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FS ADVISORY

# Regulatory Update

February 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

### Assessing and reducing the risk of Money Laundering Through the Markets (MLTM)

The FCA has published a [report](#) on the results of a thematic review assessing the risk of money laundering through the markets (MLTM).

#### *What firms are impacted?*

Wholesale brokers, investment banks, asset managers, and other market participants operating in the UK capital markets. The review is also relevant for firms involved in transaction monitoring, trade surveillance, and anti-money laundering (AML) compliance functions.

#### *Summary of the regulatory update:*

This report updates the risk assessment of MLTM documented previously in TR19/4 and also presents findings from the current review. Its aim is to assist brokers and other firms operating in the capital markets in improving their controls to meet required standards and to facilitate further discussion across the markets to reduce the threat of MLTM. The FCA posits that, moving forward, a collaborative effort is needed to raise awareness, increase the identification and reporting of suspicions, improve the sharing and review of MLTM information, implement robust systems and controls, and deter future MLTM risks.

Key findings include:

- **Risks and Typologies Seen in Markets:** Case studies outline how methods such as mirror trading, pre-arranged trading, and wash trades allow illicit funds to move through capital markets undetected. Additionally, free-of-payment (FoP) transfers and cross-border transactions have been used to obscure the origins of illicit funds.
- **Inadequate Transaction Monitoring and Surveillance:** Many firms lack effective Transaction Monitoring (TM) and Transaction Surveillance (TS) controls. There is a significant reliance on automated systems with poor calibration, resulting in either excessive false positives or missed suspicious activity. Some firms fail to integrate TM alerts with KYC information, limiting their ability to detect MLTM risks effectively.
- **Weak Governance and Oversight:** Governance structures in several firms do not provide adequate oversight of financial crime risks. Poor documentation, lack of clear accountability, and limited board engagement hinder firms' ability to address MLTM risks proactively.
- **Deficiencies in Suspicious Activity Reporting (SARs):** A significant portion of wholesale brokers have not filed any SARs in the past five years, suggesting either ineffective detection mechanisms or an unwillingness to report suspicions. Firms must ensure that they appropriately document, investigate, and escalate suspicious activity.

#### *When does it take effect?*

The report was published on 23 January 2025.

#### *What should firms be thinking about?*

Firms should reassess their business-wide risk assessments (BWRA) and customer risk assessments (CRA) to identify vulnerabilities related to money laundering through capital markets. Enhancing transaction monitoring (TM) and trade surveillance (TS) systems, improving governance structures, and ensuring staff receive tailored training are critical. Additionally, firms must ensure compliance with regulatory reporting obligations, particularly in the submission of Suspicious Activity Reports (SARs).

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### Portfolio Letter: Wholesale Brokers 2025

The FCA published a [letter](#) to the chief executives of wholesale brokers setting out its new strategy for supervising wholesale brokers,

#### *What firms are impacted?*

Wholesale brokers, clearing brokers (particularly those active in commodities markets). Trading venues and other financial intermediaries interacting with wholesale brokers.

#### *Summary of the regulatory update:*

The letter discusses the FCA's observations over the past two years in relation to prudential risk management, financial crime, remuneration, and non-financial misconduct (NFM).

For the next two years, the FCA has identified four strategic areas which will be the focus of its programme of proactive work:

- **Broker conduct:** the regulator expects firms to have suitable controls in place to detect misconduct and to take appropriate action against those found to be committing misconduct;
- **Culture:** the FCA will use the 2024 NFM survey results for further proactive engagement with the portfolio, with a strong focus on the 'outlier' firms from the survey data;
- **Business oversight:** firms are expected to have effective and comprehensive risk and control oversight frameworks to detect and prevent harm from occurring and penalise undesirable behaviour; and
- **Financial resilience:** the FCA will focus on ensuring that firms which were subject to its liquidity review have acted on the feedback and implemented good practices. More broadly, it will test wholesale brokers' contingency funding plans and frameworks to assess whether firms' plans are adequate for potential liquidity challenges caused by stress events.

#### *When does it take effect?*

By the end of March 2025, all CEOs are expected to have discussed the letter with their fellow directors and/or Board and to have agreed actions and/or next steps.

#### *What should firms be thinking about?*

Firms should assess their current operational resilience frameworks, ensure they can remain within impact tolerances during severe but plausible disruptions, and make necessary investments to strengthen their resilience by the 2025 deadline.

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### FCA response to Government call for regulators to support growth

The FCA has published its [response](#) to the Government's call for regulators to support its mission of growth in the UK's financial services sector.

### *What firms are impacted?*

Wholesale trading firms, mortgage lenders, digital payment providers, financial startups, consumer credit firms, and international financial service firms.

### *Summary of the regulatory update:*

The letter asks for the Prime Minister's backing of the FCA's approach to achieving growth over the next five risk-taking and sets out areas where further Government action could enhance this.

Key themes include:

- **Unlocking capital investment and liquidity:** in addition to the FCA's planned reform of wholesale markets, the FCA wants to go further by accelerating a review of capital requirements for specialised trading firms to improve liquidity.
- **Accelerating digital innovation to enhance productivity:** in pursuance of its 'digital first' ambition, the FCA seeks a UK financial services digital infrastructure plan which will align with the Government's AI plan. The FCA considers that accelerating T+1 adoption and moving to an electronic form of securities will make markets more efficient. In addition to its planned work on open banking and open finance with the Payment Systems Regulator (PSR), the FCA is also considering removing the £100 contactless limit and setting new digital service standards. The FCA believes that Government action on digital identity, enhancing the quality of the Companies House database, and digitisation of court systems could facilitate some of its work.
- **Reducing the regulatory burden:** among other things, the FCA will start to simplify responsible lending and advice rules for mortgages, consult on removing maturing interest-only mortgage and other outdated guidance, and work with the Government to remove overlapping standards, e.g. the Mortgage Charter. The FCA proposes that, with Government support, it could also reduce costs of anti-money laundering (AML) measures by relaxing 'know your customer' requirements on small transactions and could reduce burdens further and faster if the Government is willing to accelerate the work that HMT commenced in 2022 on modernising the Consumer Credit Act (CCA). The FCA will also remove the need for a Consumer Duty Board Champion now that the Duty is in effect.
- **Making it easier for firms to start up and grow:** the FCA proposes to work with HMT to create a legislative framework that enables relevant firms to conduct limited regulated activities with streamlined conditions.
- **Improving exports and inward investment:** to give international investors easier access to the FCA, in addition to establishing a presence in the US, the FCA intends to establish a presence in Asia.
- **Certainty and predictability:** Subject to Supreme Court and other legal timetables, the FCA will provide clarity on motor finance redress in 2025. To prevent further significant FCA-led consumer redress exercises, the FCA is considering reforms to the redress framework which may need legislation. The FCA also asks for acceptance of failures in the interests of pursuing more informed risk-taking, and suggests that metrics for 'tolerable failures' within the overall system could help to support this.

### *When does it take effect?*

The letter was published 16 January 2025.

### *What should firms be thinking about?*

Firms should assess the regulatory changes impacting capital requirements, digital transformation, reduced compliance burdens, and growth opportunities in new markets.

# REGULATORY ROUND UP

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### FCA Response to the Independent Panels' 2023/24 Annual Reports

The FCA has [published](#) its response to the independent panels' 2023/24 annual reports.

#### *What firms are impacted?*

All FCA-regulated firms.

#### *Summary of the regulatory update:*

There are six independent panels covering the interests of consumers, regulated firms and markets with which the FCA is required to consult: the Financial Services Consumer Panel, the Practitioner Panel, the Smaller Business Practitioner Panel, the Markets Practitioner Panel, the Listing Authority Advisory Panel and the Cost Benefit Analysis Panel. Each panel prepares an annual report which includes comments on the FCA's activities. The FCA has prepared a single response to the panels, grouped into two sections: themes raised by all or most of the panels; and specific issues raised by individual panels.

Common themes raised across one or more of the panels include:

- **Consumer Duty:** the FCA should progress work on the realised cost and benefits, provide clear guidance and examples of good and bad practice to support consistent interpretation and implementation, and focus on fair value.
- **Advice Guidance Boundary Review:** differing feedback was received on the AGBR proposals aimed at achieving access to high-quality and affordable support and advice.
- **Pensions value for money:** the FCA should address finding the right level of consumer protection and a reset of risk appetite.
- **AI regulation:** the key is establishing regulatory controls in contrast to the speed at which generative AI capabilities appeared to be emerging.
- **BigTech regulation:** the lack of regulation in this area could present risk of harm from potential price discrimination, competition and data privacy issues.
- **Competitiveness and growth:** it is important for the FCA to retain focus on operationalising the UK's secondary international competitiveness and growth objective (SICGO).
- **ESG:** Firms should familiarise themselves with the International Sustainability Standards Board (ISSB) Standards and consider reporting voluntarily against ISSB Standards before the conclusion of the UK endorsement process. The FCA is encouraged to provide comprehensive guidance on the Sustainable Disclosure Requirements (SDR) regime.

With respect to the FCA's proposals on publicising enforcement investigations, the regulator confirmed that it aims to reach a decision on the proposals by the end of Q1 2025.

#### *When does it take effect?*

The response was published on 9 January 2025.

#### *What should firms be thinking about?*

Firms should strive to stay informed on the above issues, including the latest guidance on the Duty, and developments around emerging AI and BigTech regulations to ensure compliance; gain familiarity with ISSB standards and new guidance on SDR (when released).

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### The FCA and Practitioner Panel Joint Survey for 2025 Launches

The FCA, in collaboration with the Practitioner Panel, launched the [2025 survey](#) to gather feedback from all regulated firms on the FCA's regulatory performance.

#### *What firms are impacted?*

All FCA-regulated firms.

#### *Summary of the regulatory update:*

The survey will be carried out on the FCA's behalf by Verian (formerly known as Kantar Public), an independent social research organisation. This initiative aims to assess the FCA's effectiveness in regulating the financial industry and to identify areas for improvement.

In this update, the FCA also sets out its actions in response to feedback from the 2024 survey. These include:

- Introducing new measures to support growth, including overhauling UK listing rules, reforming retail disclosure regulations, and launching an AI Lab to support innovation.
- Initiating efforts to simplify the FCA Handbook, seeking input on reducing complexity in retail conduct rules and guidance.
- Developing a new firm portal, "My FCA," set to launch in Spring 2025, to facilitate easier data submissions and reviewed regular data returns to ensure relevance.

#### *When does it take effect?*

The survey was launched on 30 January 2025, with results expected to be published in summer 2025.

#### *What should firms be thinking about?*

Firms should consider engaging in the survey to provide the FCA with feedback. After which, firms should stay updated on changes resulting from the survey to anticipate adjustments in compliance and operational strategies, as well as how product offerings may be affected.

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### Notification of certain material changes to a Recognised Collective Investment Scheme/sub-fund(s) subject to the Overseas Funds Regime (OFR)

The FCA has as published a [user guide](#) to assist in notifying material changes to Recognised Collective Investment Schemes under the Overseas Funds Regime (OFR).

#### *What firms are impacted?*

Operators and Fund Management Companies managing Recognised Collective Investment Schemes (CIS) under the Overseas Funds Regime (OFR) in the UK.

#### *Summary of the regulatory update:*

This guide outlines the process for notifying the FCA of certain material changes to Recognised Collective Investment Schemes (CIS) or sub-funds under the Overseas Funds Regime (OFR).

Firms must notify the FCA of key changes, including alterations to fund names, legal structures, investment objectives, and target investors, among other events.

If multiple changes occur on different dates, firms must submit separate notifications; if changes are on the same date, only one form is required. The notification is made through the FCA's Connect system, which is optimized for use with Chrome. Specific changes that must be notified via Connect include changes to the fund's name, investment strategy, performance benchmark, and operator, as well as any event that could negatively impact UK investors. Other events, such as breaches of FSMA requirements or suspension of fund dealings, should be reported via email to the FCA. The process ensures that the FCA is kept informed about significant changes to funds recognised under the OFR, maintaining regulatory transparency and protecting investors.

#### *When does it take effect?*

Notifications should be submitted as changes occur, with immediate effect from the date of the relevant change.

#### *What should firms be thinking about?*

Relevant firms should ensure they promptly notify the FCA of any material changes to their Recognised CIS, using the correct channels, and stay updated on regulatory requirements to avoid delays or non-compliance.

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### FCA Adaptation Report 2025

The FCA has published its [Adaptation Report](#), prepared following an invitation by the Department for Environment, Food and Rural Affairs (DEFRA).

#### *What firms are impacted?*

Banks, insurers, asset managers, and investment firms, particularly those involved in lending, insurance underwriting, and investment decisions affected by climate risk.

#### *Summary of the regulatory update:*

The report highlights three major issues affecting climate change adaptation in the financial services industry. These include:

- data and modelling for climate risks;
- barriers and enablers to insurance underwriting for climate risks and in consequence lending and investment; and
- barriers and enablers to financial services in allocating capital to adaptation.

This report is based on the FCA's informal engagement with firms and its understanding of market dynamics. It is not a comprehensive assessment and is not intended to set out regulatory expectations for firms.

#### *When does it take effect?*

The report was published on 28 January 2025. The FCA will continue working with financial firms to integrate adaptation into risk frameworks in alignment with climate reporting standards expected in 2025.

#### *What should firms be thinking about?*

Firms should assess their exposure to climate risks and integrate adaptation into lending, underwriting, and investment strategies.

# ENFORCEMENT ACTION IN JANUARY 2025

## Enforcement Action

Below is an overview of the enforcement action taken by the FCA in January 2025 and the breaches which resulted in the action taking place.

Overview of enforcement action	Breaches	Fine / Penalty
Infinox Capital Limited has received a financial penalty from the FCA, due to failure to submit any transaction reports to the FCA by close of the following working day, or at all, in relation to transactions undertaken by its single-stock CFD desk through one of its corporate brokerage accounts. This resulted in Infinox failing to submit 46,053 transaction reports between 01 October 2022 and 31 March 2023.	Breaches of Article 26(1) of MiFIR related to a failure to report transactions in the trading firm sector.	Financial penalty of £99,200 imposed and <a href="#">Final Notice</a> issued.
Arian Financial LLP has received a financial penalty from the FCA due to having inadequate systems and controls to identify and mitigate the risk of being used to facilitate fraudulent trading and money laundering and it did not exercise due skill, care and diligence in applying its AML policies and procedures. The failures occurred between 29 January 2015 and 29 September 2015.	Breaches of PRIN 2 and PRIN 3 related to the risk of financial crime in the trading firm sector.	Financial penalty of £288,962.53 imposed and <a href="#">Final Notice</a> issued.

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