

IDEAS | PEOPLE | TRUST

FS ADVISORY

Regulatory Update

January 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.



Richard Barnwell
Partner

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



Lynne Cooper
Senior Manager

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



REGULATORY ROUND UP

General

CP24/30: A new product information framework for Consumer Composite Investments

The FCA is consulting on a [new product information regime](#) to help consumers understand the products they are buying while giving firms flexibility to innovate.

What firms are impacted?

All FCA-regulated firms offering or advising on Consumer Composite Investments, including investment funds, insurance-based investment products, and structured products.

Summary of the regulatory update:

This initiative aims to replace the existing, overly prescriptive disclosure requirements with a more flexible regime that prioritizes good consumer outcomes. The goal is to empower consumers to make effective, timely, and well-informed investment decisions by providing information that is clear, concise, and tailored to their needs.

Key Areas of Focus

1. Flexibility and Proportionality

The proposed framework seeks to move away from rigid, standardized disclosures, allowing firms greater flexibility to present information in a manner that best serves their consumers. This approach encourages innovation in communication methods while ensuring that essential information is conveyed effectively.

2. Consumer Empowerment

The new regime encourages firms to consider the specific needs and preferences of their target audiences, facilitating more personalized and meaningful interactions.

3. Alignment with Consumer Duty

The proposed changes are aligned with the FCA's broader Consumer Duty, which emphasizes the importance of delivering good outcomes for consumers. Firms are expected to exercise judgment in their communications, ensuring that information is not only compliant but also genuinely helpful to consumers.

When does it take effect?

The consultation period is open until March 2025, with the new framework expected to be implemented later in 2025.

What should firms be thinking about?

Firms should prepare for a transition to a more flexible disclosure regime, focusing on delivering clear, concise, and consumer-centric information that aids effective decision-making.

REGULATORY ROUND UP

General

CP24/24 The MiFID Organisational Regulation

The FCA has issued a [consultation](#) on restating firm-facing MiFID Org Regulation requirements into the FCA Handbook for continuity and clarity.

What firms are impacted?

MiFID investment firms, optional exemption firms (Article 3), third-country firms, UCITS managers, Residual CIS operators and small AIFMs, Occupational Pension Scheme firms, and Recognised Investment Exchanges (RIEs).

Summary of the regulatory update:

The FCA aims to restate the firm-facing provisions of the MiFID Organisational Regulation (MiFID Org Reg) into its Handbook to ensure continuity and clarity while setting the groundwork for future simplifications and alignment with the UK regulatory framework.

Key Proposals

1. Restatement Approach

- ▶ Retain the current substance of MiFID Org Reg requirements within the FCA Handbook.
- ▶ Align rules with Handbook drafting conventions without altering their scope or application.

2. Specific Changes

- ▶ Amendments to sourcebooks like SYSC, COBS, MAR, REC, and DISP to reflect MiFID Org Reg provisions.
- ▶ Consolidation of provisions, removal of duplications, and streamlining rules for better clarity.
- ▶ Incorporate articles related to conflicts of interest, client order handling, reporting, and best execution into relevant Handbook sections.

3. Future Amendments

- ▶ Chapter 4 discusses opportunities to simplify and rationalize rules derived from MiFID II.
- ▶ Consideration of client categorization, information disclosure, and conflicts of interest rules for future refinements.

When does it take effect?

Consultation responses for Chapters 1-3 are due by 28 February 2025, while Chapter 4 responses are due by 28 March 2025.

What should firms be thinking about?

Firms should review the proposals, assess the impact on business operations, and provide feedback to the FCA on simplification opportunities in Chapter 4.

REGULATORY ROUND UP

General

Sustainability Disclosure and Labelling Regime

The FCA has introduced a [package of measures](#) to improve the trust and transparency of sustainable investment products and reduce greenwashing.

What firms are impacted?

All authorised firms, especially UK asset managers.

Summary of the regulatory update:

The measures include: (i) an anti-greenwashing rule that applies to all FCA-authorized firms that make sustainability-related claims about financial products and services; (ii) investment labels, disclosure, and naming and marketing rules that apply to UK asset managers; and (iii) targeted rules that apply to distributors of investment products to retail investors in the UK.

Key Components of the Regime

1. Anti-Greenwashing Rule

Applicable to all FCA-authorized firms, this rule mandates that any sustainability-related claims about financial products and services must be fair, clear, and not misleading. Firms are expected to review and adjust their marketing materials and disclosures to comply with this standard.

2. Investment Labels

UK asset managers are required to assign specific labels to their investment products, indicating the level and nature of sustainability considerations. This labelling system is designed to help consumers easily identify and compare sustainable investment options.

3. Disclosure Requirements

Firms must provide detailed disclosures at both the entity and product levels. These disclosures should cover aspects such as investment strategies, sustainability objectives, and performance metrics, offering consumers a comprehensive understanding of the sustainability characteristics of their investments.

4. Marketing and Naming Rules

There are restrictions on the use of certain sustainability-related terms in product names and marketing materials. Firms must ensure that such terms accurately reflect the product's sustainability features and are not used in a misleading manner.

When does it take effect?

The regime started since May 2024 onwards, with a phased application through to December 2026.

What should firms be thinking about?

Firms should begin assessing their current product offerings, marketing materials, and disclosure documents to ensure alignment with the new requirements, implement the necessary changes, and establish internal processes to continuously monitor compliance and adapt to any future updates or clarifications.

REGULATORY ROUND UP

General

Operational Resilience

The FCA has published an updated version of its [guidance](#) on operational resilience.

What firms are impacted?

Firms in scope of the FCA's operational resilience rules i.e. banks, building societies, PRA-designated investment firms, insurers, Recognised Investment Exchanges, Enhanced scope SMCR firms, entities authorised and registered under the PSRs 2017 and EMRs 2011, consolidated tape providers.

Summary of the regulatory update:

The FCA established a framework to enhance the operational resilience of financial services firms. The objective is to ensure that firms can effectively prevent, adapt, respond to, recover, and learn from operational disruptions, thereby minimizing harm to consumers and the financial system.

Key Areas of Focus

1. Identification of Important Business Services

Firms are required to identify services that, if disrupted, could cause intolerable harm to consumers or pose a risk to market integrity. This identification is crucial for prioritizing resources and resilience planning.

2. Setting Impact Tolerances

For each important business service, firms must set clear impact tolerances, specifying the maximum acceptable level of disruption. This involves determining thresholds for factors such as downtime and service degradation.

3. Mapping and Testing

Firms should conduct thorough mapping to understand the resources and processes supporting their important business services. Regular testing against severe but plausible scenarios is essential to assess the firm's ability to remain within impact tolerances.

4. Investment in Resilience

Where gaps are identified, firms are expected to invest in enhancing their operational resilience. This may involve upgrading systems, improving processes, or enhancing third-party management.

When does it take effect?

Full compliance, including necessary investments to operate within impact tolerances, is required by March 31, 2025.

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.

REGULATORY ROUND UP

General

Outsourcing and Operational Resilience

The FCA has issued an [updated version of its guidance](#) on outsourcing and operational resilience, outlining its expectations for firms using outsourcing and third-party service providers and the implications for their operational resilience.

What firms are impacted?

All FCA-regulated firms that engage in outsourcing or utilise third-party service providers.

Summary of the regulatory update:

The aim of the guidance is to ensure that firms can prevent, adapt, respond to, recover, and learn from operational disruptions, even when relying on external parties.

Key Areas of Focus

1. Risk Management:

Firms are expected to identify and manage risks associated with outsourcing arrangements. This includes conducting thorough due diligence on third-party providers, assessing their ability to maintain continuity of services, and ensuring they have adequate measures in place to deal with disruptions.

2. Contractual Agreements:

The FCA emphasizes the importance of clear and comprehensive contracts with third-party providers. Contracts should outline the responsibilities of each party, including provisions for data security, compliance with regulatory requirements, and protocols for incident management.

3. Monitoring and Oversight:

Ongoing monitoring of third-party service providers is crucial. Firms should establish governance frameworks that allow for continuous oversight of outsourced functions, ensuring that service levels are maintained and that any issues are promptly addressed.

4. Business Continuity Planning:

Firms must ensure that their business continuity plans incorporate scenarios involving the failure or disruption of third-party services. This includes having contingency plans and exit strategies in place to mitigate the impact of such disruptions on their operations.

When does it take effect?

Firms are expected to have implemented necessary measures to ensure compliance by March 31, 2025.

What should firms be thinking about?

Firms should assess their outsourcing arrangements to ensure they do not compromise operational resilience, implement robust risk management frameworks, and ensure compliance with the upcoming March 2025 deadline.

REGULATORY ROUND UP

General

FCA direction to modify the UK's derivatives trading obligation

The FCA issued a new [direction](#) to modify the UK's Derivatives Trading Obligation (DTO), effective from December 31, 2024.

What firms are impacted?

Firms subject to the UK DTO, including investment firms, trading venues, and market participants engaging in derivatives trading.

Summary of the regulatory update:

The FCA's new direction modifies the UK Derivatives Trading Obligation (DTO) to address the potential market impact of the Temporary Transitional Power (TTP) expiring on 31 December 2024. This step ensures that UK firms can continue trading certain derivatives on EU venues under specific conditions, thereby preventing disruptions and supporting market integrity.

Key Changes

1. Extension of EU Venue Access

The direction allows firms subject to the UK DTO to continue trading certain derivatives on EU trading venues if they meet defined conditions. This aligns with the existing TTP framework and ensures continuity for cross-border trading.

2. Harmonization of Obligations

The modification helps mitigate conflicts between UK and EU derivatives trading obligations, reducing complexity for firms operating across jurisdictions.

3. Support for Market Stability

By maintaining access to EU venues, the FCA aims to avoid fragmentation and promote liquidity in derivatives markets.

When does it take effect?

The new direction takes effect on 1 January 2025.

What should firms be thinking about?

Firms should review the direction, assess trading practices, and ensure compliance with the updated DTO framework.

REGULATORY ROUND UP

General

Complaints and Root Cause Analysis: Good Practice and Areas for Improvement

The FCA has published a [report](#) setting out the results of a targeted and thematic review that it carried out on complaints and root cause analysis, based on a review of practices in 40 firms across a range of sectors

What firms are impacted?

All FCA-regulated firms, particularly those handling complaints from retail customers in various financial sectors.

Summary of the regulatory update:

This guidance supports firms in aligning with regulatory expectations and delivering fair treatment to all customers, including vulnerable groups. The FCA has identified three key areas for improvement: (i) analysing data for different customer types; (ii) assessing and measuring the impact of actions taken; and (iii) taking action based on these insights.

Key Areas of Focus

1. Good Practices Identified

The FCA notes that firms demonstrating effective use of data are better able to identify recurring issues and systemic problems. These firms take proactive actions to address root causes of complaints, preventing their recurrence. They also ensure tailored approaches to support vulnerable customers and communicate clearly with complainants about outcomes and remedial actions.

2. Areas for Improvement

The FCA highlights that some firms inadequately analyse complaint data, missing opportunities to implement systemic improvements. A lack of focus on the experiences of vulnerable customers is also identified as a recurring issue. Many firms tend to address complaints reactively rather than proactively, failing to integrate root cause analysis into their broader operational strategies.

3. Vulnerability Considerations

Firms are urged to pay particular attention to how their complaints processes affect vulnerable customers. This includes ensuring that procedures are accessible and that outcomes are fair and effective for all, especially those in challenging circumstances.

4. Outcome-Oriented Approaches

The FCA encourages firms to focus not only on resolving individual complaints but also on identifying and addressing systemic issues through robust root cause analysis. This approach is designed to prevent similar problems from occurring and enhance customer trust in the complaints process.

When does it take effect?

No specific dates provided; firms are expected to act promptly on this guidance.

What should firms be thinking about?

Firms should enhance data collection and analysis to identify systemic issues, especially for vulnerable customers, and implement effective improvements to resolve complaints and prevent recurrence.

REGULATORY ROUND UP

General

Consumer Duty Board Reports: Good Practice and Areas for Improvement

FCA has published the first annual [Consumer Duty Board Reports](#), which provides an analysis of the first annual reports from 180 firms regarding their compliance with the Consumer Duty, which sets high standards for consumer protection in financial services.

What firms are impacted?

All FCA-regulated firms required to submit Consumer Duty board reports

Summary of the regulatory update:

The objective of the review conducted on 180 firms was to assess how firms monitor and ensure good consumer outcomes, as mandated by the Consumer Duty regulations. The review highlights both exemplary practices and areas requiring enhancement to guide firms in strengthening their governance and oversight mechanisms.

Key Areas of Focus

1. Good Practices Identified

The FCA observed that effective reports are characterized by a clear focus on consumer outcomes, supported by high-quality data that enables comprehensive analysis. Such reports provide insights into different customer segments, ensuring that diverse consumer needs are addressed. Additionally, a well-defined process for report preparation and a firm-wide culture prioritizing consumer interests were noted as hallmarks of good practice.

2. Areas for Improvement

The review identified several common deficiencies. Many firms need to improve data quality to facilitate better monitoring and analysis of consumer outcomes. There is also a need for a more comprehensive view across distribution chains to ensure all parties contribute positively to consumer experiences. Furthermore, some reports lacked in-depth analysis of different customer types, which is essential for identifying and addressing specific consumer needs. The FCA also noted that a stronger emphasis on fostering a consumer-centric culture throughout the organization is necessary.

When does it take effect?

The review was published in December 2024; firms should promptly address the identified areas for improvement.

What should firms be thinking about?

Firms should evaluate current Consumer Duty board reporting practices, enhance data quality and analysis, ensure comprehensive oversight across distribution chains, and foster a culture focused on delivering good consumer outcomes.

REGULATORY ROUND UP

General

PS24/17 Financial Crime Guide Changes

The FCA has published a Policy Statement, [PS24/17](#), addressing feedback from Consultation Paper CP24/9 and outlining final guidance on changes to the Financial Crime Guide.

What firms are impacted?

All firms under FCA financial crime supervision, including those regulated under the Money Laundering Regulations (MLRs), and cryptoasset businesses.

Summary of the regulatory update:

PS24/17 updates the FCA's Financial Crime Guide (FCG) to improve clarity and effectiveness in combatting financial crime across sectors. These revisions align guidance with recent legislative changes, technological advancements, and evolving financial crime risks.

Key Changes

1. Sanctions Guidance

Enhanced clarity on managing sanctions risks, including manual and automated screening. Updates reflect lessons learned from recent geopolitical events, particularly in relation to cryptoassets and payment systems. Additional examples of good and poor practices support firms in refining their controls.

2. Proliferation Financing (PF)

Integration of PF-specific risk assessment requirements, emphasizing compliance under the Money Laundering Regulations (MLRs).

3. Transaction Monitoring (TM)

New guidance highlights proportionate use of technology, including AI, for monitoring transactions. It includes updated examples of good practices for tailoring systems and maintaining strong governance.

4. Cryptoasset Businesses

Clarifies expectations for cryptoasset firms, emphasizing their responsibilities under MLRs for transaction monitoring and sanctions compliance.

5. Consumer Duty Alignment

Reinforces the need for financial crime controls to align with Consumer Duty principles, focusing on delivering good outcomes and avoiding foreseeable harm to retail customers.

6. Consequential Updates:

Includes updates to case studies, terminology, and self-assessment tools. References outdated EU rules were removed, and new links to UK-specific resources were added.

When does it take effect?

Changes took effect on **29 November 2024**.

What should firms be thinking about?

Firms should review the updated FCG, assess compliance gaps, and adapt policies, training, and systems accordingly. Ongoing monitoring and feedback to the FCA will further refine future iterations of the guide.

REGULATORY ROUND UP

General

Handbook Notice No. 124

The FCA has released [Handbook Notice No. 124](#), detailing several significant updates to its Handbook. These cover long-term investment funds, non-equity transparency, critical third parties, pensions dashboard services, and financial crime guidance.

What firms are impacted?

Asset managers and investment firms handling long-term investment funds (LTIFs); Trading venues and firms trading non-equity financial instruments like bonds and derivatives; Critical third parties (CTPs) providing services to financial firms and financial market infrastructures (FMIs); Entities intending to operate pensions dashboard services, pension providers, trustees, and administrators; Regulated firms subject to financial crime obligations, including those dealing with cryptoassets.

Summary of the regulatory update:

These changes aim to enhance market transparency, operational resilience, and consumer protection.

Summary of Changes

1. Long-Term Investment Funds (LTIFs)

The Handbook removes all references to LTIFs following the repeal of the LTIF Regulation. This aligns the regulatory framework with legislative changes and eliminates references to European Economic Area LTIFs.

2. Non-Equity Transparency Regime

The notice establishes a simplified and timely post-trade transparency framework for bonds and certain derivatives. This includes reducing deferrals to improve data availability while maintaining protections for market participants.

3. Critical Third Parties (CTPs)

A new regulatory framework has been introduced to mitigate systemic risks posed by CTPs. This framework grants regulators oversight to ensure the resilience of CTPs and the continuity of services critical to the financial sector.

4. Pensions Dashboard Services

New rules regulate digital interfaces allowing consumers to access and manage their pension information. This framework aims to secure consumer trust while supporting the development of these innovative tools.

5. Financial Crime Guidance Updates

The FCA has updated its Financial Crime Guide to address sanctions, proliferation financing, transaction monitoring, and cryptoasset risks. It also emphasizes compliance with the Consumer Duty.

When does it take effect?

LTIF Amendments: 5 November 2024; Non-equity transparency updates: Phased implementation starting 1 December 2024; Critical third parties framework: 1 January 2025; Pensions dashboard services: 30 November 2024; Financial crime guide updates: 29 November 2024.

What should firms be thinking about?

Firms should review the updates, assess operational impact, and ensure compliance

REGULATORY ROUND UP

General

FCA 2024/50 Handbook Administration (No 72) Instrument 2024

The FCA has published [Handbook Administration \(No 72\) Instrument 2024](#), which makes amendments the Prudential sourcebook for MiFID Investment Firms (MIFIDPRU) in accordance with Annex A to this instrument as well as the Supervision manual (SUP), which is in accordance with Annex B to this instrument.

What firms are impacted?

MiFID investment firms subject to the MIFIDPRU sourcebook, as well as firms under the FCA's supervision with reporting obligations outlined in the SUP manual.

Summary of the regulatory update:

The instrument introduces targeted updates to improve clarity, compliance, and functionality within the Prudential sourcebook for MiFID Investment Firms (MIFIDPRU) and the Supervision manual (SUP). These changes aim to enhance governance, risk management, and regulatory reporting standards across affected firms.

Key Amendments

1. Prudential Sourcebook for MiFID Investment Firms (MIFIDPRU):

Changes include updates to the governance and risk management provisions. Specifically, modifications to the ICARA process address the adequacy of liquid assets, introducing a haircut percentage (55%) for financial instruments with a liquid market as defined under MiFIR. This update ensures firms properly assess and monitor liquid assets in alignment with regulatory expectations.

2. Supervision Manual (SUP):

Updates streamline regulatory reporting requirements under Regulated Activity Group 8. Changes clarify applicable data items for firms, particularly in the reporting of client money and client assets. Adjustments also include aligning reporting templates for firms in different prudential categories, ensuring consistency and reducing ambiguities.

When does it take effect?

This instrument came into force on 20 December 2024.

What should firms be thinking about?

Firms should review the amendments to ensure compliance with updated governance, liquid asset management, and regulatory reporting requirements.

FOR MORE INFORMATION:

Richard Barnwell

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

Lynne Cooper

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

This publication has been carefully prepared, but it has been written in general terms and should be seen as containing broad statements only. This publication should not be used or relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained in this publication without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any responsibility or duty of care in respect of any use of or reliance on this publication, and will deny any liability for any loss arising from any action taken or not taken or decision made by anyone in reliance on this publication or any part of it. Any use of this publication or reliance on it for any purpose or in any context is therefore at your own risk, without any right of recourse against BDO LLP or any of its partners, employees or agents.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO member firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

Copyright © June 2024 BDO LLP. All rights reserved. Published in the UK.

www.bdo.co.uk

XXXXXX

BDO