third-party providers and their resilience arrangements?
- Are we satisfied that our third-party resilience arrangements meet FCA expectations?

Accountability

- Do we have clear ownership for each stage of the private market product lifecycle and the key risks associated with it?

These questions help boards evaluate whether their governance and oversight structures are keeping pace with the growing scale and complexity of private-market offerings in wealth management.

If you would like support with your risk and control framework, please contact Partner, Chris Bellairs.

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UK Stewardship Code 2026

The Financial Reporting Council's (FRC) 2026 UK Stewardship Code (the Code) introduces a streamlined, outcome-focused framework for asset owners, asset managers, and service providers. In this article, we outline the key changes introduced by the Code and explain what they mean firms preparing for the new reporting expectations.

Effective since 01 January 2026, the Code is a voluntary framework set by the FRC that defines the principles of effective stewardship for asset managers, asset owners and service providers.

Under the changes, reporting shifts to a dual-component model with fewer principles and greater flexibility. For investment and wealth managers, becoming or remaining a signatory, the Code signals a commitment to responsible investment and ESG integration, while aligning with regulatory expectations and demonstrating meaningful stewardship outcomes, with responsible allocation and oversight of capital to create long-term sustainable value for clients and beneficiaries.

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This marks a shift from the 2020 Code on delivering sustainable benefits for the economy, the environment, and society to a more focused goal of creating value for clients and beneficiaries, while still considering broader economic and environmental factors.

Being a signatory to the Code is an important step for how firms demonstrate commitment to stewardship and responsible investment. In their reporting, firms should continue to consider environmental, social and governance factors as key elements of long-term value creation.

Drivers

The changes are designed to:

- **Simplify reporting:** The 2020 Code was widely seen as complex and burdensome. The Code streamlines the framework by combining and consolidating several principles from the 2020 version. As a result, the number of Principles has been reduced from 12 to six for asset owners and asset managers, and from six to four for service providers.
- **Enhance engagement:** Moving away from prescriptive approach of the 2020 Code, the Code encourages signatories to tell their stewardship story and demonstrate meaningful outcomes through the dual-component reporting.
- **Promote proportionality:** Reporting expectations are tailored to different business models and asset classes, ensuring flexibility for large and small organisations.
- **Align with regulatory frameworks:** The FRC worked with other UK regulators to ensure consistency across financial and pension regulations.

What's new?

Policy and context disclosure

Submitted at least every four years, as opposed to annually, from 2026 onwards. This should:

- Describe the organisation's stewardship policies.
- Outline governance structures supporting stewardship.
- Provide relevant contextual information explaining how these policies are implemented.

Activities and outcomes report

Demonstrates how stewardship principles are applied in practice and the outcomes achieved. This report can be submitted on its own or combined with the Policy and Context Disclosure, and principles may be merged where it improves clarity. Signatories are expected to submit this report annually.

In 2026, all signatories are expected to submit both components. In 2027, the Activities and Outcomes Report will be the only mandatory requirement. The next publication of the Policy and Context Disclosure for existing signatories will be due in 2029, unless there is a material change that would require an earlier publication.

What are the application windows?

Applications from asset managers and service providers are due by 30 April 2026 and from asset owners by 31 May 2026. All other applications are due by 31 October 2026.

The deadline for the next Policy and Context Disclosure under the four-year cycle will be in 2029.

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How to report effectively

- Use the Code to tell your stewardship story. The framework is flexible, allowing firms to describe their activities in a way that reflects their business model, whether outlining second- or third-line work or highlighting initiatives on climate, greenwashing and nature degradation.
- Ensure reporting is balanced, fair, understandable and evidence-based.
- Highlight significant differences across asset classes.
- Consider updating the Policy and Context Disclosure sooner than the four-year cycle if there are material changes.
- Follow the 'how to report' prompts in the Code for the Activities and Outcomes Report, as they set out the FRC's expectations for content.

Action points for current and prospective signatories

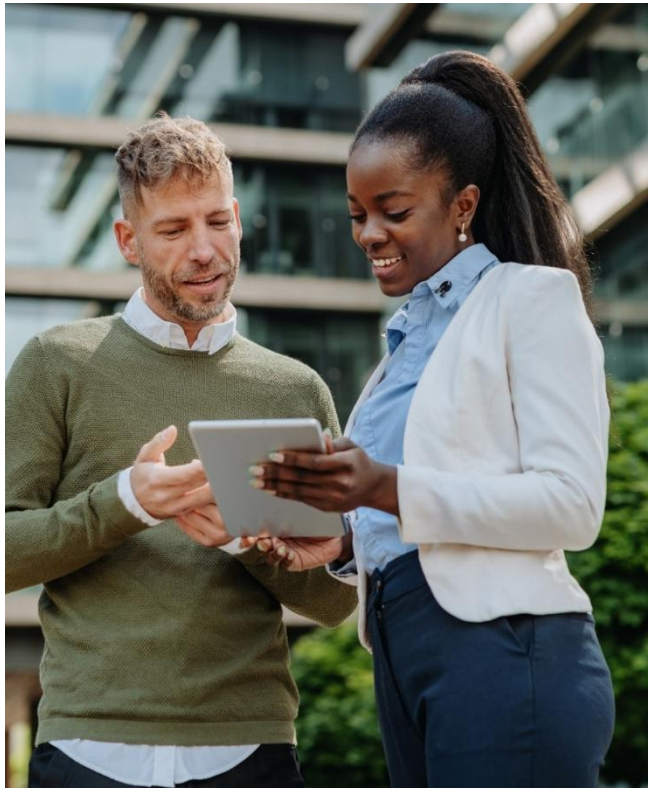
For those who have already been accepted as signatories of the Code or those planning to voluntarily join, key considerations are:

- Review the updated guidance and ensure internal processes are aligned with the 2026 requirements.
- Plan for the 2026 transition year as all firms must submit a report in 2026 and use any FRC feedback to strengthen future reporting.
- Decide on whether to submit the Policy & Context and Activities and Outcomes sections separately or as a combined report. As noted above, from 2027, only the annual Activities and Outcomes Report is required.
- Focus on proportionality to tailor reporting to your business model and strategy. You should consider using second- and third-line functions, or external assurance, to test the accuracy and completeness of reporting.
- Prepare for feedback as the FRC will prioritise support for firms where improvement is needed.
- Monitor outsourcing arrangements as some reporting requirements are mandatory, depending on whether your firm invests directly or outsources to external fund managers. Those investing through outsourcing arrangements will need to monitor and report accordingly under Principle 5 of the Code. Oversight of service providers is a mandatory requirement for both asset owners and asset managers under Principle 6 of the Code.
- Consider global alignment if your organisation reports stewardship activity across multiple jurisdictions. Communicate achievements clearly and demonstrate how stewardship activities deliver long-term value.

How can internal audit teams help?

Signatories should clearly explain how their stewardship policies and processes are reviewed and approved, who is responsible for oversight, and whether assurance is sought internally or through an external provider.

Internal Audit is well placed to review these arrangements, including stewardship policies and procedures, voting practices, and reporting governance. Internal Audit can also conduct a gap analysis against the Code's requirements.



For support with your stewardship, responsible investment, ESG, and wider risk and governance frameworks please contact Partner, Sasha Molodtsov.

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MIFIDPRU returns: FCA review of data quality

In late 2025, the FCA published the results of a data quality review assessing the accuracy, consistency and reliability of a sample of MIFIDPRU regulatory returns. While many firms demonstrated strong reporting standards, some showed recurring weaknesses in governance, controls and interpretation of requirements.

This article summarises the findings which are relevant to all MIFIDPRU firms, their Boards and SMFs responsible for prudential reporting oversight.

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Prudential regulatory reporting is a cornerstone of the FCA's supervisory framework under IFPR. Regulatory returns inform the FCA of firms' capital adequacy, liquidity resilience and potential risk of harm to clients and markets. As the FCA increasingly positions itself as a data-led regulator, the quality of prudential data submitted by firms directly influences supervisory confidence. Data quality weaknesses often point to deeper issues in firms' governance and understanding of the prudential regime.

Overview of FCA findings

The FCA conducted a multi-firm data quality review of MIFIDPRU returns submitted between January 2024 and March 2025. The review included over 323,000 data quality tests across a broad population of 3,800 investment firms.

The FCA observed that approximately 60% of firms passed almost all data quality tests. However, some firms showed persistent or recurring issues, ranging from intermittent inconsistencies to systematic failures.

Areas of good practice

Consistent reporting across time periods
The FCA assessed the plausibility and consistency of firms' quarterly regulatory data against prior submissions. 90% of firms demonstrated a consistent reporting approach over time. This indicates stable reporting processes that support meaningful trend analysis and supervisory assessment.

Cross-validation across returns
K-factor requirements reported in MIF001 must be derived from data submitted in MIF003, which was done accurately by 85% of firms suggesting general confidence in firms' understanding of the requirements.

Areas for improvement

Inconsistent reporting across multiple data sources
The FCA frequently identified material differences between figures reported in MIF007 and respective Internal Capital Adequacy and Risk Assessment ("ICARA") documents, which raises concerns on internal controls and reconciliation processes. While some variance may arise following Board review of the ICARA, data for the same reporting period should remain broadly consistent in the absence of significant business changes.

Inaccurate implementation of guidance
Around 20% of firms were found to have misapplied reporting guidance, most commonly in relation to the Own Funds Threshold Requirement ("OFTR") reported in MIF001. Incorrect reporting of OFTR and its components undermines firms' understanding of their capital needs to cover risks or support an orderly wind-down.

Incorrect reporting of type of investment firm
Firms' classification as Small Non-Interconnected ("SNI") or non-SNI has a direct impact on their regulatory reporting and capital requirements. The FCA identified cases where critical k-factor fields were left blank, resulting in lack of evidence of firms' business volumes and classification.

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Incorrect reporting units and data entry issues
The review highlighted data entry errors, including use of incorrect units and implausible movements between reporting periods. All MIFIDPRU regulatory returns require monetary figures denominated in GBP thousands and consistency of data submitted across multiple quarters and annually.

Why the review matters

The FCA has been clear that poor data quality is not a neutral issue. Inaccurate or inconsistent prudential reporting can obscure early warning signals of financial stress, distort supervisory assessments and delay regulatory intervention. From the regulator's perspective, weak data quality reduces confidence not only in reported figures but also in a firm's broader risk management and governance arrangements.

Repeated reporting errors increase the likelihood of supervisory scrutiny, data quality notifications and potential follow-up reviews. More fundamentally, they may indicate that senior management does not have reliable information to support decision-making around capital, liquidity and risk appetite.

Regulatory expectations going forward

The FCA has indicated that it will increasingly use automated data quality testing and supervisory analytics to identify outliers and trends. Firms should therefore expect greater scrutiny over time across regulatory returns submitted.

Importantly, the FCA views prudential reporting as an output of prudential methodologies and the ICARA. Weaknesses in reporting may reflect issues in regulatory interpretation and the underlying capital and liquidity assessments.

What firms should consider

Firms should use the FCA's review as an opportunity to reassess their prudential reporting framework holistically. Key areas to consider include:

Governance and risk
- Clear accountability for prudential data: Ensure SMFs have defined responsibility for the accuracy, completeness and consistency of regulatory returns
- Effective challenge and oversight: Boards and committees should receive MI that enables them to understand and question prudential metrics, trends, and anomalies
- Alignment with ICARA: Regulatory reporting should be demonstrably consistent with ICARA assumptions, risk assessments and stress testing outputs.

Systems, Controls and Processes
- Robust validation and reconciliation: Implement automated controls, cross-checks between templates and reconciliation to financial and management accounts
- Change impact assessments: Reassess reporting processes following changes in business model, permissions, systems or group structure
- Documentation and audit trails: Maintain clear documentation of methodologies, assumptions and judgements used in prudential reporting.

People and Capability
- Technical competence: Invest in training to ensure staff understand IFPR concepts, not just reporting mechanics
- Adequate resourcing: Ensure reporting responsibilities are appropriately resourced and not overly reliant on single individuals or manual workarounds.

Use of Data as a Management Tool
- Trend analysis and early warning indicators: Use prudential data proactively to identify emerging risks, rather than viewing reporting solely as a compliance obligation
- Integration with capital and liquidity planning: Link reporting outputs to forward-looking assessments and management decision-making.

If you would like support with prudential reporting including K-factor methodologies, assumptions, models, and underlying data please contact Partner, Mads Hannibal.

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FCA review: consolidation in financial advice and wealth management

In October 2025, the FCA published the results of a multi-firm review assessing how acquisitions and integration activity are managed across independent financial advisor (IFA) businesses. While growth through acquisition has helped firms expand their client base and service offerings, ineffectively managed growth brought challenges around compliance, governance, and operations.

In this article, we summarise the key findings and learnings for IFAs, wealth managers, consolidators and groups acquiring or reorganising advisory or discretionary wealth businesses. This is also relevant to any firms involved in acquisitions, and to Boards and/or Senior Management Functions (SMFs) responsible for prudential oversight, governance, and risk management.

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The FCA found that consolidation through acquisitions has increased accelerated across the wealth and asset management sector driven by firms' operational scale ambitions, private equity investment, the need to both maintain client services and while also achieving operational efficiencies.

From their thematic review, the FCA has highlighted risks arising from such growth and provided examples of threats to financial resilience of regulated entities:

- Groups are not prudentially consolidated, or exclude relevant entities from the consolidation which under-represents group risk and limits regulatory oversight
- Debt arrangements at overseas holding companies of groups risk the sustainability of regulated entities by requiring the upward transfer of cash to unregulated parent companies
- Rapid growth has resulted in larger groups with insufficient risk management, governance and compliance capabilities.

Overview of FCA findings

Group debt management
Debt is often used to finance acquisitions and can support growth. However, sometimes equity acquisitions were funded through high leverage, particularly when regulated entities guaranteed or secured group debt. Reliance on goodwill, limited stress testing, and over dependence on intra-group cash flows also created potential vulnerabilities.

Group risk management
Some firms did not fully capture group-wide risks. Overlapping revenue streams, shared clients, and common operations were sometimes omitted from assessments, potentially resulting in insufficient capital or liquidity buffers under stress.

Group structure and approach to consolidation
Dual-parent arrangements, often including offshore holding structures sometimes impeded prudential consolidation despite operational integration. In some cases, goodwill held outside the group overstated balance sheet strength, masking potential vulnerability.

Acquisition and integration approach
Gaps were observed where due diligence was superficial or integration planning lacked structure and resources. This often led to post-acquisition issues such as operational disruption, fragmented advice standards, and inconsistent oversight, increasing prudential and operational risks.

Insufficient resourcing
Failures were noted when growth outpaced resourcing. Inadequate MI, under-resourced risks and compliance functions, and centralised decision-making in unregulated entities reduced resilience and supervisory confidence.

Conflicts management
Some groups offered incentives that could steer clients towards internal products, and mitigation plans were often incomplete or unclear, increasing the risk of client harms and reputational impact.

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Why the review matters

The FCA's thematic review highlights that while acquisitions and consolidation create numerous material risks, it is often regulatory and prudential risks that are not sufficiently addressed by firms. Acquisition and integration reshape balance sheets, expose regulated entities to group level debt, increase operational complexity, and introduce transitional risks around client attrition, revenue fluctuations, compliance, and integration. These factors can affect overall financial resilience.

Supervisors expect firms to demonstrate that these risks are understood, monitored, and managed with frameworks capable of supporting financial and operational stability throughout.

What firms should consider

Firms considering growing through acquisition should re-evaluate their prudential architecture across multiple dimensions. Key areas to consider include:

Organisational structure

- Resourcing within governance and support function roles: Confirm that boards, committees, risk and compliance functions, and MI frameworks are properly scaled and independent, with clarity over decision making and oversight responsibility for regulated entities.

Risk management

- Comprehensive risk mapping beyond business as usual: Assess execution risk, integration risk (including client migration, service disruption, adviser capacity), operational risk from system migrations, and potential for compliance or legacy liability remediation
- Integration planning and execution risk: Treat integration as a prudential event not just an operational task, with project plans, stress tests, resource allocation, contingency plans, and post integration monitoring.

Financial risk assessment

- Balance sheet strength and debt sustainability: Test whether group-level borrowing, leverage, goodwill valuations and debt servicing arrangements remain viable under stress
- Liquidity planning and intra-group cash flow dependencies: Evaluate whether regulated entities might be required to upstream cash to non-regulated parts of the group, or to service group-level debt, and if so, whether liquidity buffers are sufficient
- Capital adequacy under complex group structures: Ensure capital resources sufficiently cover consolidated exposures, interdependencies, and contingent risks arising from integration or group-wide events.

Operations and conduct

- Client outcomes: Monitor the impact of service, proposition and fee changes on client retention, complaints, redress, and potential revenue and reputational risk
- Conflict of interest: Manage risks arising from vertical integration, internal product placement or remuneration incentives, including monitoring, mitigation and independent oversight
- Post-integration monitoring: Build management information capable of capturing early warning signals, tracking performance, client outcomes, and financial stress indicators. Also, link MI to capital, liquidity, and risk planning.

In a well-structured acquisition process, there is a link between all three aspects above to ensure holistic integration and smooth operations post-acquisition. This starts at the planning stage as part of an effective due diligence process.

If you would like support with restructuring, acquisition, or analysing the prudential impact of consolidation please contact Partner, Mads Hannibal.

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Upcoming changes to the MIFIR transaction reporting regime

The FCA's Consultation Paper CP25/32, published in November 2025, proposes the most significant overhaul of the UK MiFIR transaction reporting regime since its introduction in 2018. The proposals aim to reduce industry costs (currently estimated at £493 million annually) by streamlining reporting fields, narrowing instrument scope and removing certain asset classes. They also signal a long-term ambition to harmonise reporting across MiFIR, EMIR and SFTR. A Policy Statement is expected in H2 2026, with an 18-month transition period to full implementation. Internal audit functions should assess the readiness of controls, data governance, reporting architecture and change management plans, ahead of the final rules.

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The UK MiFIR transaction reporting regime has been in force since January 2018 and was onshored into UK law following Brexit. It requires investment firms, trading venues and systematic internalisers to report details of transactions in financial instruments to the FCA, enabling the regulator to detect market abuse, monitor market integrity and support financial crime investigations.

Despite these important objectives, the regime has attracted significant criticism. Compliance is costly and operationally complex. Firms have long highlighted disproportionate burdens, inconsistent definitions across regimes and duplicative requirements, particularly where obligations diverge from equivalent rules in other jurisdictions.

HM Treasury committed to repealing the retained EU law underpinning the current regime and replacing it with a proportionate UK-focussed framework. The FCA published CP25/32 as the first concrete step in delivering on that commitment.

Key Proposals

CP25/32 contains a number of substantive proposals, most of which have been broadly welcomed by industry:

- **Reducing the number of reportable fields**
  The FCA proposes cutting the number of transaction reporting fields from 65 to 52, removing data points that the regulator considers of limited value relative to the compliance burden they impose. The intent is to focus reporting on data the FCA genuinely uses, improving overall data quality.

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- **Narrowing instrument scope**
  Currently, UK firms must report transactions in instruments tradeable on EU trading venues. The FCA proposes limiting scope to instruments tradeable on UK venues only.

- **Removing FX derivatives**
  Foreign exchange derivatives would be removed from the scope of transaction reporting requirements entirely.

- **Shorter back-reporting period**
  The default period for resubmitting incorrect transaction reports would be reduced from five years to three years, cutting the volume of historical reports firms must retrospectively correct by approximately one third. Serious failings may still trigger ad hoc requests up to five years.

- **Streamlined single-sided reporting requirements**
  The proposals include enhancements to single-sided reporting mechanisms, providing greater clarity on when only one party to a transaction is obligated to report — a source of confusion and duplication under the current rules.

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Likely Impact on Firms

1) This is a new regime, rather than just minor tweaks. Firms cannot simply apply the proposed changes as a delta to their existing infrastructure. Reporting logic, field mappings, validation rules and ARM connectivity will all need to be redesigned against a new ruleset.

2) Reduced field count does not mean reduced complexity. The proposals include reducing the number of transaction reporting fields. On paper, this looks like a significant simplification, however, the operational picture is more nuanced. TR is inherently complex due to multiple transaction variables impacting accuracy of reporting. This will not change.

3) Data lineage and ownership will come under greater scrutiny. The direction of travel will increase the regulatory focus on traceability of reported data to source systems and clarity of ownership across the front office, operations and reporting teams. Static data and fragmented data sourcing will multiply today's errors rather than remove them.

4) Control frameworks will need to evolve. Regulatory change requires existing controls to be reviewed and redesigned. The FCA's expectation is that completeness, accuracy and timeliness of transaction reports will improve as a result of these changes. The controls that support these objectives must also be enhanced as a result.

5) Implementation will be a cross-functional exercise. Successful implementation of the new requirements goes beyond a simple programme for the operations or compliance functions only. It will involve the front office, legal, and technology teams. The industry has communicated an expected implementation timeline of 18 months, which provides an indication of the scale of the task at hand.

What should firms be thinking about

- **Understand your current state**
  Review the current state of your firm's transaction reporting framework, covering governance, controls, data quality, reconciliation and the ARM relationship. Understanding existing gaps and control weaknesses will provide an important baseline for assessing the impact of the new rules when they are finalised.

- **Engage with the change programme early**
  Internal audit should seek early engagement with the project or change management team responsible for implementing CP25/32. Understanding the scope, approach and timeline of the implementation programme, and any associated vendor or ARM dependencies, will allow audit to plan its assurance activity effectively and avoid a last-minute scramble ahead of go-live.

- **Assess data quality risks**
  Given the FCA's explicit expectation that fewer, clearer rules will produce higher-quality data, internal audit should consider whether existing data quality monitoring and reporting controls are fit for purpose. Any planned audit activity around transaction reporting should incorporate a focus on accuracy, completeness and timeliness of the remaining fields, not just process compliance.

- **Control Effectiveness and breach management**
  Given the reduced back-reporting window, firms must detect and correct errors more quickly. Internal audit should evaluate the adequacy of pre- and post-submission validations, quality-assurance sampling methodologies, root-cause analysis processes for recurring issues; and escalation and governance mechanisms to ensure swift remediation.

If you would like support with your risk and control framework, please contact Partner, Fiona Raistrick.

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Payments and E-money

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PS25/19: A fundamental reset of complaints reporting

PS25/19, published by the FCA in December 2025, introduces a unified FCA complaints reporting return, replacing multiple sector-specific templates and requiring payments and e money firms to realign systems, data flows and internal taxonomies. The policy expands complaint categories, mandates vulnerability reporting, and sets a fixed six-monthly reporting cycle starting in 2027.

Firms must enhance governance, train staff, and ensure accurate MI, particularly where complaint volumes may trigger public disclosure. Early gap analysis and system updates will be essential.

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The Financial Conduct Authority has published Policy Statement PS25/19, introducing a comprehensive overhaul of the UK complaints reporting regime. While at first glance this may appear to be a technical reporting update, the changes are broader in scope and reflect the FCA's continued focus on data integrity, consumer outcomes and supervisory visibility.

For payment institutions and e-money issuers, PS25/19 is particularly significant. The policy statement reshapes not only how complaints are reported, but also how they are categorised, governed and interpreted internally.

What PS25/19 covers

PS25/19 introduces:

- A single, consolidated complaints return replacing multiple sector-specific returns
- A revised and expanded complaints taxonomy
- New data fields and clearer definitions to improve consistency
- Mandatory identification of complaints involving customers in vulnerable circumstances
- A fixed six-monthly reporting cadence
- Continued publication of complaints data for firms above the reporting threshold.

Collectively, these changes enhance comparability across firms and give the FCA greater insight into harm trends within fast-moving sectors such as payments and e-money.

A unified reporting structure

Historically, payments and e-money firms submitted complaints data under frameworks tailored to their specific permissions. PS25/19 replaces this with a permission-based modular return.

While this simplifies the structure, firms must now ensure that internal data mapping aligns precisely with the new FCA categories. Many firms' complaints registers were built around legacy DISP reporting requirements and may not easily translate into the new format without system reconfiguration.

We are advising clients to:

- Map existing complaint categories against the revised FCA taxonomy
- Identify data gaps or duplicated fields
- Test system outputs well in advance of first submission.

A more granular taxonomy for modern products

The revised taxonomy better reflects today's digital financial services ecosystem. Categories more clearly capture issues linked to digital wallets, remittance services, merchant acquiring, safeguarding arrangements and hybrid business models.

For e-money issuers operating multi-service platforms, careful classification will be essential. Misclassification could distort conduct risk assessments and, in turn, regulatory engagement.

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Board and executive teams should ensure complaints MI remain aligned with regulatory definitions to avoid inconsistencies between internal reporting and FCA submissions.

Vulnerable customer identification – from guidance to data obligation

One of the most consequential aspects of PS25/19 is the requirement to flag complaints involving customers in vulnerable circumstances.

This goes beyond good practice. Firms must now evidence that:

- Staff can recognise vulnerability indicators
- Systems capture vulnerability data in a structured way
- Complaint outcomes reflect appropriate consideration of customer needs.

This will likely require refresher training for frontline and complaints teams, updates to scripts and workflows, and enhancements to case management systems.

Governance, controls and public disclosure

Firms reporting 500 or more complaints in a six-month period will continue to have their data published. For scaling fintechs and payments firms experiencing rapid growth, this creates reputational considerations.

Accuracy, completeness and senior management oversight of complaints data will be critical. We expect boards to take a more active role in reviewing trends, root cause analysis and remediation actions ahead of submission.

Practical actions for 2026

Payments and e-money firms should prioritise:

- A structured gap analysis against PS25/19 requirements
- Systems upgrades and data validation testing
- Updated complaints policies and procedures
- Vulnerability training and documentation
- Strengthened board reporting and regulatory sign-off controls.

Final thoughts

PS25/19 is part of a wider regulatory shift: complaints data is no longer viewed as a backward-looking metric, but as a forward-looking indicator of harm and governance quality.

For payments and e-money firms, early preparation will not only ensure compliance but will strengthen conduct oversight and demonstrate a proactive approach to consumer protection.

If you would like support assessing the impact of PS25/19 on your business model, or further training and insights in recognizing vulnerable customers, please contact Partner, Luke Patterson.

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What the FCA Regulatory Grid means for payments and e-money firms

In this article, we break down the key developments in the FCA's 2025 Regulatory Initiatives Grid and explain what payments and e-money firms need to do now to stay ahead of regulatory expectations.

Firms that proactively align their compliance and operational roadmaps with the Grid will be better positioned to manage risk and maintain competitiveness.

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The FCA's December 2025 Regulatory Initiatives Grid outlines a substantial programme of change for payments, e-money and digital asset firms over the next two years. It highlights major developments including the forthcoming Payments Forward Plan, published in February 2026, strengthened safeguarding expectations, intensified oversight of stablecoins and tokenised payment solutions, and the transition of Open Banking supervision to the FCA. Together, these signal a period of heightened regulatory scrutiny.

The Financial Conduct Authority's (FCA) Regulatory Initiatives Grid, as outlined in the December 2025 edition, provides a detailed roadmap for regulatory changes impacting UK financial services firms, particularly those involved in payments, e-money, and digital assets. This Grid encompasses 124 live initiatives aimed at enhancing financial stability, regulatory efficiency, innovation, and consumer confidence. Within this, the payments and cryptoassets section includes 15 active projects, highlighting several new initiatives not seen in previous editions.

Payments Forward Plan & national payments vision

The Grid underscores the importance of the Payments Forward Plan and the National Payments Vision, which are designed to coordinate reform across the payments ecosystem. This includes retail and wholesale payments, open banking, verification services, and digital assets regulation. For payments firms, this signifies that changes will be interconnected across multiple initiatives.

Reviewing the Grid and the Payments Forward Plan will help firms identify convergence points in supervisory expectations regarding systems standards, interoperability, and consumer outcomes. Early engagement with these developments will provide a competitive advantage.

Evolving safeguarding regime

Although not directly part of the Grid, related FCA policy statements such as PS25/12 on safeguarding reforms for payments and e-money firms reflect the regulator's priorities. These reforms aim to enhance the safeguarding regime to better protect client funds and improve the speed of fund recovery in case of failure. Payments and e-money firms must review their safeguarding models, internal reconciliation controls, liquidity buffers, and operational resiliency measures to meet heightened expectations. Strengthening outsourcing oversight and crisis playbooks is now expected as part of best practice.

Cryptoassets and digital payments

Stablecoins, tokenised payment instruments, and digital settlement technologies are indicated as high on the regulatory agenda. This aligns with the UK's ambition to be a global hub for digital finance. Firms should anticipate intensified FCA engagement on crypto-linked payment solutions, particularly those involving tokenised settlement assets and programmable money. Regulatory requirements will likely focus on resilient custody arrangements, clear consumer disclosures, and robust anti-money-laundering controls.

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Open banking & data sharing

The Grid notes the transition of Open Banking regulatory oversight to the FCA following the disbandment of the Payment Systems Regulator (PSR). This operational change reshapes the governance of data-sharing frameworks. Payments firms must prepare for updated regulatory guidance on open API standards, customer consent frameworks, and third-party data usage. Investment in data architecture and compliance workflows that prioritise interoperability against evolving regulatory thresholds will be crucial.

In summary, the FCA's December 2025 Regulatory Initiatives Grid signals a period of significant evolution for the payments and e-money landscape. Firms should use the Grid to orient strategic planning, prioritise compliance roadmaps, and align product development with anticipated regulatory milestones. Early action on safeguarding, digital assets integration, and open banking governance is crucial for maintaining compliance readiness and competitive positioning.

If you would like support to assess compliance with payments and e-money regulations, safeguarding model reviews, or guidance on digital asset integration please contact Partner, Luke Patterson.

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EMI 2.0: The budget shake up fintechs can't afford to miss

In this article, we examine the advantages of introducing an Enterprise Management Incentive (EMI) scheme in a Fintech company and provides an overview of the recent Budget updates that have brought notable changes to EMI arrangements.

We explain how these reforms affect companies more broadly, with particular focus on their implications for Fintech businesses, which often rely on share-based incentives to attract and retain talent.

We also outline the new opportunities created by the updated rules and discuss how companies can make effective use of these enhancements to strengthen their compensation strategies and support long-term growth.

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The UK Government's 2026 reforms to the Enterprise Management Incentive (EMI) share option scheme represent the most substantial expansion of the regime since it was introduced. The scheme is a UK tax-advantaged share option programme that allows growing companies to grant equity to employees in a highly tax-efficient way. Announced through the Budget in November 2025, the changes become effective from 6 April 2026 [SE1.1]and significantly broaden the scheme's eligibility, increase option and company size limits, and extends the lifespan of the EMI options.

These reforms are particularly impactful for fast-growing financial services and Fintech businesses, many of which had previously outgrown EMI scheme eligibility and have been forced into less tax-efficient alternatives. Understanding the implications is essential for talent strategy, equity planning and long-term retention.

Increased eligibility limits

A central part of the proposed 2026 changes is a dramatic expansion of the companies which qualify to grant EMI options. Historically, Fintech and Financial Services firms (particularly those scaling quickly) often found themselves excluded due to stringent asset thresholds, employee counts, and option values. The updated rules directly address these problems.

From 6 April 2026, the following changes will apply to EMI eligibility and limits:

- The gross assets limit increases from £30 million to £120 million, enabling larger, capital-intensive or regulated financial services businesses to participate
- The employee limit doubles from 250 to 500, a major change for Fintechs that experience rapid headcount growth during expansive periods
- The company-wide EMI option limit doubles from £3 million to £6 million, enabling more substantial grants to broader teams.

These reforms mean that companies previously relying on unapproved options, growth shares, or CSOPs now have a viable path back to EMI.

Impact on fintechs

Fintechs that previously grew too quickly to qualify now have a wider window for EMI participation. This creates renewed opportunities to offer tax-advantaged equity to early employees and staff hired during growth. Fintech companies should consider moving employees back to EMI where possible. This may be possible through the cancelling of less favourable schemes or unapproved options and regranting them as EMI options.

Extending the life of EMI options from 10 to 15 years

One of the most considerable structural changes is the extension of the EMI exercise window from 10 years to 15 years. This update applies to EMI options granted on or after 6 April 2026, and existing EMI options, provided they have not expired or been exercised.

Crucially, HMRC has confirmed that updating existing options to incorporate this extension will not be treated as a surrender and re-grant, meaning the valuable tax advantages of EMI (including income tax and NIC exemptions on exercise) are preserved.

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Why this matters for fintech companies?

Fintechs often operate on longer growth and exit timelines compared to traditional businesses, with delays stemming from a range of factors ranging from regulatory licensing to increased periods between funding events. This resulted in many Fintech employees previously being forced into exercising their rights prematurely, often without liquidity, due to the 10-year rule. The new 15-year period is better suited to modern exit dynamics and gives both companies and employees much needed flexibility.

Impact on fintechs

Fintechs should review and amend existing EMI option agreements now to extend their life to 15 years once permitted. This will reduce employee pressure and improve long term alignment.

Compliance simplification: EMI grant notification requirement removed (2027)

Another noteworthy change, though effective in 2027, relates to compliance and reporting. Currently, EMI options need to be notified to HMRC within strict deadlines to preserve the tax treatment. From 6 April 2027, EMI grants notifications will be removed. This reduces the administrative burden and removes a long-standing shortcoming relating to EMI compliance; the inadvertent loss of tax status due to missed notifications.

Impact on fintechs

High growth fintechs with lean operations and frequent option activity will benefit from reduced compliance risk and simplified processes.

Why EMI reform is a big win for fintech companies?

Fintech companies compete intensely with banks, consulting firms, tech majors, and global platforms for engineering, product, compliance, and commercial talent. EMI has long been the most powerful tax efficient tool for scaling companies, but many fintechs lost access as they grew.

With the new reforms:

- More fintechs qualify. Larger asset bases and employee headcounts no longer disqualify firms.
- Companies can issue more EMI Option. This enables broader and deeper participation across employees and teams.
- Longer option life reduces pressure on employees. This is especially relevant in private markets where liquidity is limited.
- Existing plans can be strengthened. This can be done through retrospective amendments and improved flexibility.
- The incentive landscape becomes more attractive. This supports the retention of key employees who drive regulatory approvals, product launches and growth initiatives.

What can fintech companies do?

- Audit your existing option pool: Identify unapproved, growth share, and CSOP awards which could be migrated back into EMI.
- Review your EMI plan documentation: Prepare to extend your existing EMI options to a life of 15 years and update the plan terms accordingly.
- Re-test the EMI eligibility criteria under the new thresholds: firms who previously failed the size tests for gross assets or employees, may now qualify.

In general, no income tax or national insurance contributions (NIC) liabilities arise on the granting or exercise of market value EMI options. Capital gains tax (CGT) at 24% is payable on the gain on the sale of shares, unless Business Asset Disposal Relief (BADR) rates of 18% from April 2026 apply under specific circumstances. This makes EMI options a very tax advantageous and attractive option to consider in general, and now with the substantive changes which are due to apply from 6 April 2026, it is well worth fintechs revisiting them.

If would like support to understand how EMI reforms affect your business, please contact Director, Veronika Lipinska.

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Navigating FCA authorisation pathways for payments and e-money firms

The FCA has introduced measures to make the UK authorisation process more structured and predictable for fintechs, crypto, payments and e money firms. Early engagement is now available through the Pre Application Support Service, and "Minded to Approve" notices provide conditional feedback to help firms prepare for authorisation. Processing times have shortened, and digital tools are being used to improve efficiency. These changes aim to give firms clearer expectations as they consider entering or expanding in the UK.

In this article, we outline the key FCA authorisation pathways now available to payments and e-money firms, highlighting how recent enhancements, such as PASS, 'Minded to Approve' notices, and faster processing timelines, are shaping a more predictable and supportive UK regulatory journey for firms.

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The UK is positioning itself more assertively than ever as a global leader in financial services innovation—particularly across payments, e money, and crypto. Recent updates shared at the FCA's Gateway to Growth event revealed a regulatory landscape becoming faster, clearer, and more supportive for firms looking to enter or scale within the UK market. For payments and e money institutions (EMIs), several pathways now exist to help secure authorisation efficiently while benefitting from early regulatory engagement.

Pre application support service (PASS): early engagement, zero cost

Perhaps the most transformative development for payments and e money firms is the expansion of the FCA's Pre Application Support Service (PASS). Since April 2025, PASS has been available not only to traditional financial services firms but also to payments, EMIs, and crypto businesses.

PASS offers free, early conversations with FCA case officers—even before a firm is ready to submit an application. This enables firms to:

- Clarify complex legal, policy, or technical issues
- Test propositions before committing significant resources
- Reduce the likelihood of refusal or long stop the clock delays.

For payments and e money providers building innovative customer journeys, addressing safeguarding models, or navigating the Payment Services Regulations 2017 and Electronic Money Regulations 2011 (PSRs/EMRs), this early feedback can materially improve application quality and speed.

"Minded to Approve" notices: support for investment and readiness

The FCA has also leaned into providing conditional, early comfort through its expanding "Minded to Approve" initiative. Over 250 notices were issued in 2025, giving firms an early signal that their application is broadly on the right track.

For payment and EMI founders, investors, or international groups entering the UK, this mechanism supports:

- Funding rounds
- Hiring plans
- Product launch preparation
- Operational readiness.

It's not an approval, but it can unlock momentum.

Faster and more predictable application processing

Payments and e money firms have historically been challenged by unpredictable timelines. Encouragingly, the FCA reported significant operational improvements, sharing that 99.5% of all applications were determined within statutory deadlines in H2 2025.

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Digitisation of forms and clearer “stop the clock” processes mean firms can expect more transparent, predictable journeys, which iscritical for go to market planning and investor alignment.

A human plus tech regulatory model

The FCA emphasised that while AI and digitisation are accelerating processes, human oversight remains central. For payments and e money firms dealing with nuanced risk models—safeguarding, fraud, AML, operational resilience—this balanced approach ensures both speed and quality of regulatory engagement.

Scaling support: from early stage to high growth

Beyond initial authorisation, firms can benefit from:

- Dedicated supervisors within Early & High Growth Supervision
- The new Joint Scale Up Unit with the PRA
- Ongoing specialist input (including crypto and ESG related propositions)

This is especially valuable for high growth fintechs scaling rapidly across Europe or globally.

A stronger, more joined up UK for crypto, payments and EMIs

The broader message is one of alignment. The government, regulators, and industry are working cohesively to build a competitive, innovation friendly environment. With concierge style support for inward investment and a proactive stance on financial innovation, payments and e money firms now have more pathways, and more confidence, to pursue UK growth.

If you would like support in submitting a high-quality authorisation application including FCA ready business plans, safeguarding frameworks, and compliance documentation, please contact Partner, Luke Patterson.

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