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FS ADVISORY

Regulatory Update

June 2025

BDO

BDO FS Advisory contact points

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

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

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

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REGULATORY ROUND UP

General

FCA: Review into smaller asset management firms finds most are meeting expectations

The FCA has published the findings of its review of smaller asset managers and alternatives business models.

What firms are impacted?

Asset management firms and alternatives business models with AUM<£1 billion.

Summary of the regulatory update:

The review was part of the FCA's plans to focus on smaller firms to identify business models posing greater risks of harm to consumers as part of its 2022 alternatives supervision strategy. It covered 410 firms managing approximately £220 billion in assets. The findings focus on three areas: (i) High-risk investments (HRIs); (ii) Conflicts of interest; and (iii) The Consumer Duty

- In terms of HRIs, most firms were found to have clear categorisation processes for their products, but some lacked sufficient procedures to ensure HRIs are sold appropriately.
- Regarding conflicts of interest, while some firms demonstrated good practices, many had ineffective arrangements, particularly where senior staff held multiple roles.
- The Consumer Duty findings showed that most firms are progressing well in embedding the Duty, but some smaller firms need to better understand its application to their business models.

The review aims to help new market entrants, smaller firms, and growing organisations benchmark sound risk management practices and understand regulatory expectations. The FCA is working with firms needing improvement and will continue monitoring their conduct.

When does it take effect?
The review was first published and last updated on 8 May 2025.

What should firms be thinking about?
Firms in-scope should focus on strengthening their processes for managing high-risk investments, conflicts of interest, and embedding the Consumer Duty in their business models.

REGULATORY ROUND UP

General

FCA: PS25/4 Investment research payment optionality for fund managers

The FCA published a Policy Statement (PS25/4) concerning finalised rules, which in essence, extends the option for institutional investors to combine payments for research and trading services to pooled funds.

What firms are impacted?

UK UCITS management companies, Full-scope UK AIFMs, Small authorised UK AIFMs, and Residual collective investment scheme (CIS) operators.

Summary of the regulatory update:

PS25/4 outlines the FCA's final policy allowing UK fund managers to use a new joint payment option to pay for investment research and execution services together — a shift from the MiFID II unbundling rules that required these to be paid separately. This new flexibility is intended to improve competition in the market, especially for smaller fund managers, and make it easier for firms to buy research across borders where bundled payments are standard practice. The new rules help UK markets to be more efficient to support growth.

The joint payment model will coexist with existing options — paying from the firm's own resources or via a Research Payment Account (RPA). Firms choosing the new option must implement a set of guardrails, including:

- Establishing written policies,
- Setting and disclosing research budgets (at the fund or strategy level),
- Allocating costs fairly,
- Assessing research value per fund, and
- Ensuring disclosures to unitholders.

The FCA also finalised amendments to disclosure requirements and minor non-monetary benefits. For example, short-term trading commentary is now permitted as an acceptable benefit, but rules allowing free research on small-cap companies have been deleted.

Crucially, the FCA views the adoption of joint payments as a significant change for authorised funds — triggering a requirement to notify unitholders and the FCA prior to implementation. The final policy reflects feedback from industry stakeholders and maintains robust governance standards while improving flexibility.

When does it take effect?
Rules are effective from 9 May 2025

What should firms be thinking about?
Firms should assess whether adopting the joint payment option enhances operational efficiency and aligns with their fund governance, value assessment, and disclosure obligations.

REGULATORY ROUND UP

General
FCA: Welcome statement supporting faster settlement of trades in funds
The FCA published a statement welcoming the joint industry statement by the Investment Association, Personal Investment Management & Financial Advice Association, and Alternative Investment Management Association supporting the faster settlement of trades in funds.
What firms are impacted? Authorised fund managers and recognised scheme operators.
Summary of the regulatory update: This purpose of the publication is for the FCA to build upon the joint industry supporting faster settlement for trades in UK funds. This move aligns with the broader market-wide shift to T+1 settlement for listed stocks and bonds in the UK, Switzerland, and EU, set to take effect on 11 October 2027. Currently, UK funds—particularly those investing in stocks and bonds—settle trades on a T+3 or even T+4 basis. The FCA notes that a growing divergence between underlying market settlement (T+1) and fund unit settlement (T+3/T+4) poses risks to efficiency, liquidity, and investor fairness. While acknowledging that operational constraints may make full T+1 settlement unfeasible for some funds, the FCA is urging a move to T+2 settlement for fund units where feasible. This recommendation particularly applies to funds investing mainly in markets adopting T+1, and is linked to the Consumer Duty, which mandates firms to support consumers in achieving their financial objectives. The FCA expects firms operating on T+4 settlement cycles to reassess investor harm arising from delayed access to funds and mismatched execution cycles. In future, firms will need robust, evidence-based justifications for any settlement period beyond T+2. The FCA encourages early planning and operational adjustments throughout the value chain, including fund administrators, transfer agents, and platforms, to accommodate the shift by 2027.
When does it take effect? The change to T+1 settlement for listed stocks and bonds takes effect on 11 October 2027. Target date for T+2 settlement of fund units is October 2027 as well.
What should firms be thinking about? Firms should monitor changes in fund settlement standards to identify any indirect effects on liquidity management, custody services, or client reporting obligations for institutional clients accessing UK funds via the bank. While impact is minimal, awareness of timelines supports effective client communication and coordination.

REGULATORY ROUND UP

General
FCA: Response to the Government's Pension Investment Review
The FCA has responded to the Government's Pension Investment Review by emphasizing its commitment to ensuring consumers receive good value from their pension savings through the introduction of a value for money (VFM) framework.
What firms are impacted? Firms involved in the pension market, specifically those dealing with contract-based and trust-based pension schemes.
Summary of the regulatory update: The FCA aims to ensure consumers receive good value from their pension savings, which is central to their efforts in developing a value for money (VFM) framework. Last year, the FCA consulted on a VFM framework, including proposals for asset allocation data disclosure. The FCA plans to contact relevant firms later this year, requesting data in early 2026 to better understand firms' approaches to asset allocation and refine their proposed rules. Collaboration with the Government and The Pensions Regulator (TPR) is ongoing to align proposals across the contract-based and trust-based pension market sectors.
When does it take effect? The FCA plans to contact firms later in 2025, firms are expected to provide data in early 2026.
What should firms be thinking about? In-scope firms should start preparing to provide detailed asset allocation data to comply with the upcoming FCA requests.

REGULATORY ROUND UP

General

FCA: Updates to Requirements, Limitations and Directions

The FCA announced that they are reviewing and updating the requirements, directions and limitations applied to over 9,000 firms.

What firms are impacted?

All FCA-regulated Firms.

Summary of the regulatory update:
This work by the FCA aims to ensure that the data the FCA holds is accurate, consistent, up-to-date, and reflects the current regulatory language, legislative changes, and firms' business models.

This initiative follows a review that found many data entries were outdated, had been superseded, or contained minor errors. For example, some requirements may reference old legislation or outdated firm structures. The FCA will now begin correcting these issues to improve regulatory efficiency, transparency, and the integrity of the Financial Services Register.

Two types of updates are planned:

- Immaterial changes (e.g., correcting clerical errors or updating language): These will be applied automatically.
- Substantive changes (e.g., removing or modifying significant conditions): Firms will be contacted directly, and changes will be coordinated with them.

When does it take effect?
Updates have begun since May 2025, and is being rolling out over the following months.

What should firms be thinking about?

Firms with any FCA-imposed requirements, limitations, or directions should be ready for potential updates or discussions with the FCA. Although, no immediate action is needed unless contacted.

REGULATORY ROUND UP

General

FCA: Responsibilities and how to oversee your appointed representatives

The FCA has published an updated version of its guidance on the responsibilities and how to oversee appointed representatives (ARs).

What firms are impacted?

All FCA-authorised firms acting as Principals.

Summary of the regulatory update:

The guidance sets out the FCA's expectations for principal firms in relation to their responsibilities as a principal firm overseeing an AR.

Principals must:

- Formalise AR relationships with written agreements clearly defining permitted activities.
- Screen ARs thoroughly, ensuring their fitness and propriety.
- Submit FCA notifications, at least 30 days before appointing (or changing) an AR
- Monitor ARs continuously—conducting regular reviews, maintaining systems/resources, and supervising senior management.
- Verify compliance via annual self-assessments and AR-specific reviews, embedding Consumer Duty considerations.
- Gather and report data annually on ARs' complaints and revenues (REP025 format).
- Maintain PI insurance and financial resources covering AR activities, including offboarding scenarios.
- Plan for orderly termination of non-compliant ARs, including consumer protection and winding down business.

The FCA also highlights enhanced monitoring mechanisms—like mystery shopping, in-person visits, continual MI checks, and governance escalation. Reviewing AR agreements annually and adapting controls when AR business evolves are stressed as key areas

When does it take effect?

The guidance is effective from 7 May 2025

What should firms be thinking about?

Firms with ARs should prioritise establishing robust oversight mechanisms for ARs, ensuring compliance with FCA expectations, and planning for effective management and termination of AR relationships.

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