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FS ADVISORY

Regulatory Update

October 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

BoE Article on Frontier AI and the Question of Governance

The Bank of England has published an article by Governor Andrew Bailey examining the governance challenges associated with fronter AI and the implications for financial stability and cyber resilience.

What firms are impacted?

All regulated financial services firms, including investment firms, asset managers, wealth managers, banks, insurers and financial market infrastructure providers using or assessing AI technologies.

Summary of the regulatory update:

The BoE acknowledges the significant benefits of frontier AI, including productivity improvements and scientific advancement, but highlights concerns regarding governance and society's ability to maintain meaningful oversight of increasingly powerful AI systems, The article argues that policymakers should first focus on understanding the specific risks posed by fronter AI before developing detailed regulatory responses. Key areas of focus include robust model testing, establishing effective intervention mechanisms and ensuring that governance frameworks evolve alongside technological developments. The BoE also notes that frontier AI is likely to increase cyber threats and create financial stability risks through impacts on operational resilience, payment systems and financial market infrastructures.

When does it take effect?

Published on 30 September 2026. No new regulatory requirements are introduced.

What should firms be thinking about?

Firms should continue developing AI governance frameworks, testing AI models appropriately, assessing cyber risks associated with AI adoption and ensuring boards maintain effective oversight of emerging AI-related risks.

REGULATORY ROUND UP

General

FCA Findings on Frontier AI and Cyber Resilience

The FCA has published findings from a multi-firm review examining firms' use of frontier AI models and the implications for cyber resilience.

What firms are impacted?

All FCA-regulated firms using AI technologies, particularly firms with significant operational resilience and cyber security dependencies.

Summary of the regulatory update:

Frontier AI models can help firms identify and analyse their cyber vulnerabilities more quickly, but if used maliciously, amplify cyber threats to firms' safety and soundness, customers, market integrity, and financial stability. The FCA therefore wanted to understand how firms are using, testing and preparing for frontier AI models with cyber capabilities. The FCA engaged with firms to learn more.

The FCA found that frontier AI is rapidly accelerating the identification of cyber vulnerabilities, often faster than firms can remediate them. The review identified five key themes, including the need for organisational resilience, strong governance, effective human oversight and improved vulnerability management processes. The FCA stressed that frontier AI should not be viewed purely as a technology issue but as a broader operational resilience challenge requiring board-level attention.

When does it take effect?

Published on 2 September 2026. No new rules have been introduced.

What should firms be thinking about?

Firms should assess AI governance arrangements, ensure accountability for AI-enabled processes, review cyber resilience capabilities and evaluate whether remediation processes can cope with increased vulnerability discovery volumes.

REGULATORY ROUND UP

General

EBA Guidelines on Third-Party Risk Management for Non-ICT Services

The European Banking Authority (EBA) has published final Guidelines on the management of third-party risk for non-ICT services, replacing its previous outsourcing guidelines.

What firms are impacted?

EU investment firms, credit institutions, certain asset managers, payment institutions, e-money institutions and other firms within the scope of EBA prudential supervision requirements.

Summary of the regulatory update:

The Guidelines establish a comprehensive framework for managing non-ICT third-party service arrangements and align expectations more closely with the operational resilience principles embedded within DORA.

Key areas include:

- Enhanced governance and oversight expectations.
- More robust third-party risk assessments.
- Additional due diligence requirements.
- Stronger monitoring of ongoing oversight arrangements.
- Specific requirements for services supporting critical or important functions.

The Guidelines form part of a broader regulatory focus on operational resilience and third-party dependency management.

When does it take effect?

The application date is yet to be confirmed. Existing arrangements supporting critical or important functions will be subject to a two-year remediation period once the Guidelines take effect.

What should firms be thinking about?

Firms should begin assessing current outsourcing and third-party risk frameworks against the new requirements, particularly where critical or important services are outsourced. Contractual provisions, due diligence procedures and governance arrangements may require enhancement.

REGULATORY ROUND UP

General

UK Anti-Money Laundering and Asset Recovery Strategy 2026-2029

The UK Government has published its Anti-Money Laundering and Asset Recovery Strategy 2026-2029, setting out its approach to strengthening the UK's AML, counter-terrorist financing and asset recovery framework over the next three years.

What firms are impacted?

All FCA-regulated firms subject to the Money Laundering Regulations, including asset managers, wealth managers, investment firms, fund managers, payment firms, cryptoasset businesses and other financial institutions.

Summary of the regulatory update:

The strategy outlines the Government's future direction for tackling money laundering and recovering criminal assets. Key proposals include:

- Reform of the UK's AML supervisory framework, reducing the number of AML supervisors from 25 to three.
- A review of risks arising from stablecoins and developing payment technologies.
- Development of a policy roadmap addressing privacy-enhancing technologies and cryptoasset-related risks.
- Review of the Suspicious Activity Reporting (SAR) regime to reduce low-value reporting activity and improve effectiveness.
- Further digitisation of SAR reporting supported by AI-enabled analytics.
- Continued international engagement through the UK's FATF Presidency and forthcoming G20 Presidency to promote more risk-based AML approaches.

The strategy signals a continued focus on effectiveness, risk-based supervision and reducing unnecessary compliance burdens whilst strengthening the UK's response to financial crime.

When does it take effect?

The strategy covers the period 2026-2029, with implementation milestones and policy developments expected throughout this period.

What should firms be thinking about?

Firms should monitor forthcoming AML supervisory reforms and assess how future changes may impact governance, financial crime frameworks and reporting processes. Firms should also consider developments relating to cryptoassets, payment technologies and SAR obligations when reviewing their financial crime compliance programmes.

REGULATORY ROUND UP

General

OFSI Annual Frozen Assets Reporting

The Office of Financial Sanctions Implementation (OFSI) has commenced its 2026 annual frozen assets review and reminded firms of their reporting obligations. OFSI has published its frozen assets reporting notice, alongside a reporting template, launching its 2026 review of frozen assets held under UK financial sanctions regimes.

What firms are impacted?

Banks, investment firms, asset managers, custodian, wealth managers and any person holding or controlling frozen assets subject to UK financial sanctions.

Summary of the regulatory update:

Firms holding or controlling funds or economic resources belonging to designated persons must submit a report to OFSI detailing frozen assets held as at close of business on 30 September 2026. The reporting obligation extends to both UK-based assets and overseas assets subject to UK sanctions legislation. OFSI has also reminded firms of their ongoing obligations to identify sanctioned persons, freeze relevant assets promptly and report newly frozen assets without delay. All submissions must be made using the prescribed reporting template.

When does it take effect?

Reports must be submitted to OFSI by 30 November 2026.

What should firms be thinking about?

Firms should ensure sanctions screening processes remain effective; confirm frozen asset inventories are accurate and begin preparing annual reporting submissions ahead of the November deadline.

REGULATORY ROUND UP

General

FCA Findings on Money Mule Activity and Cashing Out of Fraud Proceeds

The FCA has published findings from a multi-firm review examining money mule activity and the methods used to cash out fraud proceeds.

What firms are impacted?

Banks, payment firms, e-money firms, investment firms and firms involved in payment processing or fraud prevention.

Summary of the regulatory update:

Tackling the threat of money mules is a system priority as part of the UK's response to economic crime. The purpose of the review was to understand more about money mule networks and the FCA is sharing its findings so that firms can consider where they can improve their defences. As part of the review, the FCA surveyed 35 retail banks, building societies, challenger banks, Payment Institutions and E-money Institutions.

The FCA's review found that while retail banks account for most money mule transactions, other firms continue to face exposure to higher-value fraud proceeds. Card payments were identified as the most common cash-out mechanism, whilst international payments and cryptoasset transfers were associated with larger-value transactions. The FCA observed evidence of repeat mule account activity, indicating organised criminal networks rather than isolated incidents.

The review highlights the FCA's expectation for Firms to make sure they understand how criminals move funds between accounts. This applies within the regulated firm's own institution and externally through information-sharing arrangements. This should inform the way the firm identifies and responds to suspected money mule activity. Firms should consider indicators beyond the initial receiving account, including linked accounts within the institution, payment characteristics, the broader transaction context, and the customer.

When does it take effect?

Published on 23 September 2026. Firms are expected to consider the findings immediately.

What should firms be thinking about?

Firms should review transaction monitoring frameworks, mule account detection controls, fraud prevention capabilities and information-sharing arrangements with industry participants and law enforcement.

REGULATORY ROUND UP

General

Financial Policy Committee (FPC) September 2026 Meeting

The Bank of England's Financial Policy Committee has published the record of its meeting held on 25 September. The FPC warned of increasing interconnected risks across the financial system, including geopolitical uncertainty, private credit vulnerabilities and AI-related operational risks.

What firms are impacted?

Banks, investment firms, asset managers, insurers, market infrastructure providers and firms exposed to private markets or leveraged financing activity.

Summary of the regulatory update:

The FPC highlighted a number of emerging systemic risks, including:

- Geopolitical tensions affecting global growth and financial markets.
- Vulnerabilities in sovereign debt and credit markets.
- Increasing interconnectedness arising from AI adoption.
- Continuing risks within private credit markets.
- The importance of maintaining resilience across the UK financial system.

The Committee maintained the UK Countercyclical Capital Buffer at 2% but indicated continued monitoring of financial stability risks.

When does it take effect?

Published on 30 September 2026 as part of the FPC's ongoing macroprudential oversight activities.

What should firms be thinking about?

Firms should consider the implications of elevated market volatility, private market exposures, operational resilience, cyber risks and AI governance frameworks. Risk management and stress testing assumptions should remain under regular review.

REGULATORY ROUND UP

General

Draft Amendments to the UK Cryptoasset Regulations 2026

HM Treasury has laid draft legislation proposing targeted amendments to the UK's new cryptoasset regulatory framework to clarify regulatory boundaries and remove unintended barriers to innovation.

What firms are impacted?

Cryptoasset firms, asset managers with crypto exposures, firms involved in stablecoin activities, market makers, trading venues, custodians and firms providing services relating to qualifying cryptoassets.

Summary of the regulatory update:

The proposed amendments introduce a number of clarifications and exemptions within the new UK cryptoasset framework, including:

- Clarifying treatment of qualifying stablecoins.
- Creating exemptions for certain proprietary trading and market-making activities.
- Refining safeguarding requirements where stablecoins are held temporarily for payment transactions.
- Clarifying treatment of stablecoin reserve assets.
- Introducing a new controlled activity relating to issuing qualifying stablecoins.
- Aligning financial promotion requirements with the cryptoasset framework.

The amendments aim to remove duplicative regulation while maintaining appropriate consumer protection and market integrity safeguards.

When does it take effect?

The draft regulations have been laid before parliament and remain subject to the legislative process..

What should firms be thinking about?

Firms involved in cryptoasset activities should assess whether the proposed amendments alter the scope of activities requiring authorisation, affect safeguarding arrangements, or impact existing implementation programmes for the UK's upcoming crypto regime.

REGULATORY ROUND UP

General

FCA Findings from Review of How Payments Firms Support Vulnerable Consumers

The FCA has published findings from its review into how payments and e-money firms support customers in vulnerable circumstances under the Consumer Duty.

What firms are impacted?

Payment institutions, e-money firms and firms providing payment services to retail customers.

Summary of the regulatory update:

The FCA reviewed a sample of payment firms to assess how they are supporting consumers in vulnerable circumstances and whether they are delivering good outcomes.

The FCA identified examples of good practice but found several weaknesses across the sector. Areas requiring improvement included identifying customers in vulnerable circumstances, applying support arrangements consistently across customer journeys, tailoring communications to customer needs and improving management information provided to boards and senior management. The FCA also observed that some firms had limited evidence demonstrating how vulnerability data translated into improved customer outcomes.

Firms with a clear understanding of the scale and nature of vulnerability in their customer base were better able to target support effectively. They were able to focus on the needs and risks most relevant to their products, services and customer journeys, while remaining flexible enough to respond to individual circumstances.

When does it take effect?

Published on 17 September 2026. No new requirements have been introduced.

What should firms be thinking about?

Firms should review vulnerability frameworks, board reporting, customer journey design, monitoring processes and outcome testing to ensure compliance with the Consumer Duty.

REGULATORY ROUND UP

General

FCA and BoE Joint Feedback Statement on Tokenisation in Wholesale Markets

The FCA and Bank of England have published feedback from industry participants regarding the development of tokenisation within UK wholesale financial markets.

What firms are impacted?

Asset managers, investment firms, market infrastructures, custodians, broker-dealers, banks and digital asset market participants.

Summary of the regulatory update:

Industry participants broadly supported the regulators' vision for tokenised wholesale markets and called for clearer implementation timelines and a move from pilot projects towards full-scale production environments. Common themes included requests for greater clarity regarding prudential treatment, collateral eligibility, settlement finality protections, interoperability standards and custody requirements for tokenised assets. The FCA and BoE confirmed that a tokenisation roadmap will be published later in 2026.

When does it take effect?

Published on 14 September 2026. Further regulatory initiatives will follow through the forthcoming roadmap.

What should firms be thinking about?

Firms exploring digital assets should monitor future consultations relating to custody, tokenised collateral, settlement arrangements and wholesale market infrastructure.

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