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FS ADVISORY

Regulatory Update

February 2026

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

Complex Exchange Traded Products – Good Practice and Areas for Improvement

The FCA has published key findings from its multi-firm review of complex exchange traded products (complex ETPs).

What firms are impacted?

Firms that distribute complex ETPs and other complex instruments to retail customers.

Summary of the regulatory update:

Complex ETPs are increasingly accessible to retail customers, often through low-cost digital platforms and execution-only services. However, customers may not always fully understand these products. The FCA therefore launched its multi-firm review into the distribution of complex ETPs in July 2025, the purpose of which was to assess whether distributors offering these products on an execution-only basis are meeting Consumer Duty obligations.

The FCA reviewed a sample of platform and wealth management firms of different sizes, all of which offered complex EPTs to retail customers on an execution-only basis, focussing on how these firms meet the Consumer Duty expectations.

The FCA observed some examples of good practice and areas for improvement, which are summarised in the review. The FCA also identified some key risks, which were as follows:

Products and services – weak target market assessments and poor distribution controls mean consumers outside the target market may have access to products that might not meet their needs, which could lead to poor outcomes. Failure to test consumer knowledge robustly means consumers may not understand the key risks and features of investing in complex ETPs, potentially leading to poor outcomes and significant losses.

Price and value – firms may fall short of what the FCA expects, if they fail to assess all relevant information when determining fair value, or to take timely action when evidence shows products no longer offer fair value.

Consumer understanding – the FCA is concerned about whether firm communications do enough to help consumers understand these products. The FCA observed some weaknesses in cost disclosures, which risk consumers not fully understanding the overall impact of fees on their investment.

Outcomes monitoring and consumer support – without effective, product-specific monitoring and intervention, firms risk failing to identify poor consumer outcomes.

When does it take effect?

The insights from this review have informed ongoing policy work and have helped shape the questions set out in the FCA's recent Discussion Paper (DP25/3) on expanding consumer access to investments.

What should firms be thinking about?

Firms that distribute complex ETPs should review the findings highlighted in the FCA's multi-firm review and consider if any improvements can be made to ensure good customer outcomes.

REGULATORY ROUND UP

General

Explanatory Statement Under Article 28a(9) Markets in Financial Instruments Regulation (600/2014) (UK MiFIR) Relating to the Financial Conduct Authority (FCA) Direction on the Derivatives Trading Obligation (DTO).

THE FCA has published an explanatory statement under Article 28a(9) of UK MiFIR.

What firms are impacted?

Firms in scope of UK MiFIR derivatives trading obligations.

Summary of the regulatory update:

In December 2024, the FCA issued a new direction under Article 28a of UK MiFIR, to modify the UK derivatives trading obligation (DTO), replacing the expiring transitional direction.

The direction allows firms subject to the UK DTO, trading with, or on behalf of, EU clients subject to the EU DTO, to execute those trades on EU trading venues - provided certain conditions are met.

Under Article 28a(9), the FCA must publish a statement after each 6-month period explaining why the conditions under Article 28a(1)(a) and (b) continue to be met to extend it for a further 6 months. This statement covers the 6-month period to 30 June 2026.

The FCA has concluded that the direction remains in effect because both conditions in Article 28a(1)(a) and (b) continue to be satisfied i.e. the ongoing need to prevent or mitigate market disruption for market participants caught by a conflict of law between the EU and UK DTOs and continues to advance the FCA's operational objectives under section 1B(3) of FSMA.

When does it take effect?
The direction will remain in place for a further six months (to 30 June 2026). A further review will be conducted at the conclusion of the next 6-month period.

What should firms be thinking about?
Firms in scope of UK MiFIR DTO should ensure that where they execute those trades on EU trading venues, that they ensure the relevant conditions continue to be met.

REGULATORY ROUND UP

General

Memorandum of Understanding between the FCA, Bank of England, PRA and the European Supervisory Authorities

The European Banking Authority, European Insurance and Occupational Pensions Authority, European Securities and Markets Authority, and the Bank of England, PRA and FCA have signed a memorandum of understanding to facilitate cooperation on oversight of critical ICT third-party providers under DORA (Digital Operational Resilience Act).

What firms are impacted?

Firms subject to DORA.

Summary of the regulatory update:

The MoU establishes structured and formalised mechanisms for information-sharing, coordinated supervisory engagement, and greater alignment of oversight activities between the relevant authorities. In practice, this is intended to support more efficient supervision of cross-border ICT risks, reduce duplication, and promote a common understanding of emerging vulnerabilities associated with critical third-party providers.

The practical implications include:

- **A greater likelihood that supervisory findings related to ICT providers will be shared across jurisdictions**, particularly where issues have cross-border relevance or affect multiple supervised entities. This may include assessments of operational resilience, incident learnings, or concerns arising from thematic reviews or provider-specific engagements.
- **Increased scrutiny of ICT providers used by multiple entities within the same banking group**, as supervisors are better positioned to identify group-wide dependencies and correlated risks. This is likely to drive more holistic assessments of concentration risk and reduce the scope for firms to manage supervisory interactions on a purely local basis.
- **More consistent supervisory expectations around concentration risk, exit planning, and resilience testing**, as alignment between EU and UK authorities limits divergence in regulatory focus and interpretation. Over time, this may translate into more standardised data requests, methodologies, and benchmarks for assessing ICT-related operational resilience.
- **Reduced scope for regulatory fragmentation between EU and UK authorities**, lowering the risk of conflicting supervisory messages or duplicative remediation requirements. This should support a more coherent supervisory approach to shared ICT risks, particularly for firms operating complex cross-border structures.

Although the MoU is formally addressed to regulators, it indirectly increases expectations on firms. In particular, firms are likely to be expected to maintain a single, coherent and well-evidenced view of ICT risk across jurisdictions, supported by consistent governance, risk assessments, and management information. Fragmented approaches to ICT oversight or jurisdiction-specific narratives are likely to become harder to sustain under more coordinated supervisory scrutiny.

When does it take effect?

Effective immediately.

What should firms be thinking about?

Impacted firms should ensure transparency over critical ICT dependencies and alignment between UK and EU risk management frameworks.

REGULATORY ROUND UP

General

Primary Market Bulletin 61

The Financial Conduct Authority (FCA) has published Primary Market Bulletin 61 (PMB) for primary market participants.

What firms are impacted?

Investment firms, issuers and other market participants.

Summary of the regulatory update:

The FCA has published the latest edition of its newsletter for primary market participants. This edition includes information on the following:

1. Feedback on the FCA's consultation in PMB 58 and confirm that on 19 January 2026, the FCA will (a) finalise 7 procedural notes (PNs) and 39 technical notes (TNs), and (b) delete 7 guidance notes in the FCA Knowledge Base;
2. Consult on proposed changes for the Public Offers and Admissions to Trading Regulations (POATRs) regime to one existing TN;
3. Provide information on forthcoming changes to the FCA's helpdesk service for the Official List; and
4. Highlight that the FCA has removed the form for a sponsor's written confirmation for an initial transaction announcement under UKLR 13.4.11R from the FCA website.

When does it take effect?

N/A. The bulletin was published on 12 January 2026

What should firms be thinking about?

Market participants should read the bulletin, alongside the proposed new technical notes, procedural notes, and notes to be deleted.

REGULATORY ROUND UP

General
CP1/26 Financial Services Compensation Scheme – Management Expenses Levy Limit 2026/27
The FCA and PRA are consulting on proposals for the annual Management Expenses Levy Limit (MELL) for the Financial Services Compensation Scheme (FSCS) for the financial year 2026/27.
What firms are impacted? FCA and PRA authorised firms who fund the FSCS through levies.
Summary of the regulatory update: The FCA and PRA are required to set a limit on the total management expenses that the FSCS can levy on financial services firms. The MELL covers the FSCS's ongoing operating costs, including IT, staff, legal and outsourced and internal claims' handling costs. It does not include compensation costs, which are levied separately and decided by the FSCS. The Consultation Paper proposes to set a MELL of £113 million for 2026/27, consisting of a management expenses budget of £108 million and an unlevied reserve of £5 million. The expenses budget represents an increase of £4.4 million from 2025/26. The proposed MELL would apply from Wednesday 1 April 2026 to Wednesday 31 March 2027.
When does it take effect? The consultation closed on 10 February 2026. Following consideration of the responses, the PRA proposes to issue a policy statement (PS) and the FCA proposes to issue a Handbook Notice so that the final rules can be in place by Wednesday 1 April 2026.
What should firms be thinking about? Firms should consider the impact of the increased MELL on their fees, and factor into forward looking financial projections.

REGULATORY ROUND UP

General

CryptoAssets: Application of the Consumer Duty to Cryptoasset Firms and Application of the FCA Handbook for Regulated Cryptoasset Activities - Part 2

The FCA has issued two Consultation Papers (CPs) related to the Cryptoasset Regime – GC26/2 'Application of the Consumer Duty to Cryptoasset Firms' and CP26/4 'Application of FCA Handbook for Regulated Cryptoasset Activities – Part 2'.

What firms are impacted?

Firms planning to undertake regulated cryptoasset activities.

Summary of the regulatory update:

Application of the Consumer Duty to Cryptoasset Firms:

The FCA wants to develop a competitive and sustainable cryptoasset sector, therefore they are consulting on guidance to help cryptoasset firms effectively apply the Consumer Duty (the Duty) to their regulated activities. The FCA plans to open its gateway for firms to apply for cryptoasset permissions in September 2026.

The guidance explains how firms involved in cryptoasset activities should apply the Duty to ensure they deliver good outcomes for all customers, including those in vulnerable circumstances. It includes examples of good and poor practice and should be read alongside the Final non-Handbook guidance for firms on the Consumer Duty (FG22/5), as well as the previous FCA Guidance for firms on the fair treatment of vulnerable customers (FG21/1).

Application of FCA Handbook for Regulated Cryptoasset Activities - Part 2:

In December 2025, the government introduced legislation to bring certain cryptoasset activities within the FCA's regulatory remit. In recent months, the FCA has consulted on different aspects of the future regulatory regime for cryptoassets as part of its Crypto Roadmap (this includes CP25/14, CP25/15, CP25/25, CP25/40, CP25/41, and CP25/42). This CP should be considered alongside these consultations. This CP includes the FCA's proposals on:

- How the Consumer Duty will apply to cryptoasset firms, supplemented by further non-handbook guidance
- The FCA's approach to Redress and Dispute Resolution (DISP)
- The application of various parts of the Conduct of Business Standards Sourcebook (COBS)
- The use of credit to purchase cryptoassets
- The FCA's approach to Training and Competence
- The FCA's approach to Regulatory Reporting (SUP 16)

When does it take effect?

The FCA is looking for comments on their proposals by 12 March 2026.

What should firms be thinking about?

Firms planning to undertake regulated cryptoasset activities should read the consultation papers to assist with preparation ahead of submitting an application to be regulated by the FCA. Such firms should also consider requesting a pre-application meeting with the FCA.

REGULATORY ROUND UP

General

Review into the long-term impact of AI on Retail Financial Services (the Mills Review)

The FCA has launched a forward-looking review, led by Sheldon Mills, to assess how advanced artificial intelligence could reshape retail financial services, markets and consumer outcomes through to 2030 and beyond. The FCA also notes the interest of the Treasury Select Committee in the FCA's current regulatory approach as part of their recent inquiry and report on artificial intelligence (AI) in financial services.

What firms are impacted?

Regulated firms adopting the use of AI in financial services.

Summary of the regulatory update:

The review builds on the FCA's existing AI work, including its AI Discussion Paper, AI Sprint, AI Lab, AI Live Testing, and Supercharged Sandbox programme, and aims to inform future supervisory expectations and guidance rather than introduce immediate rule changes.

Key features of the FCA's review include:

- Examining how AI technologies may evolve, including more autonomous models. The FCA is exploring how increasingly independent systems could influence decision-making, operational processes, and market dynamics.
- Considering potential impacts on competition, market structure, and UK competitiveness. The review looks at how AI adoption may affect market concentration, barriers to entry, and the global competitiveness of UK financial services.
- Assessing implications for consumers, including fairness, transparency, and exposure to AI-enabled fraud. Attention is on automated decision-making, bias, explainability, and safeguards to protect consumer interests.
- Evaluating how regulatory frameworks may need to adapt. The FCA is considering where current rules may be insufficient and how supervision can evolve to maintain market integrity, operational resilience, and consumer trust.

Overall, the review demonstrates the FCA's proactive, long-term approach to AI, aiming to balance innovation with governance, accountability, and consumer protection.

When does it take effect?

Review ongoing; stakeholder feedback will inform a set of recommendations to be presented to the FCA Board in summer 2026, ahead of publication.

What should firms be thinking about?

Firms should assess how current and planned AI use cases align with evolving FCA expectations on governance, transparency and consumer protection, as highlighted in the Mills Review. It should also ensure that model oversight, data governance and operational resilience arrangements remain robust as AI adoption expands.

REGULATORY ROUND UP

General

Enforcement Watch 1

The FCA has published its first 'Enforcement Watch' newsletter covering insights and themes from their enforcement work.

What firms are impacted?

All regulated firms.

Summary of the regulatory update:

In June 2025, the FCA published its updated Enforcement Guide (ENFG), within which, the FCA amended its publicity policy to achieve greater transparency. The FCA's first edition of Enforcement Watch covers:

- Updated publicity policy in action – under the updated policy, the FCA can:
  - Name firms in exceptional circumstances
  - React to public announcements
  - Announce investigations without naming firms
  - Identify firms carrying out unauthorised business
- Enforcement case priorities – the 23 enforcement operations the FCA has opened since 3 June 2025 cover a wide range of suspected misconduct:
  - 18 operations are investigating regulatory breaches
  - 4 consider criminal and regulatory offences
  - In one, the FCA is only investigating criminal offences
- International partnerships – the FCA works closely with partners across the globe, including law enforcement agencies and regulators. These partnerships support the FCA's work to detect and disrupt crime and misconduct and take enforcement action. In 2026, the FCA will continue to work with international partners to tackle global concerns.

When does it take effect?

The first edition of Enforcement Watch was published on 28 January 2026.

What should firms be thinking about?

Firms can sign up for Enforcement Watch here.

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