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FS ADVISORY

Regulatory Update

May 2025



BDO FS Advisory contact points

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

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

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



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REGULATORY ROUND UP

General

CP25/10 Definition of Capital for FCA Investment Firms

The FCA has issued a [consultation paper](#) proposing to remove all references to the UK Capital Requirements Regulation (CRR) from the definition of regulatory capital for FCA investment firms.

What firms are impacted?

MIFIDPRU investment firms, UK parent entities that are required to comply with MIFIDPRU 3 on the basis of their consolidated situation, and parent undertakings subject to the Group Capital Test.

Summary of the regulatory update:

This consultation aims to simplify and consolidate existing rules, reducing compliance costs and making the framework easier to navigate while maintaining high standards of financial resilience and consumer protection. For context, this consultation forms part of a broader programme to move away from reliance on the UK CRR, ensuring that prudential rules are appropriately tailored to investment firms.

Many UK CRR rules on own funds were designed for banks, making them complex and not fully aligned with the business models of investment firms. As a result, the FCA proposals focus on simplifying rules, removing irrelevant provisions and improving clarity, reducing the volume of legal text by approximately 70%. This will help firms better understand and apply the requirements.

The FCA estimate that this will lower compliance costs and make the framework easier to navigate, therefore reducing firm burden while maintaining the fundamental principles of what constitutes own funds.

Regarding next steps, firms can submit their response via the [online response form](#) on the FCA website.

When does it take effect?

Comments should be submitted on or before 12 June 2025. After reviewing the feedback, the FCA aims to publish final rules in a Policy Statement in H2 2025. Subject to the consultation outcome, the FCA expect the new framework to come into force on 1 January 2026.

What should firms be thinking about?

Firms should review their compliance practices to align with the simplified rules, assess the impact on own funds, and engage with the FCA consultation where necessary to ensure a smooth transition to the new framework.

REGULATORY ROUND UP

General

FCA Simplifies Supervisory Letters

The FCA has [announced](#) changes to how supervisory communications are issued and accessed.

What firms are impacted?

All FCA-regulated firms relying on portfolio letters and Dear CEO letters for supervisory communications.

Summary of the regulatory update:

The FCA is making it easier for firms to find up-to-date supervisory communications on their website. This initiative is part of the FCA's [Consumer Duty Requirements Review](#), where the FCA is streamlining how they set our supervisory priorities to support their commitment to smarter, more effective regulation.

Key changes include:

- The FCA will stop issuing and publishing portfolio letters. Instead, they will publish a small number of market reports. The market reports will include communications relevant to different types of firms and insights from the FCA supervisory work.
- The FCA will also make it easier for firms to find up-to-date supervisory communications on their website by retiring historical portfolio letters and Dear CEO letters. These letters will be clearly marked as 'historical' and no longer current, with a few exceptions. Historical documents will remain publicly accessible at existing links.

When does it take effect?

Changes took effect on 30 April 2025. Market reports will be published later in the year.

What should firms be thinking about?

Firms should familiarise themselves with the new market reports once they are published. They should continue to rely on existing portfolio letters and Dear CEO letters for guidance until the new reports are available.

REGULATORY ROUND UP

General

Rules for Investment Managers to Be Reformed to Support Growth.

The FCA has [announced](#) its proposal to reform the regulatory regime for alternative asset managers in the UK to make it easier for firms to enter the market, grow, compete and innovate.

What firms are impacted?

Alternative asset managers in the UK.

Summary of the regulatory update:

Asset managers are vital to the UK's economy, managing £12.3 trillion in mainstream assets and £2 trillion in alternative assets. The FCA is working to simplify and tailor the regulatory framework for asset managers in the UK, aiming to enhance global operations and effective risk management.

The Government is [consulting](#) on repealing the EU-derived AIFMD legislative requirements, with the FCA considering replacing these with its own rules. Simon Walls, interim executive director of markets, emphasises the need for rules better suited to UK investment managers to boost efficiency, competition, and economic growth. The FCA, in collaboration with the Treasury, is exploring bespoke regimes for investment trusts and venture capital firms.

When does it take effect?

Comments on proposals due by 9 June 2025. Consultation on detailed rules expected in the first half of 2026.

What should firms be thinking about?

Firms should consider how the proposed changes will impact their operations and prepare to adapt to new rules that may enhance efficiency and competitiveness. Engaging with the consultation process and understanding the implications of repealing AIFMD requirements will be crucial.

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General

Primary Market Bulletin 55

The FCA has published the [latest edition](#) of its newsletter for primary market participants.

What firms are impacted?

Fund managers, UK listed companies, issuers of securities, firms involved in preparing annual financial statements in accordance with International Financial Reporting Standards.

Summary of the regulatory update:

Primary Market Bulletin 55 offers feedback on the consultation from PMB 53, finalising 44 technical and procedural notes while deleting one technical note and one procedural note. It also consults on further changes to guidance in the Knowledge Base for the listing regime, following the implementation of the new UK Listing Rules on 29 July 2024.

Proposed amendments to four technical notes are under consultation, alongside updates to Technical Note 507.1 regarding structured digital reporting for annual financial statements. The bulletin highlights finalised rules updating Handbook references to the UK Corporate Governance Code 2024.

The FCA continues to update technical and procedural notes in the Knowledge Base, addressing outstanding items from previous bulletins and consulting on changes to non-sponsor topics. The consultation includes updates to technical notes reflecting recent changes to the listing regime and historical amendments.

When does it take effect?

The consultation regarding updates to Technical Note 507.1 is currently ongoing. While the consultation on changes to non-sponsor topics concluded on 14 March, the FCA aims to finalise the corresponding feedback by July 2025.

What should firms be thinking about?

Firms should review the proposed changes to technical notes and consider how these updates will impact their compliance with the UK Listing Rules. Where necessary, engaging with the consultation process and understanding the implications of the new guidance will be crucial for maintaining regulatory compliance.

REGULATORY ROUND UP

General

CP25/9 Further proposals on product information for Consumer Composite Investments

The FCA has issued a [consultation paper](#) on further proposals on product information for Consumer Composite Investments (CCI).

What firms are impacted?

Any firm that manufactures or distributes a CCI to retail investors in the UK.

Summary of the regulatory update:

The FCA is proposing consequential amendments to the FCA Handbook that result from the replacement of the previous regimes with new CCI rules.

The consultation addresses remaining issues, including:

- a revised approach to transaction cost calculations;
- revisions to cost disclosure requirements under MiFID Org Reg;
- transitional provisions for firms to adapt to the new regime; and
- amendments to the FCA Handbook.

The regime will apply to firms manufacturing or distributing CCIs to retail investors in the UK, covering investments like funds, structured products, insurance-based investments, and derivatives.

The consultation is relevant to consumers, consumer organisations, manufacturers, distributors, advisers, and industry bodies involved with PRIIPs, UCITS, NURS, and non-PRIIP packaged products. The FCA is engaging with stakeholders to address feedback from CP24/30, focusing on costs and charges disclosure, responsibilities between manufacturers and distributors, and enhancing consumer engagement.

When does it take effect?

Comments are invited by 28 May 2025, with a Policy Statement and final rules expected in late 2025.

What should firms be thinking about?

Firms should consider how the new regime will impact their operations and prepare to adapt to changes in transaction cost calculations and disclosure requirements. Engaging with the consultation process and understanding transitional provisions will be crucial for a smooth transition.

REGULATORY ROUND UP

General

FCA: Policy Statement on derivatives trading obligation and post-trade risk reduction services

The FCA [published](#) policy statement (PS25/2) on the derivatives trading obligation and post-trade risk reduction services.

What firms are impacted?

Investment firms and banks dealing in derivatives; Providers of post-trade risk reduction services (PTRRS); Trading venues which admit to trading or trade derivatives.

Summary of the regulatory update:

This Policy Statement sets out the final rules on the classes of secured overnight financing rate overnight index swaps (SOFR OIS) subject to the derivatives trading obligation (DTO) and the framework for post-trade risk reduction services (PTRRS) which allows investment firms to benefit from various exclusions. These changes follow from Consultation Paper [CP24/14](#) and is grounded upon reforms introduced through the Wholesale Markets Review and powers granted under FSMA 2023.

Key changes include:

- Expansion of the DTO - The FCA added SOFR swap tenors (1y-12y) to the mandatory trading list. This decision was based on strong liquidity data as well as the incentive to align with post-LIBOR market practice and US rules.
- Expansion of PTRRS exemptions - Portfolio rebalancing and basis risk optimisation are now exempt from certain MiFIR rules (e.g. transparency and best execution), not just compression services.
- Introduction of PTRRS Notification requirements - Providers must notify the FCA before operating, ensure the service follows a non-discretionary, all-or-nothing model, and is run by a third party. They must publish anonymised, aggregated post-trade data and retain comprehensive records.

When does it take effect?

The changes come into effect on 30 June 2025.

What should firms be thinking about?

Firms should assess how the expanded DTO and PTRRS exemptions impact their operations and compliance strategies. Consider the new notification requirements for PTRRS providers to ensure adherence to FCA guidelines.

REGULATORY ROUND UP

General

TN/409.3 Primary Market Technical Note 409.3: Master-feeder Structures

The FCA has issued [a Primary Market Technical Note on Master-Feeder structures](#), detailing specific requirements under UKLR 11.

What firms are impacted?

Fund managers operating master-feeder structures, issuers of feeder funds listed on the UK stock exchange, and sponsors responsible for verifying the eligibility of new applicant feeder funds.

Summary of the regulatory update:

This technical note aims to guide issuers and practitioners in interpreting UK Listing Rules related to master-feeder structures, ensuring compliance with investment risk spreading requirements.

The note elaborates on how, According to UKLR 11.2.7 R and UKLR 11.4.10 R, a feeder fund can achieve a diversified investment risk by ensuring that:

- the investment policies of the underlying master fund align with its own and promote the spreading of investment risk; and
- the master fund operates in a manner consistent with the feeder fund's investment policy, thereby ensuring the spread of investment risk.

Additionally, the note recognises that feeder funds typically have less direct control over the portfolio than direct investments. However, structures where feeder funds invest directly or hold a majority stake in the master fund require the issuer's investment policy to reflect control over investments.

Sponsors must demonstrate a genuine master-feeder relationship for new applicant feeder funds, distinguishing them from funds holding investments through subsidiaries. If a feeder fund proposes direct investments, it must assess its eligibility under UKLR 11, as the rules apply primarily to issuers investing in a master fund.

What are the key dates/timelines?

The technical note is effective from April 2025.

What should firms be thinking about?

Firms should evaluate their master-feeder structures to ensure compliance with UK Listing Rules, particularly regarding investment risk spreading. They should consider the implications of direct investments and majority stakes in master funds, ensuring their investment policies reflect control over these investments.

REGULATORY ROUND UP

General

FCA: Operational Resilience

The FCA has published [guidance](#) regarding the importance of the operational resilience and requirements for firms.

What firms are impacted?

Banks, building societies, PRA-designated investment firms, insurers, Recognised Investment Exchanges, Enhanced scope Senior Managers and Certification Regime firms, entities authorised and registered under the Payment Services Regulations 2017 and Electronic Money Regulations 2011, and consolidated tape providers.

Summary of the regulatory update:

This notice provides an overview of recent updates made to the FCA Handbook in March 2025. It outlines changes made by four individual instruments, each addressing different regulatory topics ranging from sustainability to short selling. The notice refer to several legal instruments that amend various sections of the Handbook.

The key areas of focus include:

- Requirements regarding mapping and testing important business services, setting impact tolerances, identifying vulnerabilities, and developing communication plans for disruptions.
- Firms must report material operational incidents to the FCA, with specific guidance on reporting cyber incidents and data breaches.
- The guidance also introduces oversight of critical third parties, ensuring their resilience to prevent systemic risks. Proposed new requirements for incident and third-party reporting aim to provide clearer guidance and enhance risk management.
- Firms should consider completing self-assessment questionnaires like CQUEST and ORQUEST to evaluate their cyber and operational resilience capabilities. The CBEST assessment tool is recommended for understanding vulnerabilities and improving cyber resilience.

When does it take effect?

The operational resilience rules took effect on 31 March 2022, with compliance required by 31 March 2025.

What should firms be thinking about?

Firms in-scope should, if not already, focus on mapping and testing their services, setting impact tolerances, identifying vulnerabilities, and preparing communication plans. They should also ensure compliance with reporting requirements and consider the resilience of third-party services.

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FCA: Regulatory Reporting

The FCA has [updated](#) its regulatory reporting requirements for various types of financial firms.

What firms are impacted?

The firms in-scope include banks, insurance companies, investment firms, and mortgage providers.

Summary of the regulatory update:

The publication sets out the range of reports that firms should be submitting to the FCA to comply with their regulatory requirements. These include annual accounts, client asset reports, market data reporting, and transaction reporting, with specific guidelines for each sector to ensure compliance with regulatory standards.

Sector	Regulatory Reports Required
All Firms	Annual accounts and reports Annual controllers reporting Client asset reports Client money and assets reporting Market data reporting Product sales data reporting Reporting complaints Where to submit your returns
Banks	Compliance reporting: banks COREP and FINREP reporting
Financial Advisers	Adviser reporting requirements
Insurance Firms	Reporting requirements: insurance firms Persistency reports: insurance companies
Investment Firms	Transaction reporting Investment Firms Prudential Regime (IFPR)
Mortgage and Home Finance Firms	Mortgage lending and administration return (MLAR) Sale and rent back firms: reporting requirements

When does it take effect?

These reporting requirements are currently in effect.

What should firms be thinking about?

Firms should focus on understanding the updated reporting requirements and ensure they have the systems in place to meet the FCA's compliance standards.

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