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FS ADVISORY

Regulatory Update

May 2026

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

PS26/6 Senior Managers and Certification Regime Review

The FCA has issued a policy statement setting out targeted changes to the SM&CR as part of the first phase of reforms, aimed at making the regime more efficient and proportionate.

What firms are impacted?

All firms subject to the Senior Managers & Certification Regime (SM&CR).

Summary of the regulatory update:

PS26/6 introduces the first phase of reforms to the UK SM&CR, aimed at making the regime more proportionate and operationally efficient, while retaining its core objective of individual accountability.

Key changes that take effect on 24 April 2026 are as follows:

- **Greater flexibility in senior manager approvals ('12-week rule')** - firms now have 12 weeks to submit an SMF application (not obtain approval). Individuals can perform the role while the approval is pending, subject to the conduct rules.
- **Criminal Records Checks** - validity extended from 3 to 6 months. No requirement for repeat checks on intra-group or internal moves.
- **Statements of Responsibilities (SoRs) and Management Responsibilities Maps (MRMs)** - both solo and dual-regulated firms now have up to 6 months to notify the regulator of changes.
- **Certification Regime** - When recertifying individuals as Fit & Proper, emails are sufficient, rather than issuing a paper-based certificate, plus firms can incorporate certification into annual appraisal cycles.
- **Directory of certified and assessed persons** - firms are given 20 days to update most Directory information (up from 7).
- Regulatory references - firms are required to respond to requests for regulatory references from 6 to 4 weeks.

Key changes that take effect on 10 July 2026 are as follows:

- **Prescribed Responsibilities** - a rule change to allow SMF18s at solo-regulated firms to hold any Prescribed Responsibility.
- **Thresholds for becoming an Enhanced SM&CR firm** - a 30% increase in certain Enhanced Firm thresholds will be introduced along with a new 5-year mechanism for threshold increases.
- **Certification Regime** - removal of overlapping multiple certifications.

When does it take effect?

The majority of changes are effective from 24 April 2026. Further changes in respect of reporting/process updates will be introduced on 10 July 2026 and alignment with non-financial misconduct rules will be applicable from 01 September 2026.

What should firms be thinking about?

Firms should review their internal policies and procedures and make updates where necessary. Firms transitioning from Core to Enhanced scope firms should consider the increased thresholds.

REGULATORY ROUND UP

General
Progressing Fund Tokenisation
The FCA has issued a policy statement PS26/7 to support the progression of fund tokenisation in the UK, including guidance on using distributed ledger technology (DLT) for fund registers, a new direct dealing model, and future tokenisation initiatives.
What firms are impacted? Firms operating in the fund management market.
Summary of the regulatory update: PS26/7 sets out the FCA's final rules and guidance on tokenising authorised funds. It enables firms to use DLT within the existing UK fund framework, rather than creating a separate regime. It introduces an optional 'Direct-to-Fund' (D2F) dealing model to simplify fund transactions. PS26/7 brings about the following changes: • **Tokenisation formally integrated into the regulatory framework** - Firms can issue and mange fund units as tokens on DLT. The FCA aims to use existing rules in COLL rather than creating new structures. • **On-chain records can be the 'source of truth'** - DLT records can serve as primary books and records for unit ownership. There is no requirement for a full duplicate off-chain register (if resilience is adequate). • **Public blockchains are permitted** - tokenised funds can be operated on public or private DLT networks (with controls). • **Multi-chain and flexible structures are permitted** - units can exist across multiple blockchains, provided investor rights remain consistent. • **Introduction of D2F dealing model** - Investors can transact directly with the fund (or depositary) rather than via the asset manager. This creates a single-step issuance/redemption process. • **FCA roadmap: tokenisation as strategic priority** - tokenisation is seen as enabling lower costs, broader access, new distribution channels and access to private markets.
When does it take effect? The rules came into force on 30 April 2026. There is no phased implementation or delivery period.
What should firms be thinking about? Fund managers wishing to offer tokenised funds should consider which fund types of the most suitable, the impact it may have on client outcomes, if the firm has the relevant expertise, if tokenisation is within the firm's risk appetite, and the cost of investment.

REGULATORY ROUND UP

General

CP23/13 Cryptoasset Perimeter Guidance

The FCA has published a consultation paper (CP26/13) proposing guidance on the scope of regulated cryptoasset activities under the new Cryptoassets Regulations, which extend the FCA's perimeter from October 2027.

What firms are impacted?

Cryptoasset firms and firms exploring crypto services.

Summary of the regulatory update:

The consultation paper sets out the FCA's proposed perimeter guidance for the UK's new cryptoasset regulatory regime, clarifying which crypto-related activities will require FCA authorisation once the regime goes live in October 2027. The FCA proposes new guidance in PERG (likely PERG 19) to help firms determine whether their activities fall within scope. The guidance explains, what constitutes a regulated cryptoasset activity, when an activity is carried on in the UK, and when FCA authorisation is required.

The consultation clarifies the scope of key new regulated activities, including:

- Issuing qualifying stablecoins
- Safeguarding / custody of cryptoassets
- Operating a cryptoasset trading platform
- Dealing in cryptoassets (principal or agent)
- Arranging deals in cryptoassets
- Arranging staking services

The guidance clarifies when activities are considered carried on 'in the UK', including services provided to UK customers from overseas. The overseas persons exclusion will not apply to many cryptoasset activities, therefore, non-UK firms targeting UK customers may fall within FCA scope.

When does it take effect?

The consultation closes on 3 June 2026. the final perimeter guidance is due to be published in autumn 2026. From September 2026 – February 2027, the FCA authorisation application window is open. The full regime goes live on 25 October 2027.

What should firms be thinking about?

Firms should map current and planned activities against proposed regulated activities and determine if the firm will need FCA authorisation, or a variation of permission.

REGULATORY ROUND UP

General

Joint FCA and ICO Statement on Regulatory Expectations Regarding Firms' Approaches to Vulnerability Related Data

The FCA and ICO have issued a joint statement outlining regulatory expectations for firms on handling vulnerability-related data to support customers in vulnerable circumstances, ensuring good outcomes while complying with data protection laws such as UK GDPR.

What firms are impacted?

All FCA-regulated firms serving retail customers.

Summary of the regulatory update:

This joint FCA/ICO statement provides coordinated regulatory expectations on how firms should collect, use, and share data relating to vulnerable customers, aligning the FCA's Consumer Duty and the ICO's data protection framework.

The key message is that data protection rules are not a barrier to supporting vulnerable customers, but firms must ensure that data use is lawful, proportionate and well-governed.

Key themes arising from the statement are as follows:

Alignment of Consumer Duty and data protection – the statement confirms that firms are expected to actively identify and support customers in vulnerable circumstances to deliver good outcomes. At the same time, firms must comply with core data protection principles.

Collection and use of vulnerability data – firms are expected to identify indicators of vulnerability within their customer base, enable customers to disclose relevant needs and design products, communications and support that respond appropriately. Firms should ensure that it is permissible to process such data, for example if there is a lawful basis, it is proportionate and necessary and it is appropriately governed.

Data sharing across the distribution chain – firms are expected to share relevant vulnerability-related information between manufacturers and distributors where necessary to avoid harm. Data sharing must be carried out in line with ICO data-sharing principles and safeguards.

Monitoring and evidencing outcomes – firms must assess whether vulnerable customers are experiencing outcomes comparable to other customers. Where poorer outcomes are identified, firms are expected to investigate and remediate.

Governance, accountability and controls – the statement reinforces expectations for Data Protection Impact Assessments, appropriate treatment of special category data and clear audit trails and accountability for data usage decisions.

When does it take effect?
N/A – already in effect.

What should firms be thinking about?
Firms should consider how customer vulnerability is identified, recorded and responded to. Additionally, firms should ensure Consumer Duty and GDPR requirements are integrated into policies, DPIAs and controls. Data sharing practices should be reviewed and updated if necessary. Vulnerable customer MI and oversight should be considered and enhanced.

REGULATORY ROUND UP

General

Firms’ customer due diligence process and controls: our findings

The FCA has published a summary of the main findings of its multi-firm review of Customer Due Diligence (CDD), Enhanced Due Diligence (EDD) and ongoing due diligence controls.

What firms are impacted?

All FCA-authorised or registered firms subject to AML obligations.

Summary of the regulatory update:

The summary sets out findings with respect to policies and procedures, CDD and EDD processes, and compliance monitoring and audit, as well as the FCA’s expectations for firms in these areas. The key message is that many firms have adequately documented their frameworks, however some firms fail to apply them consistently, or evidence them in practice. Key findings and themes:

<u>Good practice observed:</u>

Policies and procedures - clear differentiation between CDD and EDD, including triggers for enhanced checks. Strong frameworks for identifying PEPs and incorporating recent rule changes.

CDD and EDD processes – risk-based approaches aligning due diligence with customer risk profiles. Clear documentation of EDD steps and senior management approvals.

Compliance monitoring and audit – regular thematic reviews and audit cycles. Use of independent assurance.

<u>Poor practice observed:</u>

Policies and procedures – policies often too high-level, lacking practical guidance for frontline staff. In some cases, firms failed to follow their own policies.

CDD and EDD processes – failure to evidence EDD measures actually undertaken. Missing key information. Weak differentiation between low and high-risk customers. Inconsistent or ineffective periodic reviews.

Compliance monitoring and audit – insufficient detail on quality assurance processes, lack of independence and weak version control and audit trails.

<u>Conclusion:</u>

Across all areas, the FCA’s general conclusion is that firms generally understand AML requirements but struggle with consistent execution, documentation and governance.

When does it take effect?
The findings were published on 8 April 2026.

What should firms be thinking about?
Firms should carry out an independent effectiveness review to ensure CDD/EDD controls are operating as designed. Firms should review the governance and oversight of the frameworks and ensure policies provide practical, actionable direction for staff.

REGULATORY ROUND UP

General

PRIIPS Disclosure: Key Information Documents

The FCA has provided updated guidance on disclosure requirements for packaged retail investment products (PRIIPS), including the preparation and provision of Key Information Documents (KIDs).

What firms are impacted?

Firms that manufacture, distribute, or advise on retail investment products.

Summary of the regulatory update:

The guidance has been updated to reflect a change in legislation, with the PRIIPS KID framework being repealed and replaced by a new Consumer Composite Investments (CCI) regime, with further details available in PS25/20. The key shift is from a prescriptive, standardised KID template to a more flexible, outcome-focused ‘product summary’ regime aligned to the Consumer Duty. The key updates are as follows:

Replacement of PRIIPs KID regime – KIDs will be phased out and replaced with a new ‘product summary’ disclosure.
Introduction of CCI framework – the new regime applies to investments where returns depend on underlying or indirect assets and covers a wide range of retail products, including funds, structured products and derivatives, and insurance-based investment products.
Shift from prescriptive templates to flexible disclosures – the three-page KID format has been removed, and firms can benefit from grater flexibility in the design, structure and presentation of disclosures. However, core information must still be provided (e.g. costs, risks, performance).
Enhanced focus on customer understanding – the new regime emphasises clarity of communication, early provision of information in the customer journey, and ensuring information genuinely supports informed decision-making.
Changes to content metrics and methodologies – key changes in investor disclosures include, clearer and more transparent presentation of costs, expansion of risk indicators from a 1-7 to a 1-10 scale for greater granularity, and greater use of historic performance data where available.
Increased flexibility but stronger governance expectations – firms can tailor disclosures to products and customers; however, they must evidence why disclosures are appropriate, ensure consistency across products, and maintain audit trails supporting judgement.

When does it take effect?

The CCI regime comes into force on 6 April 2026. Full compliance is required by 8 June 2027, allowing a 1-year transition period.

What should firms be thinking about?

Firms should carry out a transition readiness assessment and roadmap. Firms should also consider how they can evidence that disclosures meet Consumer Duty standards and are clear and effective. MI should be gathered to measure whether disclosures actually improve customer understanding an outcomes.

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General

Notification and Disclosure of Net Short Positions and Changes to the UK Short Selling Regime

The FCA has published the updated guidance on the notification and disclosure of net short positions as of 16 April 2026, as well as Policy Statement PS26/5 outlining the final rules and guidance for the UK short selling regime, including position reporting.

What firms are impacted?

Firms engaged in short selling activity in in-scope instruments.

Summary of the regulatory update:

Under the existing UK Short Selling Regulation (UK SSR), firms must notify the FCA privately when net short positions reach 0.2% of issued share capital, plus each 0.1% increment. Firms must also publicly disclose positions at 0.5% or more, including the identity of the position holder. The FCA publishes daily public disclosures of individual firm's positions.

A new short selling regime will apply from 13 July 2026, under the Short Selling Regulations 2025 and PS26/5. Existing rules remain in place until implementation. Key Reforms are as follows:

A strategic shift in transparency model – under this reform, public disclosure of short positions will be abolished. The FCA will instead publish anonymised Aggregate Net Short Positions (ANSPs) by issuer. Firms will still report positions privately to the FCA (threshold unchanged at 0.2%).

Reporting and operational changes – the reporting deadline will be extended to 23:59 on T+1 (from 15:30 T+1). Thresholds are broadly unchanged. The FCA are introducing updated templates, and guidance on issued share capital and group reporting.

Scope changes – UK sovereign CDS are removed from reporting and coverage requirements.

New 'Reportable Shares List' – this will replace the 'exempt shares list'. The FCA will publish a definitive list of in-scope shares.

Market maker exemption reform – instead of an instrument-by-instrument notification, an activity-based notification will be introduced. An annual attestation requirement will also be introduced.

Record Keeping – Mandatory 5-year retention of covering arrangements.

System and reporting enhancements (Phase 2) – bulk submission capability for position reporting will be introduced in November 2026.

When does it take effect?

Phase 1 comes into effect on 13 July 2026 and Phase 2 comes into force on 30 November 2026.

What should firms be thinking about?

Firms should ensure they have a fully resourced implementation programme in place, due to the short preparation window.

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General

Understanding the Advice Market: Financial Advice Firms Survey 2025

The FCA has published the results of its 2025 survey of UK financial advice firms.

What firms are impacted?

Firms that provide pensions and investments advice to retail customers.

Summary of the regulatory update:

The report presents findings from the FCA's 2025 survey of financial advice firms. Alongside other data, it provides an evidence-based view of the sector, business models and capacity.

Key findings from the survey:

- **Market structure**: stable capacity, rising consolidation – the number of advisers (31,000) is broadly unchanged since 2021, although there has been a 15% decline in authorised firms since 2021, which reflects that smaller IFAs are exiting the market, or joining networks.
- **Strong customer trust and perceived value** – 87% of customers say advice is clear, 85% feel confident in advice and 63% would use the same adviser.
- **The 'advice gap' remains the defining issue** – Only 9% of UK adults receive regulated advice. Millions hold cash savings that are not optimally invested and the mass affluent (portfolios <£250K) are underserved.
- **Business model shift: ongoing advice and value scrutiny** – there is an increasing shift to ongoing advice/fee-based models. With this in mind, there is strong FCA focus on evidence of suitability, ongoing service delivery and value for money.
- **Consumer Duty is driving structural change** – FCA expects firms to continue to evidence good outcomes, fair value and customer understanding.
- **Technology and AI** – there is growing investment in automation/RegTech, digital engagement and AI, although adoption is uneven, with larger firms investing more heavily in technology.
- **Talent and diversity constraints** – only 18% of advisers are women, compared to 60% of client relationships involving women. There is an aging adviser population which may result in capacity risk.

When does it take effect?

N/A – firms should consider the findings and how they may impact the firm's future business plans.

What should firms be thinking about?

Firms should consider their growth and client strategy and should ensure they can continue to demonstrate good customer outcomes.

REGULATORY ROUND UP

General

Primary Market Bulletin 62

The FCA has published the latest edition of its Primary Market Bulletin newsletter.

What firms are impacted?

Firms operating in the UK primary markets, particularly listed issuers, sponsor firms, and broker-dealers.

Summary of the regulatory update:

This bulletin provides a multi-theme update on the FCA’s supervisory priorities in UK primary markets, combining the following:

- Enforcement insights (Carillion case)
- Emerging market abuse risks (manipulative investment approaches)
- Feedback on sponsor activity under the reformed UK Listing Rules, along with ongoing prospectus regime reforms.

The bulletin delivers clear signals of heightened FCA scrutiny on disclosures, governance and market integrity, particularly for listed issuers and their advisors.

When does it take effect?

The guidance is effective immediately and should be applied to both current and future harm and redress exercises.

What should firms be thinking about?

Firms should ensure there are robust controls in place for ensuring accurate and complete market disclosures. Firms should update their market abuse controls to ensure there are adequate frameworks in place to identify suspicious investment approaches.

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FCA 2026/8 Perimeter Guidance Manual (Transfer of MiFID Organisational Regulation) Instrument 2026

The FCA has made the Perimeter Guidance Manual (Transfer of MiFID Organisational Regulation) Instrument 2026. The instrument introduces amendments to the COBS and PROD sourcebooks, the SUP Manual and PERG.

What firms are impacted?

Firms subject to MiFID organisational requirements.

Summary of the regulatory update:

This instrument forms part of the FCA's programme to onshore and rationalise MiFID organisational regulation into the FCA Handbook. Key changes are as follows:

Transfer of MiFID organisational provisions - the instrument reflects the UK's implementation of the Markets in Financial Instruments (Miscellaneous Amendments) Regulations 2025, which restate EU-derived MiFID organisational requirements into the FCA Handbook.

Enhanced perimeter guidance - updates to PERG provide clarified guidance on which firms and activities fall within the MiFID regime, including definitions of financial instruments, investment services/activities, and MiFID investment firms.

Changes to Conduct of Business - amendments align COBS references and application provisions with the updated PERG guidance. Day-to-day conduct requirements remain largely unchanged.

Product governance alignment - updates have been made to ensure PROD rules are consistent with the revised MiFID perimeter and definitions. The application of product governance obligations (target market, distribution strategy, lifecycle monitoring) are reinforced.

Supervisory reporting and notifications - amendments include updates to SUP 15 relating to notification requirements, particularly for MiFID-exempt firms.

When does it take effect?

Effective from 27 March 2026.

What should firms be thinking about?

Firms should review regulatory mapping of business activities, update policies referencing MiFID vs FCA Handbook provisions and validate product governance scope and target market definitions.

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FCA 2026/11 Application, Periodic and Other Fees (2026/2027) Instrument 2026

The FCA has published the Application, Periodic and Other Fees (2026/2027) Instrument 2026.

What firms are impacted?

All FCA fee-paying firms.

Summary of the regulatory update:

The publication sets out the updated rules and amendments for the calculation, payment and administration of fees and levies payable by regulated firms for the financial year 2026/2027. The instrument introduces target policy changes and technical updates to the FEES manual and Glossary, including adjustments to:

- application, notification and periodic fees
- Fee structures for specific sectors (e.g. cryptoassets and deferred payment credit)
- Timing and mechanics of fee payments
- Definitions underpinning fee calculations

The primary changes introduced are as follows:
Annual recalibration of FCA fees and levies - updates have been made to the framework for raising periodic fees and industry levies, including FSCS, FOS and other statutory levies. It aligns with the FCA's Annual Funding Requirement (AFR) for 2026/2027 (as consulted in CP26/11).
Changes to application, notification and vetting fees - revisions have been made to upfront fees for authorisation, variation of permission and other regulatory applications. Includes alignment of cryptoasset regime application fees with broader FSMA frameworks.
Enhanced periodic fee payment rules – introduction/refinement of payment structures, including, the introduction of a two-instalment payment model for larger firms (e.g. where prior year fees £50,000 or more), and revised due dates and timing requirements.
New and updated fee categories/sectors - introduction/expansion of fees for specific activities including deferred payment credit, PISCES participants and cryptoasset firms.
Updates to tariff bases, reporting and valuation - includes adjustments to tariff bases, valuation dates and proxy measures and reporting requirements.
Adjustments to the Glossary (definitions) – updates and clarification of definitions underpinning the fees regime.
Targeted technical changes and simplifications – updates include the removal of some legacy or low-value fees, and transitional provisions (e.g. Gibraltar-related arrangements).

When does it take effect?
The instrument comes into force on 1 April 2026. Parts 4, 6, 8, 13 and 15 of Annex C are effective on 21 April 2026. Parts 2, 9, 11 and 14 of Annex C are effective on 15 July 2026.

What should firms be thinking about?
Firms should consider any financial impact of the changes and ensure correct fee classification.

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