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Regulatory Roadmap 2026

What to expect in UK and EU financial regulation in the coming year

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Introduction

On 24 December 2024, Nikhil Rathi, the CEO of the UK Financial Conduct Authority, received a special communication from the Prime Minister. This was no festive greeting card, but a request for a concrete list of regulatory changes to support UK growth. The same letter was sent to 16 other UK regulators, including the Prudential Regulation Authority. This set the tone for UK regulatory policy making in 2025. Mr Rathi closed the year by reporting to the Prime Minister that the FCA had delivered the vast majority of nearly 50 "pro-growth" measures.

On closer inspection, observers might question some of these "pro-growth" claims. Has the FCA really "levelled the playing field with overseas markets, with more streamlined rules for fund managers" by publishing a discussion paper on potential reforms to UK AIFMR, but not yet having published draft new rules, let alone implemented them? Has the FCA "supported retail investment" by replacing the EU-originated retail fund PRIIPs disclosure regime with the very similar Consumer Composite Investments regime? Does the new "scale-up unit" "better support fast-growing, innovative firms" through allocating dedicated supervisors to them or does this additional scrutiny increase their cost base and slow them down?

Some FCA policymaking in 2025 appears more clearly to facilitate growth opportunities for UK businesses. The FCA and HM Treasury rules for PISCES will allow UK markets to run trading venues for shares in private companies along the lines of existing US trading venues such as the NASDAQ Private Market. The removal of some post-financial crisis bank bonus rules (which in practice had the effect of driving up fixed pay at investment banks) will give UK-based investment banks more flexibility to compete in the international talent market. The UK is moving closer to T+1 securities settlement and to a clearer framework for trading digital assets, including cryptoassets.

This has not stopped the UK from extending the scope of regulation in some areas. The FCA's new rules and guidance on non-financial misconduct and the UK proposals for ESG ratings don't feature in the letter to the Prime Minister, perhaps because they will expressly impose additional measures on firms. As some regulations fall away, innovation and technological development are driving the need for new rules in new areas, most notably in response to the cryptoasset revolution. During 2026, implementing a coherent framework for the regulation of cryptoassets and the supervision of firms providing crypto-asset related services is a key priority for the UK, although it is far from clear whether UK policymakers have yet struck the balance in the right place. Firms will have the opportunity to respond to a range of FCA consultations covering aspects of the UK cryptoassets framework in early 2026, following which they will need to begin planning for the new FCA supervisory regime thereafter.

UK policymakers and regulators continue to prioritise financial stability, market integrity and consumer protection above innovation. The UK Financial Conduct Authority has repeatedly made this point throughout 2025, seeking further guidance from the UK government on where to draw the line between the potential upsides of taking financial risk and the appropriate level of consumer protection. The UK's policy stance remains incremental change. The outcome of the UK AIFMR Review, expected in April 2026, will be a key milestone for UK alternative asset managers and will give a useful indication of how far the FCA is willing to use its newly acquired powers to diverge from the framework it inherited at Brexit. It will also be an indicator as to whether the UK's current policymaking can truly be described as "deregulatory".

The EU has a "competitiveness compass" directing its drive for simplification. This largely involves holding back on planned new laws or reducing their scope, rather than scrapping existing laws entirely. Although the EU's MiCA regime is already in place and is not due for substantive reform any time soon, other aspects of EU financial services regulation, such as the rules on settlement finality, are being reformed in the face of ongoing technological changes.

There are promising signs that the recently unveiled Market Integration Package proposals might reduce cross-border frictions for EU asset managers, helping to drive forward the development of a more cohesive Single Market, albeit through extensive new legislation. The European Commission recognises SFDR 2.0 will be costly to implement, as well as bringing potential improvements. The European Union's regulatory philosophy remains achieving growth through new regulation.

Whilst new policymaking has slowed, UK and EU supervision has increased, particularly for private capital managers. 2025 saw the outcome of the FCA's private markets valuation review, a further round of small firm questionnaires, a detailed anti-money laundering questionnaire and a conflicts review. The Bank of England is running its second system-wide stress scenario, this time focused on private capital. As that industry has grown, so has regulatory scrutiny. We expect this trend to continue in the UK and European Union in 2026.

The UK and European Union approach stands in sharp contrast to the deregulatory and lighter-touch supervision approach now being pursued at US federal level. Our briefing focuses on UK and EU rules but we follow US federal and state developments closely. Time will tell whether these jurisdictions continue to diverge.

Against this backdrop of continuing change and renewal, our 2026 Regulatory Roadmap is designed to highlight some of the key areas for asset managers, financial market infrastructures, and payments and fintech firms to watch in the coming year, with information about expected timings and associated action points.

We hope that you'll find this to be a useful companion as you begin planning for the next twelve months. If you would like any further information on any of the areas highlighted in the Roadmap, please do get in touch.

Tim Lewis
Head of Financial Services and Markets

Contents

1 EU AIFMD II

Key dates

- AIFMD II largely comes into force on 16 April 2026.
- New Annex IV reporting requirements will come into effect on 16 April 2027.
- Some grandfathering for existing funds is available, but it is complicated, limited and varies on a requirement-by-requirement basis. The ability to rely on transitional provisions should be flushed out during the initial scoping phase.

Action points

- EU AIFMs should carry out a scoping exercise to assess which changes will apply to them and prioritise implementation steps accordingly. Travers Smith has a number of materials to assist firms in scoping and planning their project.
- EU AIFMs managing AIFs which originate loans should consider whether any changes are needed to their existing and planned loans or their overall lending structures or strategy in light of the new loan origination requirements.
- EU AIFMs managing open-ended AIFs should consider whether any of their existing liquidity management tools meet the AIFMD II criteria and, if not, decide which new tools to adopt and effect relevant processes to implement these in fund documentation.
- EU AIFMs may also need to update their internal policies, processes and documentation to comply with the new EU AIFM-level requirements.
- All funds, both EU AIFM managed and non-EU funds marketed under EU national private placement regimes (NPPRs) will be subject to updated investor disclosure and regulatory reporting requirements.
- Non-EU funds will need to be aware of the new, more restrictive NPPR rules, which may prejudice the ability of certain funds from certain jurisdictions from marketing into certain EU jurisdictions.

It has felt like a very long time coming but AIFMD II, which amends certain parts of the EU Alternative Investment Fund Managers Directive (AIFMD), will finally start to come into force on 16 April 2026.

The changes will predominantly affect EU full-scope AIFMs and therefore we expect that AIFMD II is already firmly on most of their radars. EU full-scope AIFMs that manage AIFs which originate loans or which are open-ended will have the greatest amount of work to do but all EU full-scope AIFMs will potentially have new obligations and will need to make some changes to their strategy, internal processes and / or documentation. Some of the changes, including those relating to reporting and disclosures, will also apply to non-EU AIFMs marketing into the EU under NPPRs.

We have published various briefings on this, most recently in our Financial Services – End of Summer 2025 Postcard, but please see below for a quick recap of the key changes.

- There is a lot of focus in AIFMD II on funds which originate loans – i.e. funds which are involved in the granting of loans, either directly or indirectly. AIFs which originate loans (and which are managed by EU full-scope AIFMs) will be subject to new requirements intended to improve investor protection and protect financial stability. These include concentration limits, prohibitions on certain types of loans and risk retention requirements. Stricter requirements will apply to AIFs which originate loans on a material basis (Loan-Originating AIFs) including leverage limits of 175% for open-ended AIFs and 300% for closed-ended AIFs. Such Loan-Originating AIFs must also be closed-ended unless they have appropriate liquidity risk management, but the Regulatory Technical Standards (RTS) with the criteria for what this means have been delayed and may possibly not be issued at all. There will also be some (limited) grandfathering provisions for certain pre-existing AIFs and loans – there will be a material benefit to firms who are able to identify these early as part of scoping. We can give more guidance here if helpful.
- Open-ended AIFs managed by EU full-scope AIFMs will need to comply with new rules on liquidity management. These include a requirement to select two liquidity management tools (LMT) from a specified list and to adopt policies and procedures for their use. The final RTS with more detail on the characteristics of those LMTs have also been issued (subject to approval from the EU legislators) with the accompanying Guidelines expected to follow shortly.
- For both EU full-scope AIFM managed funds and funds marketed into the EU under NPPRs, there will also be enhanced investor disclosure and regulatory reporting requirements, including enhanced Annex IV reporting obligations and new investor Article 23 pre-contractual and periodic disclosure requirements. The new Annex IV reporting requirements (which apply from the later date of 16 April 2027) will include the provision of complete data on portfolio composition as well as information on leverage, delegation arrangements and marketing and there will be implementing measures with further details of how this new Annex IV reporting will need to be done.
- Other changes under AIFMD II include updated rules on delegation by EU full-scope AIFMs and additional eligibility criteria for non-EU AIFMs and non-EU AIFs seeking to make use of national private placement regimes.

Separately, the agreed text of the EU's Retail Investment Strategy is expected to be published shortly, which may result in further changes to EU AIFMD. That legislation is expected to involve some additional rules on costs and providing value for money. There are also additional changes expected, particularly in respect of marketing, under the proposed EU Market Integration Package. We discuss these proposals in further detail later in this briefing.

AIFMD II is the biggest change to the rules for EU alternative fund managers in over a decade. We have been working with industry bodies and clients on this since the first proposals came out (nearly five years ago!) and have prepared a suite of materials to support firms in adapting to the new rules. If you would be interested to hear more about how we can help you, we would love to hear from you.

James Barnard, Partner

2 UK AIFMD REVIEW

Key dates

- HM Treasury is expected to consult on draft legislation to reform the UK AIFMD framework in or around April 2026.
- The FCA is expected to consult on changes to its rules for AIFMs in April 2026 alongside the consultation from HM Treasury.
- A further FCA consultation is expected in H2 2026 on further aspects of the AIFMD regime, which may include areas like reporting and liquidity management.

Action points

- Watch for the draft legislation and FCA consultation expected in April 2026 and consider engaging with industry associations to provide feedback on the proposals.
- Watch for a further consultation in H2 2026 on further aspects of the reformed UK AIFMD regime.

The introduction of the EU AIFMD regime in 2013 prompted widespread criticism about its "one-size-fits-all" approach to the regulation of EU alternative asset managers (including, at that time, UK fund managers), with some suggestions that the new framework was a solution in search of a problem. Although the industry largely learned to live with the AIFMD requirements over the following decade, both the EU and (following Brexit) the UK have each decided that their respective AIFMD rules merit an update. While the EU's AIFMD II legislation will introduce changes from April 2026 which primarily focus on loan origination and liquidity management, the UK is considering far more fundamental reforms to its onshored AIFMD rulebook as part of its "Smarter Regulatory Framework".

To that end, in April 2025, HM Treasury published a consultation paper on the future of UK AIFMD, which gave an initial insight into the UK government's potential direction of travel. Very broadly, this proposed:

- Removing the existing thresholds for sub-threshold and above-threshold AIFMs in UK legislation and transferring power to the FCA to formulate new categorisation thresholds;
- Potentially removing the current business restrictions on full-scope AIFMs, which would allow them to perform activities that go beyond the current permitted "top-up" activities;
- Removing the current marketing notification obligations for UK AIFMs marketing UK or Gibraltar AIFs in the UK, thereby avoiding the current 20 working day delay to marketing;

- Maintaining the current approach to marketing by non-UK AIFMs under the UK national private placement regime;
- Reviewing whether notifications by AIFs acquiring control of non-listed companies continue to be necessary and, if so, whether they should be sent to another recipient (e.g. the Department of Business and Trade) rather than the FCA;
- Removing the current regulatory liability for external valuers;
- Requiring small registered AIFMs to obtain full FCA authorisation; and
- Keeping listed closed-ended investment companies within the UK AIFMD framework.

At the same time, the FCA also published a call for input which contained some initial views on changes that the regulator could introduce to the UK AIFMD framework with the new-found flexibility it expected to be granted by HM Treasury. These were not formal proposals, but were designed to elicit further ideas from the industry about what the new UK rules could look like. The possibilities put forward by the FCA included:

- New AIFM classification thresholds set by reference to the total net asset value of the AIFs being managed (rather than the current gross AUM approach). The FCA put forward possible categorisations of small firms (with a total NAV of up to £100 million), mid-sized firms (with a total NAV between £100 million and £5 billion) and large firms (with a total NAV of £5 billion or more), with the applicable regulatory requirements increasing between the categories;
- More bespoke rules for specific types of fund managers, such as private equity or real estate managers;
- Bespoke rules for listed investment companies;
- Revisions to the AIFMD leverage requirements, although the FCA indicated that it was still concerned about monitoring and managing the risks of high levels of leverage within AIFs; and
- A restructured AIFMD rulebook (which would presumably involve substantial amendments to FUND and potentially some other sourcebooks containing AIFMD-derived obligations, such as SYSC and COBS) so that rules are structured more intuitively according to the lifecycle of a fund.

There were a range of other AIFMD components, such as remuneration rules, prudential requirements and regulatory reporting which the FCA acknowledged could also be amended, but which were not the immediate focus of the April 2025 feedback exercise.

In April 2026, we are expecting to see the first concrete output of HM Treasury and the FCA's deliberations, with draft amending legislation and an initial set of draft FCA rule amendments. Since the original call for input, there have also been suggestions that the FCA may look to develop a new "start-up" regime for newly established fund managers, which could involve a lighter-touch regulatory framework while the business scales up. This would be consistent with the FCA's broader focus on growth and innovation.

The industry is likely to have a particular eye on where the FCA lands in relation to AIFM classification thresholds, as the call for input discussion sparked some concern that large UK asset managers may not benefit significantly from any revised regime. This is because the £5 billion NAV threshold which was floated as a possible approach is relatively low compared to the size of many larger asset managers. Assuming that the "large firms" category remains subject to obligations which are broadly similar to the current AIFMD framework, there would appear to be limited potential upside for such firms, although this would also depend on whether the FCA undertakes more fundamental reform of the wider AIFMD-derived rules.

The industry will also be watching carefully for signs of the FCA's approach to leveraged funds. The treatment of leverage under the existing AIFMD framework has been a consistent source of criticism, largely as a result of the complex (and sometimes counter-intuitive) calculation requirements and a mismatch between industry conceptions of leverage and the approach adopted by regulatory rules. However, the FCA's proposals will be published against a broader backdrop of increasing concern by policymakers about the use of leverage by "non-bank financial intermediaries" (including investment funds) and the possible implications for systemic risk. It remains to be seen whether the FCA will adopt a proportionate and pragmatic approach in this area under the new regime.

UK AIFMs are likely to have to wait until the latter half of 2026 before they will see the FCA's proposed approach to other aspects of the regime, such as the prudential framework, remuneration and regulatory reporting. The signs in these areas are somewhat mixed. Given the recent deregulatory changes to remuneration rules for UK banks, the industry will be hoping for a similar approach to fund managers' remuneration requirements and will undoubtedly be pushing that case in the coming months. Similarly, there seems to be a favourable wind in relation to regulatory reporting, with the FCA taking steps to remove or pare down various reporting requirements over the last year, so firms will be hoping that this efficient approach to data collection is also carried into any review of UK Annex IV reporting for AIFMs. Initial signs in the prudential space are potentially less encouraging, given the emergence of the FCA's proposals for a "COREPRU" cross-cutting prudential sourcebook and the related possibility of extending to AIFMs requirements based on the Investment Firms Prudential Regime. Industry associations are likely to push back on any such suggestions if they do emerge later in the year.

The forthcoming UK AIFMD proposals are not expected to amend the current regimes for UK registered venture capital funds (RVECAs) and UK social entrepreneurship funds (SEFs), but HM Treasury has indicated that it may look to review those regimes at some point in the future. RVECA and SEF managers will therefore need to wait a little longer to discover whether they might benefit from the reformed rules, although the proposed approach to the wider AIFMD framework may give a strong hint about the FCA's thinking in this regard.

Travers Smith has been supporting a range of industry associations in their interactions with HM Treasury and the FCA on the review of the UK AIFMD regime. This is a unique opportunity for the UK alternative asset management industry, particularly as it is taking place against a backdrop of the UK government and the regulator focusing on international competitiveness and targeted burden reduction. While there are promising signs that the proposals to reform UK AIFMD may contain a range of positive changes, we will need to wait to see the exact details to understand if this is really a fundamental overhaul or something of a disappointment. Particular areas to watch out for will be the size thresholds for any new categorisations, the treatment of leverage and the approach adopted towards professional-only funds.

Danny Riding, Partner

3 CRYPTOASSET REGULATION

Key dates

- Responses to the Bank of England's consultation on its systemic stablecoins regime due by 10 February 2026.
- Responses to the FCA on CP25/40, CP25/41, and CP25/42 due by 12 February 2026.
- The FCA must announce the date of the opening of the authorisation application window for cryptoasset firms. This announcement must be on or before 25 October 2026.
- Legislation comes into full force on 25 October 2027.

Action points

- Respond to Bank and FCA consultations.
- Engage with additional consultations through 2026 and plan to process and deal with what will be a very substantial Policy Statement (or series of them).
- Commence planning to apply for FCA authorisation.

The most important development in the regulation of digital assets happened close to the end of the year, with the laying of the Financial Services and Markets Act 2000 (Cryptoassets) Regulations 2025, on which we have published our article Instrumental Health: Final Cryptoasset Legislation.

On the topic of articles, 2025 saw what felt like a continuous (if not relentless) series of responding to consultation papers, and we published articles commenting on a number of these:

- The draft statutory instrument, which we covered in Token efforts: What HM Treasury gets right and wrong on cryptoasset regulation and in our formal response to HMT.
- CP25/14 and CP25/15 from the FCA, which we discussed in CPs25/14 and 15: The FCA's explosive start to its path to regulating cryptoassets.
- The Bank of England's proposals for the regulation of systemic stablecoin, critiqued in Out on a limit: The Bank of England's systemic stablecoins consultation provokes and pleases in equal measure.
- There has also been CP25/25, on applying cross-sectoral requirements to cryptoasset firms, and most recently, CP25/40, CP25/41, and CP25/42, covered in our two pre-Christmas articles, Crypto cracker: 12 things to know about the FCA's cryptoassets papers CP25/40 and CP25/41 and UK cryptoassets prudential proposals: unexpected gift or the nightmare before Christmas?

- On a related topic, the FCA also published CP25/28 on progressing fund tokenisation, summarised in FCA measures to support Direct 2 Fund dealing and fund tokenisation.

To sum up the immediate actions, the first order of business is to respond to the Bank of England and FCA on their outstanding consultation papers, due 10 February and 12 February 2026 respectively. We expect the publication schedules of the FCA and Bank of England to continue to be heavy throughout 2026.

The Bank has signalled that, probably from mid-2026 onwards, it intends to publish draft codes of practice, the final rules, details of its supervisory approach, and a joint paper with the FCA discussing how their two regimes interact and how firms should approach moving from sole regulation by the FCA to dual regulation.

Besides that joint paper, the FCA obviously intends to publish what we tentatively think will be one omnibus policy statement. Given that the draft rules published across the six CPs currently run to 483 pages in total, plus a short piece of non-Handbook guidance on operational resilience, this will be a weighty tome.

This is especially the case because the FCA has also indicated a raft of additional issues to which it intends to return:

- Rules and guidance on the relevance of the Consumer Duty, FOS, COBS, PROD, and client categorisation (CP25/41 says that the Consumer Duty consultation, as a minimum, is intended for publication in January 2026)
- Guidance on the differences between qualifying stablecoins and collective investment schemes and alternative investment funds
- Guidance on the distinction between qualifying stablecoins and electronic money (most likely combined with the previous item and to be inserted into PERG)
- Guidance on the FCA's location policy
- Guidance on decentralised finance, with a focus on indicators of centralisation, and firms with a high degree of automation
- Proposals for managing cryptoasset firm failure
- More detailed proposed rules and guidance for settlement-related requirements for CATP operators
- Proposals on the application of the Training and Competence Sourcebook
- Non-Handbook guidance on the use by regulated firms of distributed ledger technology.

The key message to take away is that 2026 is going to be even busier as firms will need to combine engaging with the consultation exercise as well as impact assessing and planning to implement the rules we have already seen.

With one consultation from HMT, another from the Bank of England, and no fewer than six (actually eight if you count DP24/4 and DP25/1) from the FCA, last year aspiring cryptoasset firms had to manage a deluge of proposals on the shape of the regulatory framework, with more to come in 2026. Now that the final implementing legislation has been laid before Parliament, firms' minds must turn from engagement to execution, while continuing to monitor and manage additional proposals. Make no mistake: complying with the FCA's rulebook (even setting aside, for now, the Bank of England's proposals for systemic stablecoin issuance) is going to be a significant task, even for firms already operating. The sooner firms start planning, the better-placed they will be for a regime that we now know will be fully operational from October 2027.

Natalie Lewis, Head of Fintech, Market Infrastructure and Payments

4 IMPLEMENTATION OF SAFEGUARDING REFORMS

Key dates

- New rules come into force on 7 May 2026.

Action points

- Check progress of implementation.
- Monitor for the publication of the new Financial Reporting Council safeguarding audit standard.
- Prepare for first safeguarding audit under the new rules.

The FCA published PS25/12 in August 2025, outlining its final policy decisions on safeguarding of customer funds by payments and electronic money firms. This was widely welcomed at the time, including by us in our article Advocacy pays off: The FCA adopts a more pragmatic approach to safeguarding customer funds by payments firms.

This was because the FCA – in a relatively unusual *volte-face* – had paused (but to the point of practical abandonment) its more radical proposals for a future safeguarding regime following intensive industry lobbying. The proposed requirement that funds always be received directly into safeguarding accounts, in particular, had prompted painstaking explanations about the impact on many business models, and this had been sufficient to convince the FCA not to proceed with what it had originally called "the end state", and then renamed "the Post-Repeal Regime" (repeal being a reference to the repeal and transcription into FCA rules of the Payment Services Regulations 2017 (PSRs) and Electronic Money Regulations 2011 (EMRs)).

That said, "the Supplementary Regime" (originally called "the interim state"), was finalised in largely the same form as was originally consulted upon by the FCA.

These rules will apply from 7 May 2026. They are mainly a tightening of many of the administrative processes that surround safeguarding (it is reasonably well-known that compliance with the safeguarding requirements is not uniformly perfect across the ecosystem). In summary:

- Safeguarding reconciliations must be carried out at least once each day, except for weekends and public holidays (which can include foreign public holidays where relevant).
- Payment and e-money institutions will need to create and maintain a resolution pack, which must contain the information needed to allow an orderly distribution of funds to customers in the event of a firm failure.

- Safeguarding compliance audits must be carried out each year by a qualified auditor (this was previously an expectation, now it will be a rule).
- The outputs from those audits must be shared with the FCA. The default position is that the deadline for this is four months after the end of the reporting period, except for the first one, for which the deadline is extended to six months.
- There will be a new monthly regulatory return on safeguarding.

These rules will be in, and are clearly inspired by, CASS.

There is some mild continuing controversy about the requirement for an annual audit. The new rules require auditors to take into account any standard published by the Financial Reporting Council (FRC), but that remains a work in progress. There is therefore some concern that firms will not be sure how they will be judged come May, so it is important that firms look out for and engage with the FRC on publication of its standard.

There is a clear warning to the sector – if these new rules do not lead to a measurable uplift in compliance, then the FCA reserves its position on how it may then react.

Moreover, looking at payments more broadly, the FCA will soon undertake the exercise, in conjunction with HM Treasury, of putting many of the requirements under the PSRs and EMRs into the Handbook. It is very apparent that the FCA is not satisfied with all of the requirements that were effectively inherited from the EU, so this is an obvious opportunity (as with safeguarding) for the FCA to make changes.

Persuading the FCA to drop its more radical proposals was a real win for payment and e-money institutions, and shows what can be achieved with strong, evidence-based responses to a consultation. That said, it is very important that payment and e-money institutions implement the surviving rule changes properly – safeguarding compliance is high on the FCA's agenda and we expect there will be little sympathy for those that do not take this sufficiently seriously.

Harry Millerchip, Senior Counsel

5 NEW EU ANTI-MONEY LAUNDERING REGIME

Key dates

- The revised regime will start to apply from 10 July 2027.

Action points

- Financial services entities not already covered by the EU anti-money laundering regime to consider whether they now fall in scope – particularly crypto-asset service providers and central securities depositaries.
- Carry out a gap analysis of the information and verification required under the new customer due diligence requirements against current procedures. Some changes to processes may be required.
- Monitor for new implementing legislation and guidance. Consider impact on existing policies and procedures.
- Consider whether to provide feedback (either directly or through industry associations) on the development of underlying technical standards and guidance (e.g. in areas such as customer due diligence).

From 10 July 2027, a revised EU anti-money laundering regime will largely start to apply.

The EU's anti-money laundering framework has been in place for over 30 years but there have long been doubts as to how effective it is in practice given the differing approaches taken by member states. The EU has now taken a new approach and the key requirements for entities subject to the regime (known as Obliged Entities and which include a large proportion of financial services firms) will now be in a regulation which leaves far less room for member state discretion: Regulation (EU) 2024/1624 (AML Regulation).

For Obliged Entities, the high-level obligations in the AML Regulation will be supplemented by more prescriptive requirements in implementing legislation. The new EU Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA) in Frankfurt will also ensure that there is further harmonisation, including through guidance and direct supervision of certain high-risk Obliged Entities.

Many of the obligations applicable to Obliged Entities will be broadly familiar from the existing EU anti-money laundering regime but with some enhancements. Key changes include enhanced customer due diligence measures, additional Obliged Entities including crypto-asset service providers and central securities depositaries, minor amendments to the rules on

beneficial ownership and additional requirements regarding sanctions. For funds, there is also clarification in a recital that would potentially allow a fund and its manager to allocate some tasks between themselves to avoid duplication.

We discussed these changes in our 2024 briefing: New EU anti-money laundering rules.

One of the key changes will be that the requirements for customer due diligence will be enhanced and more prescriptive. This includes seeking information on the nature of the customer's business, and sanctions checks and new lists of specific information to be collected on customers and beneficial owners. Much of the detail can be found in the draft RTS on Customer Due Diligence issued in October 2025, including details of the due diligence to be carried out on senior managing officials, on persons acting on behalf of the customer, in non-face-to-face contexts and for complex control structures.

There is also the potential challenge that the concept of a "customer" is not defined under the legislation. For some sectors, such as private equity, there can be multiple parties involved in a transaction, with the resulting risk that if the concept of a customer is given a wide interpretation, this could capture a wide range of entities and result in unduly burdensome obligations. As the delegated legislation and guidance underpinning the new regime is developed further during 2026, the industry will need to keep a watchful eye on how this develops and may need to lobby for a proportionate approach in this area.

Obliged Entities will need to consider these new requirements carefully to see whether they are already collecting the required information and, if not, revise their customer due diligence processes. Following feedback to the original consultation, some of the requirements have been partially, but not fully, pared back with some limited flexibility introduced. Helpfully, the draft RTS also now include a provision that Obliged Entities may follow a proportionate and risk-based approach when considering what information is to be obtained. Obliged Entities will also have up to five years to update the information for existing customers (with the precise timing depending on the customer's risk profile).

Other implementing legislation which will be of particular interest includes:

- Draft RTS on how entities will be selected for direct supervision by AMLA. These are expected to be of limited relevance to most alternative funds but may affect some larger, multinational businesses.
- RTS on group-wide policies and procedures. The European Banking Authority has issued its advice but these have not yet been drafted. We expect Obliged Entities will be keen to make sure that these do not apply the requirements more broadly than strictly required.
- RTS on Ongoing Monitoring of the Business Relationship and Customer Transactions and Guidelines on Outsourcing certain requirements under the AML Regulation. No further information on these has been issued so far.

There are still around 20 new regulatory and implementing technical standards that are expected to be made under the EU's new money laundering framework, many of which will presumably be published during 2026.

Travers Smith will be supporting industry associations with their policy responses to the development of delegated legislation and new guidance under the EU's revised AML regime. It is important that the industry takes this opportunity to try to shape any final output from the EU authorities so that it is proportionate and practical. This is particularly acute in areas such as alternative asset management, where relationships and arrangements can be more complex and are not always well-understood by regulators. If you have any views on issues that should be fed back to EU policymakers, we would be delighted to hear your thoughts.

Sam Brewer, Partner

6 FCA PRIVATE MARKETS CONFLICT OF INTEREST REVIEW

Key dates

- Phase 2 of the FCA information gathering exercise is expected in Q1 2026.
- Firms are likely to need to analyse and implement the FCA's conclusions from the review during Q2 and H2 2026.

Action points

- Firms included within the FCA's original Phase 1 questionnaire exercise may wish to ensure that their policies, procedures and records relating to conflicts issues are well-ordered, in case they form part of the FCA's expected Phase 2 "deeper dive".
- Firms that receive requests to participate in the expected Phase 2 exercise may need to convene (or re-activate) a conflicts project team and should consider whether any further internal communications are required to key affected stakeholders.
- When the FCA publishes its final feedback on the conflicts review, all firms will need to review the FCA's observations and identify whether they need to make any updates to their conflicts frameworks.

As we presaged in our End of Summer 2025 Postcard, the UK FCA's review of conflicts of interest in private market firms is now well underway. We understand that approximately 30 firms (or in some cases, groups) were contacted in connection with Phase 1 of the review, which involved the completion of a questionnaire covering various aspects of conflicts identification and management. Firms were required to respond by 2 January 2026. The FCA will now analyse the responses to identify if there are particular themes or areas for concern that will form part of the next stage of its review.

Based on the approach adopted for the Private Markets Valuation Review (PMVR) in 2024, we expect that this next stage will involve the FCA following up on a bilateral basis with a sub-set of firms included in the Phase 1 sample to carry out a "deeper dive" exercise. This may include asking for additional information or documentation, as well as interviews with relevant individuals and potential office visits. Firms that were included in Phase 1 may therefore wish to ensure that their records and policy and procedural documents are in good order and can be located in a timely manner in response to any FCA follow-up requests. If the FCA confirms that a firm is part of the Phase 2 sample, the firm may also need to establish a further project team to support in collating its response to the FCA's further requests (or reactivating the team that

handled the Phase 1 request) and may need to ensure that there is appropriate coordination and communication with affected internal stakeholders.

Firms that are eventually included in the Phase 2 exercise should expect to receive direct feedback from the FCA after the review is completed. This feedback may identify aspects of their conflicts of interest frameworks that need to be improved or changed to meet the FCA's supervisory expectations. Based on our experience assisting clients with the PMVR, the FCA is likely to ask firms which receive such feedback to provide a written response, detailing any actions that they have taken in relation to the issues raised.

Firms that have not been asked by the FCA to participate in the conflicts review will nonetheless need to watch for the FCA's final published feedback, as the regulator will inevitably expect all firms within the private markets sector to consider whether the points raised are also applicable to their operating or business models. Given the variety of ways in which firms or groups may be structured, as well as the multiplicity of arrangements in which they and their employees or officers may be involved, applying the feedback within a firm may require careful internal analysis. Depending on the issues identified, firms may need to review and update key internal policies and procedures, including:

- conflicts maps and / or registers;
- internal governance and oversight arrangements;
- investment due diligence and allocation policies;
- employee-related policies, such as those governing gifts and entertainment, outside business interests, personal account dealing or remuneration;
- procedures for investing the firm's own capital alongside that of its clients; and
- procedures for disclosing the existence of conflicts of interest to investors (and where appropriate, obtaining their consent).

In light of recent FCA enforcement actions, as well as the conflicts-related issues raised in the FCA's feedback to the PMVR and this latest FCA review exercise, we anticipate that there will be a continued broader supervisory focus on conflicts within private markets throughout 2026.

Travers Smith has been advising a range of clients on the FCA's Phase 1 conflicts of interest exercise. We have extensive experience advising firms on the PMVR, which followed a similar approach. We also have a range of materials that can assist firms with reviewing their arrangements for identifying and managing conflicts.

In the FCA's Phase 1 questionnaire, amongst other things, the regulator sought detailed information about how firms handle potential employee-related conflicts of interest, how firms identify and allocate investment decisions between funds, and which types of conflict trigger investor disclosures. This is no coincidence: these areas were key themes in recent FCA enforcement actions relating to conflicts, such as H2O and BlueCrest. Those cases are powerful illustrations of the FCA's current conflicts expectations.

Henriika Hara, Partner

7 EXECUTION OF THE NATIONAL PAYMENTS VISION

Key dates

- Payments Forward Plan to be published in Q1 2026.
- Retail Payments Infrastructure Board set-up and design consultation expected in Q1 2026.
- Delivery Company to be established in H1 2026.
- Legislation on the consolidation of the PSR into the FCA expected sometime in H1 2026.

Action points

- Engage with Payments Forward Plan and begin project planning.

It has now been over two years since the publication of Joe Garner's report on the future of UK payments, and over a year since the publication of the National Payments Vision (NPV) and, for that matter, the publication of our related article: HM Treasury's National Payments Vision: Is it actually Not Particularly Visionary? That article argued that greater focus, accountability and urgency were critical to the success of the NPV. Although progress is being made, we are still waiting for that.

Specifically, the next key publication will be the Payments Forward Plan. This was originally mooted in the NPV, and is described by the Bank of England as a "a sequenced plan of initiatives across the payments ecosystem including initiatives in both retail and wholesale payments, and the role of digital assets." Another plan for a plan?

In a somewhat ominous sign, this was originally due to be published by the end of 2025, but was discreetly rescheduled to Q1 2026 in the most recent edition of the Regulatory Initiatives Grid.

What we have had is the Strategy for Future Retail Payments Infrastructure (the Strategy), published by the Payments Vision Delivery Committee (PVDC) on 7 November 2025. If our November 2024 article had expressed some disappointment with the NPV, we were even more disappointed that the Strategy had taken a full year and still been so comparatively light on granular detail.

The Strategy focuses on five outcomes:

1. Giving consumers and businesses a greater choice of innovative and cost-effective payment options to meet their needs.

2. Enabling payments to operate seamlessly as part of a diverse multi-money ecosystem, with interoperability between new and existing forms of digital money.
3. Engendering trust of consumers and businesses that their payments are protected from fraud and wider financial crime.
4. Providing fair, transparent and non-discriminatory access to retail payments infrastructure for participant firms – maximising competition and scope for innovation across the payments ecosystem.
5. Ensuring that the payments ecosystem is operationally and financially resilient.

While none of these outcomes are contentious on their face, it must be recognised that they are (in terms) more appropriately characterised as objectives for the wider payments ecosystem as a whole; the role of providers and operators of retail payments infrastructure should only be to *facilitate* or *catalyse* their achievement – often by indirect means.

For example, the primary and direct legal and regulatory responsibility to end-users for combatting fraud should fall squarely on payment service providers and providers of online platforms, rather than on payment system operators. In the context of the (relatively) recent Payment Systems Regulator's regulatory response to authorised push payment fraud, we have consistently maintained that the reimbursement requirements would be better-suited to forming part of BCOBS, the PSRs and / or as regulatory directions addressed solely to payment service providers as "participants" under Part 5 of FSBRA, rather than being included in relevant payment systems' rules.

The Strategy also references financial inclusion, and specifically that retail payments infrastructure should be "inclusive by design". Again, an essential outcome to which the wider payments ecosystem must aspire, but one that should properly recognise that the role of the retail payments infrastructure itself can only be to support the provision of products by market participants that serve diverse user needs and consumers with different vulnerability profiles.

It should also be acknowledged that, under the current legislative framework at least, payment systems are not only different from payment service providers, but also different from each other – card schemes, for example, have greater ability under the present UK regulatory system to affect end users (e.g. by setting rules on card design) than an account-to-account interbank payment systems operator.

In 2026, the newly-formed Retail Payments Infrastructure Board (RPIB) will drive forward the industry-led formation of a new company to deliver the next generation of retail payments infrastructure.

Turning to the regulators themselves, 2026 will see legislation consolidating the functions of the PSR into the FCA. Lucy Rigby KC MP, the Economic Secretary to the Treasury, was, however, noticeably unwilling to commit to precisely when this legislation will be presented when she gave evidence to the Treasury Select Committee in November 2025.

That "consolidation" is meant to streamline regulation and reduce burdens on firms; a complementary aim to the Payments Forward Plan. When that plan is published in 2026, it will hopefully (at the very least) deliver the "North Star" in terms of a roadmap – covering, for example, open banking, stablecoins, and the transposition of the Payment Services Regulations 2017 into the FCA Handbook – and enable the ecosystem to plan for the future with confidence.

We have now observed multiple times that the pace associated with the NPV has been disappointing, as we still have not had the regulatory decongestion and streamlining that the NPV demanded. We hope that the publication of the Payments Forward Plan will happen very soon, and more importantly, that it delivers what has been described and galvanises action. There continues to be a significant challenge facing the ecosystem, especially in the field of retail payments infrastructure, and we also hope that the forthcoming legislation on consolidating the PSR into the FCA does not create any distractions for the affected teams.

Natalie Lewis, Head of Fintech, Market Infrastructure and Payments

8 ACCELERATED SETTLEMENT (AKA T+1)

Key dates

- Accelerated settlement will apply to trades executed on or after 11 October 2027, when the relevant legislation will enter into force.
- The deadline for submitting technical comments on the draft version of that legislation is 27 February 2026.
- Many of the project implementation milestones fall within 2026 (and some have already passed), including the publication of the implementation Playbook (due no later than 30 June 2026), so that 2027 can focus on testing.

Action points

- Asset managers and financial market infrastructures that are affected should have already drawn up a detailed plan.
- Those seeking more information should refer to the materials linked to below.
- The FCA has identified five key action points: strengthen inventory management; review end-to-end settlement arrangements; automate; engage clients and counterparties early; and avoid any complacency resulting from the successful move to T+1 in the US.
- CSDs, CCPs, and trading venues should prioritise reviewing their rulebooks and processes, as any changes need to be communicated to participants by the end of 2026.

"Accelerated settlement" – the move to settling securities transactions on the first business day after the trade is executed (T+1), as opposed to T+2 as presently applies in the UK – is and will continue to be a marathon rather than a sprint. For the route map, affected firms should start with the Accelerated Settlement Taskforce's UK Implementation Plan.

The draft Central Securities Depositories (Amendment) (Intended Settlement Date) Regulations 2026 will, once laid, come into force on 11 October 2027. They are currently open for technical feedback on the drafting, with a deadline for responses to HM Treasury of 27 February 2026.

The accompanying Policy Note explains why certain issues are not included in the draft regulations, including certain temporary exemptions originally recommended by the Accelerated Settlement Taskforce which are no longer considered necessary (in part, due to the UK and EU now aligning their move to T+1 settlement). The amendment the draft regulations make to UK CSDR is essentially quite straightforward: it amends Article 5(1) to shorten two business days after the trade date to one.

The current exemptions from the T+1 requirement are retained for:

- trades that are negotiated privately and executed on a UK trading venue;
- transactions which are executed bilaterally and reported to a UK trading venue; and
- the first transaction where the transferable securities concerned are subject to initial recording in book-entry form.

In addition, the draft regulations introduce a new exclusion for "securities financing transactions" (SFTs), including:

- securities or commodities lending;
- securities or commodities borrowing;
- buy-sell back transactions;
- sell-buy back transactions; and
- repurchase transactions.

The Policy Note explains (very briefly) that this exclusion is to maintain firm's flexibility in using these transactions for liquidity management.

HM Treasury has stated that the final version of the secondary legislation will be laid well in advance of the 11 October 2027 deadline, to allow for proper parliamentary scrutiny.

As for implementation, while 11 October 2027 is a long way away, the FCA is clearly anxious that affected buy-side participants appreciate the scale of the task. On 23 October 2025, it published a Dear Compliance Officer letter that, among other points, emphasised that firms should have already put an implementation plan in place by the end of 2025, because various implementation milestones will in fact fall over the course of 2026. In particular, the standardisation of Standard Settlement Instructions (SSIs), and Trade Date timing for allocations and confirmations, have deadlines of 31 December 2026 in the UK Implementation Plan.

The fact that 11 October 2027 is also the date at which the EU and Switzerland will move to T+1 means that many affected firms will also need to manage multi-jurisdictional projects. This was deliberately coordinated to avoid misalignment between these closely interconnected markets.

Unsurprisingly, CREST, the UK's central securities depository operated by Euroclear UK & International (EUI), is key to T+1 implementation in the UK. EUI has already taken steps to facilitate a smooth UK transition to T+1 settlement, including completing – ahead of schedule – a number of the actions assigned to it for 2026. This includes the confirmation that the CREST Modernisation Programme will avoid any major platform changes in the period immediately before and after the implementation date. A wealth of additional resources can be found on EUI's T+1 page.

All affected FMIs and trading venues need to be in a position to communicate changes to their rules, systems and processes to their participants by the end of 2026.

For firms regulated by the FCA, the critical message is that the FCA expects firms to be working on this, and will ask to see the project plan if they have concerns.

While October 2027 may seem a rather distant deadline, implementing T+1 settlement across all market participants – FMIs, the buy-side and sell-side – is a huge and operationally complex undertaking. Both the FCA and the Bank of England are keenly aware of the risk of market disruption if adequate preparations are not made by everyone affected. If you haven't already scoped out and resourced the project, that needs addressing urgently, as a number of key milestones will need to be achieved during 2026. As a positive by-product, the transition will offer an opportunity for many firms to enhance outdated or manual-heavy back-office processes (including through upgraded technology and increased automation), creating longer-term efficiencies.

Matt Humphreys, Senior Counsel

9 FCA SOLO-REGULATED FIRMS REMUNERATION REVIEW

Key dates

- The FCA is currently engaging with industry and other stakeholders to understand the value of the various FCA solo-regulated remuneration rules, the costs to firms in complying with them and considering their future shape.
- The latest Regulatory Initiatives Grid (December 2025) indicates that the FCA is expected to provide a progress update in "April - Jun 2026".
- Timing after that is unclear.

Action points

- Firms should engage (or continue to engage) with their trade associations during the current assessment phase.
- Firms should watch out for the FCA's update and again be prepared to engage, through their trade associations, as regards any FCA request for feedback or formal consultation.

FCA solo-regulated firms are currently at a relative disadvantage when it comes to the remuneration rules that apply to them, compared to those which now apply to banks and dual-regulated investment firms. This is because, over the last couple of years or so, the PRA and FCA have made a series of incremental, and largely beneficial, changes to the rules applicable to the latter which have not yet been replicated or appropriately reflected in the rules applicable to solo-regulated firms.

For instance, in December 2023, following a consultation, the PRA and FCA published PS16/23 – Remuneration: Enhancing proportionality for small firms: among other things, this removed the application of the rules on malus, clawback and buyouts to small banks and dual-regulated firms. Then, in November 2024, the Bank of England (PRA) and the FCA published a joint consultation paper on remuneration reform (which included proposed amendments to the Remuneration part of the PRA Rulebook and to the SYSC 16D Dual-regulated firms Remuneration Code); we set out details of the regulators' policy statement (PS21/25) in Section 4 of our October 2025 briefing. Both the above consultations were exclusively relevant to banks, building societies and PRA-designated investment firms. Therefore, as the regulators had stressed, none of the changes affected FCA solo-regulated firms subject to other FCA Remuneration Codes. Of course, beyond that strict application, the consultations were of wider interest because they signalled a welcome policy intent on the part of both regulators to simplify the remuneration regime for dual-regulated firms and make it more proportionate and appropriate to the UK market, and this begged the question as to why the same liberalisations were not being made at the same time to solo regulated firms. Some respondents to both consultations made exactly that point. The result is that a small bank, with retail clients, is now

subject to a lighter touch remuneration regime than a solo-regulated investment firm with professional clients despite the former arguably having a higher risk profile than the latter.

Following closure of the PRA / FCA remuneration reform consultation, and in recognition of the concerns raised by industry participants, the FCA announced, in a Call for Input on the future regulation of alternative fund managers in April 2025, that it would be reviewing the operation and effectiveness of its "solo" remuneration codes: i.e. AIFM Remuneration Code (SYSC 19B), the UCITS Remuneration Code (SYSC 19E) and the MiFID Remuneration Code (SYSC 19G).

The FCA subsequently confirmed, in October 2025, that the remuneration review was ongoing, and that it was actively engaging with industry and other stakeholders to understand the value and costs of those rules.

The latest Regulatory Initiatives Grid was published on 11 December 2025. This confirms that the FCA will be looking to publish a progress update on the remuneration review in Q2 2026 (April - June). It is possible that – because it is described as a "progress update" – the expected publication will not contain concrete policy proposals or amount to a formal consultation on proposed rule changes. At this stage, nothing else is scheduled in the current Regulatory Initiatives Grid for later in 2026.

Among other things, in order to achieve a degree of alignment with the remuneration regime that applies to banks and PRA-regulated investment firms, lobbying on behalf of the FCA solo-regulated sector is likely to focus on:

- Simplifying the respective remuneration rules applicable to AIFMs, UCITS managers and MiFID investment firms and ensuring, wherever possible, a degree of consistency and conformity (if not a degree of merger) between all of them, but taking into account the different business models which they each operate and not submitting them to blunt, "one size fits all" requirements.
- Improving – if not entirely disapplying – the malus and clawback requirements for all solo regulated firms (currently, while the AIFM Remuneration Code in SYSC 19B allows the manager to apply proportionality to these, the same is not true for a MiFID investment firm subject to SYSC 19G which is subject to mandatory requirements).
- Providing an exclusion from the Pillar 3 remuneration disclosure requirements for all solo regulated firms.
- Adjusting the proportionality carve-outs for certain pay-out process requirements (e.g. deferral or performance adjustment) to exclude certain material risk takers.

The FCA's remuneration review is a golden opportunity for the industry to make its voice heard: now is the time to argue for the overdue recalibration and simplification of the rules applicable to solo-regulated firms, to redefine and develop the concept of proportionality and to address the imbalance that has developed between the remuneration regimes for such firms and the recalibrated regime for banks and dual-regulated firms. The fact that aspects of the regime applicable to solo-regulated firms are now more onerous than those that apply to banks and dual-regulated firms makes no sense. It makes the UK a less attractive place to set up business.

Michael Raymond, Partner

10 CONSUMER DUTY: SMORGASBORD OF UPDATES

Key dates

- Ongoing – further engagement with stakeholders.
- 27 January 2026 – FCA's current consultation on Targeted Clarification of Handbook Materials (CP25/37) closes.
- 2 February 2026 – FCA's current consultation on client categorisation and conflicts of interest (CP25/36) closes.
- Q2 2026/"mid-2026" – based on the FCA's various recent publications on the Consumer Duty and the latest Regulatory Initiatives Grid (December 2025) the FCA intends to consult on application and requirements of the Duty (including through distribution chains) and on removing activities carried on with non-UK customers from the scope of the Duty – the final policy position is expected in Q4 2026.
- Q2 2026 – policy statement to CP25/37 and final rule changes on Targeted Clarification of Handbook Materials, expected to come into effect immediately, except for CASS-related amendments which would come into force in three months later.
- Q3 2026 – amendments to CASS following the CP25/37 Targeted Clarification of Handbook Materials consultation expected to come into force.

Action points

- Firms should engage (or continue to engage) with their trade associations on the two currently outstanding consultations (see above) and while the FCA is continuing to engage with stakeholders ahead of next year's Q2 consultation.
- Firms should watch out for the FCA's consultation(s) in Q2 2026 and feed into responses.

Background to The Consumer Duty review

Back in July 2024, the FCA had published a Call for Input looking at how it could simplify its requirements for the Consumer Duty. Its feedback statement (FS25/2) was published in March 2025 and set out immediate areas for action and further plans for review.

On 30 September 2025, the FCA published an update on the FCA's ongoing review of the Duty; a separate webpage setting out the regulator's current focus areas for the Duty; and a letter from FCA CEO Nikhil Rathi to the Chancellor of the Exchequer setting out a four-point action plan to remove "disproportionate burdens from wholesale firms and give them confidence to act proportionately":

1. Co-manufacturing

   Under the first step, the FCA undertook to provide more clarity on its supervisory approach and expectations under the Consumer Duty when firms work together to manufacture products for retail customers. On 8 December 2025, the FCA published a statement on firms working together to manufacture products or services. While this statement did set out what the FCA's expectations are under the current rules, none of these expectations were new or surprising (responsibilities do not need to be allocated evenly in every case, a firm is generally only liable for remedial action in respect of harm it has caused (though it may be responsible or liable for harm caused by another firm in the distribution chain) and outsourcing firms remain responsible. However, it confirmed that it will be looking again at those rules as part of the broader review in H1 2026 with a consultation paper scheduled for Q2 2026. This is expected to consider scoping, including exemptions in a business-to business context and changes to make clear when and how firms can rely on each other when they work together in distribution chains.

2. Client categorisation framework

   Under the second step in the FCA's action plan, the FCA said it would consult on plans to update the client categorisation framework to establish a clear set of standards for firms to identify individuals (including investors) capable of being treated as professional clients. This consultation, CP25/36: Client categorisation and conflicts of interest, was published on 8 December 2025. It included proposals to relax the elective professional test by only requiring either i) the client to have investable assets of at least £10 million; or ii) the firm being reasonably satisfied that the client is capable of making their own investment decisions and understanding the risks (and in either case procedural requirements being adhered to). The consultation closes on 2 February 2026. We have set out additional information on these proposals in the "Other areas to watch in 2026" section below.

3. Application to distribution chains

   Under the third step in the action plan, the FCA's consultation on changes to the rules on the application and requirements of the Duty will include consideration of the application of those rules in the context of distribution chains. The FCA has said that it wants to make it clear as to where the Duty applies so that it can draw a clearer line as to when it does not. The FCA will assess how its existing exemptions are working and consider whether they go far enough, including identifying business-to-business activities which should be outside the scope of the Duty. This will form part of the mid-2026 consultation.

4. Business with non-UK customers

   Finally, in the fourth step in the action plan, the FCA undertook to address something that has been opaque from the outset of the regime: the application of the Consumer Duty to non-UK customers. The FCA will propose in its mid-2026 consultation removing business with non-UK customers from the scope of the Duty. However, that may not be quite as unqualified as it first sounds: the FCA has said that it wants to "carefully consider the potential impact on consumers, including UK expatriates, before making its proposals". So, there may be strings attached to the disapplication.

Consumer Duty-driven Handbook clarifications

Aside from the above measures (broadly focused on the application of the Duty to wholesale business) the FCA has been looking at other opportunities to reduce uncertainty and resolve conflict and duplication. On 9 December 2025, the FCA published CP25/37: Targeted Clarifications of Handbook Materials. The consultation closes on 27 January 2025, with the

policy statement and final rules expected in Q2 2026. The consultation forms part of the FCA's Consumer Duty Requirements Review and sets out a number of amendments across the Handbook resulting from the FCA's Call for Input in July 2024. The FCA says that the rule amendments will come into effect immediately, except for the changes to the rules in CASS which would come into force 3 months later. The proposed amendments include the deletion of the COLL concentration rule for investing in other funds, updated references to FCA Principles 6 and 7 and an overdue retirement of most of the Treating Customer Fairly materials, as well as a large number of technical changes to CASS (see the item on UK CASS updates below).

One downside of having a high-level, principles-based set of requirements rather than a highly set of prescriptive set of rules is that, in the absence of clear guidance, it can be hard to discern where the boundaries lie. The FCA compounded this by initially encouraging an expansive interpretation. However, with growth high on the political agenda (and now a regulatory objective), the FCA has set in train this smorgasbord of updates. The stated aims and direction of travel are of course positive, but the real test will be when we see the detailed proposals and whether the changes go far enough to outweigh the change management fatigue that many firms are feeling at present.

Nick Glynn, Partner

11 UK CASS UPDATES: USEFUL CLARIFICATIONS OR A MISSED OPPORTUNITY?

Key dates

- 27 January 2026 – FCA's current consultation on Targeted Clarification of Handbook Materials (CP25/37) – which includes proposed changes to chapters 6 and 7 of the Client Assets sourcebook – closes.
- Q2 2026 – Anticipated date for policy statement.
- Q3 2026 – Final CASS rules expected to come into force (i.e. three months after the rules are made).

Action points

- Firms should consider what updates are required to their systems, policies and procedures to prepare for the rule changes that will come into force in Q3 2026. While no new obligations will be introduced, firms may need, among other things, to complete internal governance steps, update operational processes and, if necessary, repaper or update client documentation.

No detailed CASS review

Early in 2025, the FCA had suggested that it would conduct a detailed review of its client assets rules to determine if the existence of the Duty would allow it to streamline them. However, in September 2025, the FCA announced that it no longer intends to proceed with this and instead, it would proceed with a narrower, more focused review of certain aspects of CASS as part of its Consumer Duty-driven review of the Handbook.

Consumer Duty-derived Handbook clarifications

As part of its plans to simplify the Consumer Duty, the FCA published CP25/37: Targeted Clarifications of Handbook Materials on 9 December 2025.

The consultation closes on 27 January 2026. The policy statement is expected to be published in Q2 2026 and the changes to CASS will come into force 3 months after the date on which they are made – i.e. Q3 2026 – although the FCA is welcoming feedback on whether this limited transitional relief is sufficient.

Proposed targeted amendments to CASS

In outline, the amendments that the FCA proposes to make are as follows:

Record keeping

The FCA is amending the rules so that firms will be required to maintain CASS 6 or 7 records for 5 years from the date of *creation or modification of the record*, to avoid persistent breaches being flagged by auditors for missing (i.e. never created) historical records.

External custody reconciliation

- For uncertificated units held by members of CREST firms, the FCA is now proposing to allow all firms to reconcile against EUI's IFS records where applicable, subject to conditions (e.g. they have entered into a written agreement with EUI whereby the latter makes certain undertakings), without needing to obtain an FCA rule modification.
- The FCA is proposing to allow a relaxation of the "once monthly" requirement for external reconciliations in certain specified scenarios, where "operational realities" (rather than the firm's fault) prevent the firm from obtaining statements at least monthly.

Dealing with retail clients

- Under CASS 7, where a firm retains interest earned on client money for a retail client, it must notify the client in writing. Going forward, the firm will also need to conclude that the retention of interest is compatible with its obligations under the Consumer Duty.
- The rules on the entry into securities financing transactions ("SFTs") or the other use of clients' safe custody assets which will apply to retail market business will be made expressly subject to the firm's obligations under the Consumer Duty and further beefed up.
- Notwithstanding that the rule changes outlined above will expressly reference the Consumer Duty, the FCA proposes to amend the rules to clarify that a CASS auditor is not required, as part of its CASS audit, to assess or provide an opinion in relation to the firm's compliance with those particular CASS rules.

Treatment of bank interest received into client accounts

The FCA is proposing new rules to clarify how firms should treat bank interest arising on client accounts. The new rules cover two scenarios: (1) receipt of firm-owed interest into client accounts and (2) receipt of interest into client accounts before it is due and payable to the client. The changes should provide firms with a degree of clarity not currently present, and should help to reduce the incidence of technical, "no fault" breaches of CASS.

It is perhaps disappointing that the FCA dropped its plans for a fundamental review of CASS in favour of a narrower, Consumer Duty-focused set of technical amendments. The changes are unlikely to be relevant to many firms and, even where they are, many of the amendments are more granular and technical in nature than they might have been. That said, there are some welcome proposals that may address some common technical breaches that persistently crop up in annual CASS audits. Ahead of CASS audit season, do get in touch if you would like to discuss how the changes might affect your CASS arrangements.

James Barnard, Partner

12 NON-FINANCIAL MISCONDUCT AND THE SENIOR MANAGERS AND CERTIFICATION REGIME

Key dates

- The FCA's new rule for non-banks that misconduct such as bullying, harassment and violence is an FCA conduct issue in a broader range of circumstances comes into force, together with related guidance, on 1 September 2026.
- New guidance on the incorporation of non-financial misconduct into fit and proper assessments comes into effect on 1 September 2026.

Action points

- Consider whether any changes are needed to firm compliance policies to reflect the new non-financial misconduct rules. This could include policies on bullying and harassment, including sexual harassment, as well as complaints and whistleblowing or 'speak up' procedures.
- Consider whether any changes are needed to employment terms and conditions or the employee handbook to reflect the new non-financial misconduct rules, such as an obligation to comply with any investigations by the firm into staff behaviour.
- Consider what training on the new non-financial misconduct rules might be appropriate for staff and managers.
- Consider whether there are any changes needed to the information provided to the firm by staff (such as in any annual Fitness and Propriety Declaration), or to the triggers for updating such information on an event-driven basis.
- Consider whether there are any circumstances of which the firm is aware which could affect the firm's ability to assess someone as fit and proper. If so, the firm may need to consider whether it can continue to assess that person as fit and proper.

One of the FCA's priorities over the past few years has been the culture in firms and the behaviour of those working there. Although the FCA's ambitions have been scaled back, there will still be important changes in 2026 and beyond.

In early 2025, the FCA scrapped its much criticised proposals to introduce new rules on diversity and inclusion which would have required larger FCA authorised firms to incorporate D&I into their governance, set targets and make certain disclosures.

As part of that original package, the FCA also proposed new rules and guidance on non-financial misconduct. These are being carried forward but on a more limited basis (see *Non-financial misconduct* below). Separately, there have also been proposals to streamline the Senior Managers and Certification Regime (SMCR) (see *Senior Managers and Certification Regime* below).

Non-financial misconduct

From 1 September 2026, there will be a new conduct rule in COCON in the FCA's Handbook which effectively means that all SMCR firms (and not just those in the banking sector) will need to treat certain non-financial misconduct which takes place in a work context as a potential breach of the FCA conduct rules: CP25/18: Tackling non-financial misconduct in financial services This will include unwanted behaviour such as bullying, harassment and violence in relation to another person working for the firm (which is drawn broadly and includes, for example, certain service providers).

As a result, such breaches may need to be reported to the FCA and may also need to be included in regulatory references (although the FCA is not now going ahead with its proposed guidance on including non-financial misconduct in regulatory references).

The FCA has also finalised new guidance on non-financial misconduct: PS25/23: Tackling non-financial misconduct in financial services This includes:

- Further information on how the general rule in COCON on non-financial misconduct will operate.

  This includes that a person may be in breach of Individual Conduct Rule 1 (*You must act with integrity)* in cases of serious non-financial misconduct which relates to the firm's activities (both regulated and unregulated). Misconduct in the staff member's private or personal life, however, is out of scope.

  It also includes that a manager may be in breach of Individual Conduct Rule 2 (*You must act with due skill, care and diligence - Acting with due skill, etc as a manager*) for failing to prevent harassment and other kinds of misconduct.

  The guidance will be particularly important in interpreting the rule (such as what is meant by "serious" misconduct) and assessing its scope of application (such as the boundary between work and private life).

- A requirement that non-financial misconduct be considered as part of a firm's fit and proper assessments on senior managers and certified staff such as material risk takers and heads of significant business units.

  This applies more broadly than when assessing conduct rule breaches and would, for example, include behaviour in the individual's private life wherever in the world it occurs.

  Not all poor behaviour would automatically result in a person being considered not to be fit and proper. Behaviour which is more likely to be considered problematic would be that involving aggravating factors such as violence, a lack of integrity and dishonesty. Other factors such as the seriousness of the misconduct and whether it is repeated would also need to be taken into account. Ultimately, however, this could end up being a potentially tricky question of judgment for firms.

We discussed this new rule and the guidance in more detail (including its application to overseas persons) in our briefings: Behaviour under scrutiny: FCA's new rules on non-financial misconduct and New FCA guidance on non-financial misconduct.

On the face of it, addressing non-financial misconduct in firms seems obvious and uncontroversial. And in many situations, it will be. However, there will also be cases where firms and their managers will be required to make difficult judgment calls and therefore there will need to be careful analysis by firms as to the messages they give to their staff, the policies and procedures they have in place and how they would potentially approach any identified non-financial misconduct in the future.

Sam Brewer, Partner

13 NEW UK CONSUMER COMPOSITE INVESTMENTS (CCI) REGIME

Key dates

- The new regime comes into effect on 6 April 2026 but CCI manufacturers with existing disclosure obligations will have the option to continue with the status quo until 8 June 2027.

Action points

- Identify any CCIs where acting as manufacturer and / or distributor in respect of UK retail investors (taking account of any amendments to the FCA's professional client classification rules that may be confirmed in due course)
- If manufacturer, identify any co-manufacturers (N.B. a written agreement will be required delineating responsibilities and a further FCA consultation is expected on the topic next year)
- If manufacturer, consider adoption timetable and whether to make use of the voluntary adoption period between 6 April 2026 – 8 June 2027. For those currently preparing KID / KIIDs, a natural changeover point may be in line with annual review cycles
- For manufacturers, consider updates to data capture processes that may be necessary to prepare the core information disclosures
- Consider mechanics for information exchange between manufacturers and distributors and watch for developments to industry templates which can be used to satisfy these obligations
- Consider policy framework updates - particularly relevant for unauthorised persons who will become subject to Consumer Duty-lite obligations
- Confirm means of compliance with UK financial promotion rules. Unauthorised manufacturers and distributors in particular may need to consider this

The FCA has issued final rules for its new retail product disclosure regime: PS25/20: Supporting informed decision making: Final rules for Consumer Composite Investments. The new CCI regime will replace the existing UK PRIIPs KID and UK UCITS KIID disclosure obligations. The new regime is intended to be a less prescriptive and more flexible regime than those it replaces and will impose requirements on both authorised firms and unauthorised persons who manufacture or distribute consumer composite investments available to UK retail investors.

In terms of scope, the FCA has defined CCIs as investments where the returns are dependent on the performance or change in the value of indirect investments. This is similar to the EU concept of a PRIIP. In addition to this definition, the FCA has provided a series of explicit inclusions and exclusions. Products which can be expected to fall within scope include closed-ended investment funds, open-ended funds, structured products, contracts for differences and other products embedding a derivative. Certain vanilla corporate bonds, pension products and units in authorised contractual schemes and qualified investor schemes will be out of scope.

Key requirements include:

- CCI manufacturers must provide (and produce) a product summary, underlying core information disclosures and product governance and value information to distributors. The format and content of the product summary is generally non-prescriptive bar requirements to include certain core information disclosures including information on costs and charges, past performance and risk and return (including a ten-point risk scale);
- CCI distributors must make the manufacturer's product summary available to customers and/or highlight key information pre-sale and then provide the product summary in a durable medium to the consumer at the time of sale or as soon as reasonably practicable after; and
- general obligations relating to cooperation and information sharing.

Manufacturers and distributors who are unauthorised persons will, subject to some piecemeal carve-outs, become subject to a series of high-level obligations which authorised firms will already be familiar with – these include obligations reflecting some of the FCA's Principles of Business, Consumer Duty-lite obligations and complaints handling rules.

There is no mention of an intention to create an exemption in the financial promotion regime for the CCI product summary or related core information documentation (PRIIPs KIDs currently benefit from a statutory exemption). This is perhaps unsurprising given the non-prescriptive nature of the product summary but is likely to cause complexity for, in particular, unauthorised manufacturers.

We discussed the new CCI regime in more detail in our briefing: New FCA retail disclosure regime.

The new principles-based CCI regime can be expected to bring tangible benefits to consumers as it seeks to address a number of the known shortcomings associated with the existing retail disclosure regimes. However, being principles based, the practical application of a number of elements will be a matter of interpretation and there is a risk that the FCA may seek to evolve expectations through informal guidance, post implementation reviews and the like.

Nick Glynn, Partner

14 EU SAVINGS AND INVESTMENTS UNION AND RETAIL INVESTMENT STRATEGY INITIATIVES

Key dates

- As yet, there are no confirmed application dates for the Market Integration Package proposals or the Retail Investment Strategy package.
- However, there may be further updates on those dossiers during 2026 and it is possible that new Savings and Investments Union-related initiatives may also emerge.
- On 18 December 2025, it was announced that the European Council and Parliament had reached political agreement on the Retail Investment Strategy, although the final agreed text has not yet been published.

Action points

- A wide range of EU financial services stakeholders, including asset managers, financial market infrastructures, trading venue operators, central counterparties and cryptoasset services providers are likely to want to engage with their industry associations during 2026 to help shape the wide-ranging Market Integration proposals as they begin to travel through the EU legislative process.
- If the final Retail Investment Strategy legislation is published, EU asset managers are likely to need to begin impact assessments and implementation planning during 2026, as it is currently expected that there would be an 18-month implementation period before the revised rules enter into effect.

The Savings and Investments Union (SIU) emerged as a key EU initiative during 2025 as a means of driving forward the EU's objective of encouraging its citizens to invest their savings in productive assets with a view to raising the estimated EUR 750 billion or more required for EU investments each year by 2030. While it was originally a somewhat amorphous concept, towards the end of 2025, the potential shape of the SIU began to become clearer with the first major proposals emerging in the form of the EU Market Integration Package.

As a dossier that is likely to touch all parts of the EU financial services system, there was widespread speculation that the SIU might have killed off the previous (and considerably less ambitious) Retail Investment Strategy (RIS) proposals, which were published in 2023 but have been making slow progress ever since. However, it seems that reports of the demise of the RIS were premature and so at the moment, both the SIU and RIS are ongoing initiatives with potentially significant implications. In this section, we summarise the latest state of play on these initiatives and highlight areas that firms should keep under review during 2026.

EU Market Integration Package

The first significant output of the SIU was published in December 2025 in the form of the "Market Integration Package" (MIP), which consisted of three draft legislative texts containing amendments to a wide range of EU financial services legislation. One of those texts contained a new proposed EU regulation governing the EU's settlement finality framework, while the remaining two publications (a "Master Directive" and "Master Regulation") were omnibus-style legislation affecting a panoply of different market participants. We summarised the key points for asset managers, as well as the settlement finality proposals, in a client briefing published at that time.

Implications for asset managers

For asset managers, many of the granular MIP proposals are broadly positive and aim to reduce existing cross-border friction, particularly in relation to the marketing of funds by EU managers. The draft legislation represents a strong push for greater harmonisation across the EU, with explicit anti-gold-plating provisions in relation to marketing and investor reporting which are likely to be welcome to firms trying to navigate the existing patchwork of national requirements imposed by different EU Member States. In a similar vein, the MIP amendments would also remove a range of existing Member State discretions under the current AIFMD and UCITS Directive frameworks, effectively meaning that flexibility which is currently optional will become available by default across the EU. This includes elements such as the ability of EU AIFMs managing private equity-style AIFs to appoint "depo-lite" depositaries and higher investment limits for UCITS funds. There is also a renewed focus on efficient processes, with the MIP proposals reducing processing times for Member States to handle passporting applications and the removal of some existing approval requirements for certain intra-group delegations by AIFMs and UCITS managers. The industry is also likely to welcome the development of what the Commission terms a "depositary passport", allowing EU AIFMs to appoint an eligible depositary in a different Member State from the home Member State of an AIF or UCITS fund.

However, the MIP package is not all good news for the EU asset management industry. There are some elements which will need further scrutiny as they develop, but which could ultimately introduce more onerous requirements. These include new powers for ESMA to publish guidelines on rules of conduct and prudential rules for AIFMs and UCITS managers and a new framework for ESMA to intervene in the supervision of large cross-border EU asset management groups. While the Commission has been at pains to emphasise that this does not amount to *direct* supervision of asset managers by ESMA, in practice, few asset managers are likely to welcome the possibility of such ESMA interventions, particularly if they are used to pragmatic supervision by existing national regulators.

The Commission will also be empowered to draft new delegated legislation specifying the scope of what constitutes a marketing communication under AIFMD and the UCITS Directive, and the content and format requirements applicable to such communications. Assuming this power survives into any final agreed legislation, the industry will be watching closely to see whether the resulting delegated act largely codifies existing ESMA's existing guidelines under the Cross-Border Distribution of Funds regime, or whether it imposes new (and potentially unpalatable) substantive requirements. It also appears that this power is limited to the context of marketing by AIFMs or UCITS managers and does not extend to marketing communications produced by MiFID firms acting as intermediaries in a distribution chain, meaning that there may continue to be a divergence between the AIFMD and MiFID requirements in this area.

Settlement finality proposals

The new draft Settlement Finality Regulation (SFR) adopts a similar harmonisation strategy, replacing the existing EU Settlement Finality Directive framework with legislation that is directly applicable in all Member States. In addition, the new SFR would also facilitate a modernisation of the existing rules, updating the provisions to accommodate distributed ledger technology (DLT) and potential future technological developments. As part of this "futureproofing" effort, the Commission will also be empowered to update certain key definitions, allowing the rules to be subject to more targeted adaptations to cater for newly emerging structures. While financial market infrastructures (FMIs) may be sympathetic to the objective of reducing Member State divergences, this would also mean that they will need to monitor the development of the regulatory framework over time as markets evolve.

As with the asset management-related elements of the MIP proposals above, the SFR proposals also contain some elements which may give rise to concern. The newly defined conditions for allowing Member States to designate securities settlement, clearing or payment systems are not as clearly drafted as might be desirable and considerable discretion is being delegated to ESMA and the EBA to formulate important regulatory technical standards which will provide critical details of the regime. This means that even once the EU SFR text itself is finalised, FMIs will still need to remain engaged with the development of the supplementary Level 2 rules to ensure that these are workable. Nonetheless, during 2026, the focus will be on the formulation of the Level 1 text as it progresses through the EU legislative process.

Other impacts

More generally, the Master Regulation in particular is a very wide-ranging text, amending a large number of other pieces of EU financial services legislation. The proposed changes include:

- Moving the provisions regulating trading venues (i.e. regulated markets, multilateral trading facilities and organised trading facilities) from EU MiFID to MiFIR, again with a view to ensuring greater pan-EU harmonisation. This will include the development of a new "Pan-European Market Operator" regime, allowing a single entity to operate trading venues in different Member States under a single licence under direct ESMA supervision.
- Amending the Central Securities Depositary Regulation to limit Member States' ability to impose additional gold-plated requirements on issuers of securities, to streamline passporting and to update the framework to cater for DLT. There is also a proposal to introduce a "hub and spoke" model for central securities depositaries (CSDs), with CSDs processing high values of settlement instructions acting as hubs and other CSDs being linked to them as spokes.
- Amending the existing European Market Infrastructure Regulation (EMIR) regime to make ESMA the direct supervisor of significant EU central counterparties (CCPs) and to give Member States the ability to nominate ESMA as the supervisor of non-significant CCPs if they wish.
- Updating the EU DLT Pilot Regulation to expand the scope of eligible assets to include all financial instruments (rather than being limited to shares, bonds and units in UCITS funds). Cryptoasset service providers will also be allowed to participate in the pilot programme. There will also be a simplified regime for smaller firms which service up to EUR 10 billion of DLT financial instruments. The changes will also widen the range of entities which are permitted to provide DLT notary services or DLT central maintenance under the pilot, and certain credit institutions authorised under the pilot which have access to central bank money will be permitted to set up a new type of settlement scheme to settle assets between them.

- Amending the Markets in Cryptoassets Regulation (MiCA) regime so that ESMA will become the direct supervisor of EU cryptoasset service providers (CASPs). Other authorised entities, such as investment firms, which are permitted to provide certain cryptoasset services without needing to be authorised as CASPs will continue to be supervised by their national regulators instead, unless cryptoasset services become their main activity, in which case supervisory responsibility will be transferred to ESMA at that point.

As the MIP package as a whole is a large and complex set of legislation, we anticipate that industry associations representing a wide range of different EU stakeholders will be actively engaging with EU legislators during 2026 to help shape the proposed changes.

EU Retail Investment Strategy proposals

Although it is not technically part of the SIU (but instead forms part of the preceding Capital Markets Union initiative), the EU RIS is also looming on the horizon, following an announcement on 18 December 2025 that the European Council and Parliament had reached agreement on the RIS legislative package.

The initial RIS proposals were based on the idea that increasing protection for EU investors would lead to greater confidence and therefore greater participation in the EU financial markets. As a result, despite being designed to support a pro-growth agenda, the RIS package is not a deregulatory measure but instead would introduce a range of additional requirements. Understandably, given the renewed focus on EU competitiveness and burden reduction following the Draghi Report in September 2024, enthusiasm for the RIS had seemed to wane somewhat in the past couple of years as the SIU became the priority, but towards the end of 2025, there was a renewed push to finalise the legislation.

Our briefing from May 2023 sets out more detail on the above elements of the original RIS proposals, but by way of a brief reminder, these include (among others):

- Enhanced EU MiFID product governance requirements;
- A revised EU MiFID inducements framework;
- New requirements for EU firms providing investment advice to retail clients to recommend the most "cost-efficient" suitable investments;
- Updated appropriateness and suitability requirements for EU portfolio managers and investment advisers;
- New rules on marketing communications under MiFID, which might also have an indirect effect on non-EU fund managers and other product providers who rely on EU MiFID investment firms to distribute their products in the EU;
- Enhanced MiFID costs and charges disclosures;
- Updated requirements in relation to EU AIFMs and UCITS managers in relation to the types of costs that can be charged to funds or investors; and
- Updated requirements in relation to the preparation of Key Information Documents under the PRIIPs Regulation.

Perhaps most significantly, the RIS would also amend the EU MiFID criteria for opting up clients to elective professional status. As originally proposed, this would only have been a relatively mild liberalisation of the existing position, modifying the existing quantitative test. Although at the time of publication, we are still awaiting the final agreed text, the European Council's press release indicates that there may have been some limited further movement on the EU's proposed elective professional criteria, meaning that the changes are now expected to include the following:

- The existing criterion on frequency of transactions would be updated so that it would be met where the client has carried out, in significant size on a relevant market:
    - 15 transactions per year over the previous 3 years;
    - 30 transactions over the previous year; or
    - 10 transactions in unlisted companies over the previous 5 years, with each transaction having a minimum size of at least EUR 30,000.
- The criterion relating to the client's investment portfolio would require a reduced average portfolio size of EUR 250,000 (rather than EUR 500,000 at present), but this would be assessed over the three years preceding the opt-up request, rather than being a static point-in-time assessment; and
- There will be a new reference to "recognised education or training" incorporated into the existing criterion that references working in the financial sector, so that the criterion could be met either through appropriate work experience or through appropriate education.
- However, the Council press release also states that the new education and training criterion cannot be combined with the criterion relating to the size of the portfolio for the purposes of opting up a client or investor to elective professional status.

In addition, the Council has also confirmed that the per se professional categorisation rules will be updated to include managers and directors of banks, insurers and fund managers where the relevant individuals are directly involved in the investment activities undertaken by the entity. This will also extend to employees of AIFMs who are responsible for marketing or managing AIFs, but only in relation to investments in the specific AIFs for which the individuals carry out those duties.

For clients which are legal entities, the RIS proposals suggested halving the existing quantitative test, so that two out of the three of the following criteria would need to be met:

- A balance sheet total of EUR 10 million (reduced from EUR 20 million under the current rules);
- A net turnover of EUR 20 million (reduced from EUR 40 million); and
- Own funds of EUR 1 million (reduced from EUR 2 million).

As initially proposed, the RIS client categorisation proposals had a lukewarm reception from the industry, which noted that in practice, they seem unlikely to widen access to high-net-worth individuals who are not financial services professionals. This can be compared with the client categorisation proposals from the UK FCA in December 2025 which effectively propose abandoning the UK MiFID quantitative test in favour of an investable assets test for high-net-worth clients, or an alternative qualitative test based on a client's knowledge and ability to understand risk.

Although it appears on the basis of the Council's announcement that there has been some further movement on these original proposed RIS client classification criteria during trilogue discussions, in practice, the proposed changes still seem unlikely to introduce the sort of flexibility the industry had hoped to see in the context of alternative asset management and private market investments.

The EU regulatory landscape for asset managers is becoming increasingly complex, with various overlapping legislative initiatives moving at different speeds. The EU Market Integration Package is a good example of the complexities this can cause – in part, that would build upon (or in some cases, would delete) amendments under AIFMD 2 that are not yet in force themselves. The Retail Investment Strategy legislation now looks set to introduce additional changes which could take effect before the MIP changes, and there are rumours of another legislative package later in 2026 to promote growth, which might also affect the EU asset management framework. Navigating the complications caused by the interaction between the proliferation of different measures will be a key challenge during 2026 and beyond.

Phil Bartram, Partner

15 SUSTAINABLE FINANCE: EU AND UK ROUND-UP

Key dates

EU

- Ongoing – EU: Council and European Parliament to consider SFDR 2.0.
- Mid-2026 – EU: European Commission expected to adopt simplified set of European Sustainability Reporting Standards (ESRS).
- Q2 2026 – EU: European Commission to adopt delegated legislation on usability of technical screening criteria under the Taxonomy Regulation.
- 2 July 2026 – EU Regulation on ESG rating activities applies.

UK

- Ongoing throughout 2026 – UK: "The FCA will continue to support the implementation of the SDR regime" (Regulatory Initiatives Grid).
- 30 January 2026 – UK: Transition Finance Council consultation on updated Transition Finance Guidelines and new Implementation Handbook closes.
- January 2026 / Q1 2026 – UK: FCA intends to consult on UK Sustainability Reporting Standards disclosure requirements for listed companies (following last year's consultation by the Department for Business and Trade).
- 31 March 2026 – UK: FCA CP25 / 34: ESG (Environmental, Social, Governance) ratings: Proposed approach to regulation closes.
- "Spring" 2026 – UK: Transition Finance Council to publish finalised entity-level Transition Finance Guidelines.
- Q3 2026 – UK: The Climate Financial Risk Forum (CFRF) publication of further guidance on key themes of Adaptation, Nature as a Financial Risk and Scenario Analysis, and on Transition Finance metrics.
- Q4 2026 – UK: FCA to publish policy statement on regulatory framework for ESG rating providers
- 2 December 2026 – UK asset managers of UK AIFs and UCITS with AUM of over £5 billion must publish their first entity level SDR disclosure

Action points

- SFDR 2.0 - Firms should watch the unfolding positions adopted by the Council and European Parliament on SFDR 2.0 and engage with their industry associations to seek changes to the Commission's proposed text.

EU

EU member states must implement CSRD and CS3D. Firms and investors will examine the implications of SFDR 2.0 whilst additional guidance is expected to emerge. The European Commission's update of the EU's Green Taxonomy will continue. The US administration will continue to seek concessions and exceptions for US firms from the various requirements.

Omnibus – CSRD and CS3D: simplification and reduced scope

Late on 8 December 2025, after some heavy traffic and several diversions, the trialogue negotiations on the Sustainability Omnibus package (amendments to the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CS3D)) finally reached the terminus. We reported the conclusion of negotiations in our 9 December briefing, The Omnibus reaches its destination: CSRD and CS3D 2.0. The text was approved by the Council's COREPER committee on 10 December, and by the European Parliament in its plenary session on 16 December 2025.

CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)			
	Thresholds for application	Notes	Reporting begins
EU entities	€450m net worldwide turnover and 1,000 employees	EU member states to have right to exempt existing "wave 1" reporters from reporting for 2025 and 2026	Financial years starting 1 Jan 2027 and onwards, for publication the following year
Non-EU entities	Non-EU ultimate parents of groups with €450m net EU turnover	Exemption for financial holding undertakings. Reporting obligation sits with EU subsidiary with net turnover of €200m or more	Financial years starting 1 Jan 2027 and onwards, for publication the following year

CORPORATE SUSTAINABILTY DUE DILIGENCE DIRECTIVE (CS3D)			
	Thresholds for application	Notes	Deadline for compliance
EU entities - Non-franchise	€1.5bn net worldwide turnover and 5,000 employees		26 July 2029
- Operating franchise models	€75m in royalties and €275m net worldwide turnover		
Non-EU entities - Non-franchise	€1.5bn EU turnover	N.B. No employee threshold	26 July 2029
- Operating franchise models	€75m in *EU* royalties and €275m *EU* turnover		

For more details on the scope and application as summarised above – and what it will mean for those that are caught – please see our 19 December briefing CSRD and CSDDD Version 2.0 – the EU's sustainability framework redefined.

Once published in the Official Journal (possibly in March 2026) the Directive will enter into force 20 days after publication.

Reporting under CSRD will begin for financial years starting 1 January 2027 and onwards with publication in the following year. Businesses reporting in 2027 will need to prepare in 2026. All in-scope companies will need to comply with CS3D by 26 July 2029.

SFDR 2.0 – new product categorisations, but don't call them labels!

On 20 November 2025, the European Commission released its proposed amendment to the Sustainable Finance Disclosure Regulation (SFDR 2.0). The Commission is proposing a wholesale replacement of the existing disclosure regime. The new regime focuses on 3 new categories: sustainable, transition and ESG basics. It will apply to all open-ended funds and to closed-ended funds which continue to be marketed after implementation, currently expected early 2028 at the earliest. Our briefing, on 24 November 2025, summarised the key changes between the 6 November 2025 leaked draft and the final proposals. Our 12 December 2026 Alternative Insights briefing sets out our initial reflections: The Commission's SFDR proposal fails to deliver clarity.

The leaked draft had featured a voluntary opt-out from the new regime for professional-only funds. This was removed from the final proposal. So as things stand, fund managers targeting institutional investors will need to determine whether their fund qualifies for one of the new product categories (by satisfying stringent eligibility criteria mainly designed for a retail fund) or a fund that falls outside the categories altogether. Uncategorised funds will be subject to quite significant restrictions on the ability to market any sustainability features. The new iteration of SFDR will cease to apply to portfolio managers running single managed accounts or investment advisers, so will align with the UK's SDR regime. Over the next few years, we expect a draft regulatory technical standard which will contain much of the crucial additional detail needed for implementation, as well as guidance coming out of the European Commission, European Supervisory Authorities and local regulators. Many points of detail may end up looking quite different from the Commission proposal.

UK

The UK will consult on applying its version of the International Financial Reporting Standards (IFRS) Foundation sustainability and climate disclosures (IFRS S1 and S2) to listed companies. Other UK policy initiatives are paused or moving slowly.

SDR and labelling regime

Throughout the coming year, as the FCA itself puts it (in its Regulatory Initiatives Grid) it will "continue to support the implementation of the SDR regime". This means its supervisory team will be reviewing compliance rather than the policy team expanding the rules to cover a wider group of firms.

For the time being therefore, SDR and the labelling regime applies only to UK domiciled AIFMs and UCITS managers running UK AIFs and UCITS funds. The FCA has paused plans for two proposed extensions to this application. In April 2025 the FCA announced that it had paused its plans to extend the SDR and investment labels regime to wider portfolio management (such as UK managers running funds on a delegated basis or running single managed accounts). The FCA said that it wanted to take time to consider the challenges and ensure that portfolio managers would be ready to implement the regime. Since then, there have been no further updates and the Regulatory Initiatives Grid is silent on this, suggesting that this is firmly on the back burner, if not quietly dropped. A second possible extension to the UK regime that has been discussed, but which has so far not materialised, relates to non-UK retail funds which are marketed into the UK using the UK's bespoke "overseas funds" regime. There is currently no indication as to whether or when this proposal might be reactivated.

Transition finance

Transition finance is becoming increasingly important as businesses navigate towards net zero. In November 2025 the Transition Finance Council published its consultation on the draft entity-

level Transition Finance Guidelines and a new draft Implementation Handbook (how to apply the Transition Finance Guidelines). That consultation closes on 30 January 2026, and the final version of the Guidelines is expected to be published in spring 2026. While the Transition Finance Council is UK-based (it was launched by the City of London Corporation and the UK Government), the consultation has been seeking feedback from market players around the world. While the Guidelines will be voluntary, they are built on authoritative frameworks, such as those developed by the Transition Plan Taskforce and International Sustainability Standards Board (ISSB) and the Net Zero Investment Framework (NZIF). It will be interesting to see how much traction the Guidelines get.

Fund managers and investors will work through the impact of SFDR 2.0 in 2026. If the US Government becomes interested in the legislation, this could impact timing and detail. We are also watching with interest the US state level climate disclosure proposals, including New York, Maryland and Oregon, as well as the legal challenge to the California Climate Disclosure requirements.

Tim Lewis, Head of Financial Services and Markets

Travers Smith's
Alternative and Sustainability Insights

Register for our Travers Smith Alternative and Sustainability Insights. Each issue provides analysis of and commentary on a topical sustainability story impacting the alternative asset management sector.

16 OTHER AREAS TO WATCH IN 2026

EU asset management regulatory reporting initiatives

- Back in June 2025, ESMA published a discussion paper to assess the feasibility of developing an integrated reporting system for AIFs and UCITS funds, as mandated by AIFMD II. The paper encouraged stakeholders to provide feedback on potential areas of duplication and inconsistency between reporting requirements under AIFMD, the UCITS Directive and the European Central Bank's (ECB) requirements for statistical reporting, with a view to considering how to reduce the reporting burden and increase efficiency.
- At the same time, ESMA also published a call for evidence on simplifying the EU's regime for financial transaction reporting, seeking industry views on how to streamline reporting obligations under MiFIR, EMIR and SFTR. This was followed by ESMA and the Commission confirming that the anticipated updates to the MiFIR transaction reporting regulatory technical standards would be delayed, pending the outcome of this broader review.
- By 16 April 2026, ESMA is mandated to report back to the European Commission on its findings on integrated fund reporting, which could result in recommendations for substantial reform of the existing AIFMD Annex IV reporting requirements, as well as the development of a new pan-EU UCITS reporting regime. In the discussion paper, ESMA highlighted different potential approaches to integrated reporting without expressing a clear preference – these could range from maintaining the existing separate AIFMD, UCITS and ECB reporting templates but minimising data overlap wherever possible, to designing a single integrated reporting template to cover all those regimes. Although there may be efficiency benefits to these approaches, due to changes in the scope of Annex IV reporting introduced by AIFMD II, ESMA is also exploring how to introduce full security-by-security level reporting for funds. In practice, this is likely to be onerous, although ESMA has also suggested that there could be a potential derogation from this for securities which have no available public identification codes.
- The timing for any output on rationalising MiFIR, EMIR and SFTR transaction-based reporting is less clear, but it seems likely that additional details could also be published during 2026.
- It is possible that the fund reporting proposals could have knock-on effects for reporting by non-EU AIFMs marketing their funds into the EU under national private placement regimes.

FCA amendments to MIFIDPRU regulatory capital rules

- In October 2025, the FCA published a policy statement containing amendments to its rules which define regulatory capital for UK MIFIDPRU investment firms. The relevant amendments will take effect on 1 April 2026 and are summarised in our previous client briefing on this topic.

- Although the FCA considers that the changes are broadly deregulatory, they will result in a substantial update to the current format of the MIFIDPRU 3 rules (which define a MIFIDPRU firm's eligible regulatory capital). This will mean that all existing references to the MIFIDPRU 3 rules in a firm's policies or related documents (e.g. the ICARA document) are likely to need to be updated to ensure that they refer to the relevant successor provisions.
- In addition, some of the FCA's updates provide further guidance or additional nuances in relation to some aspects of the rules. For example, the rules on when a firm can recognise minority interests in non-wholly owned subsidiaries as contributing towards consolidated regulatory capital have been substantially rewritten, and there is additional guidance on some of the eligibility criteria for Common Equity Tier 1 capital.
- During Q1 2026, firms may therefore wish to review whether the relevant changes affect their existing approach to calculating their eligible regulatory capital, as well as considering whether any updates to their internal documentation are required.

CRD VI: Third country banking services

- From 11 January 2027, under the Sixth Capital Requirements Directive, certain non-EU undertakings which provide core banking services (such as deposit taking and lending) in the EU will, in many cases, be required to establish a licensed branch in each member state in which they operate.
- This will mainly be relevant to non-EU banks carrying on activities with EU entities. Funds (including credit funds) and SPVs are generally unlikely to be directly caught by the requirement (because they generally would not be categorised as credit institutions / large investment firms for these purposes). However, it could affect the willingness or ability of non-EU entities to provide custody or prime brokerage services or offer credit to EU-based entities (including funds and SPVs). We discussed this further in the 2025 New Year briefing.
- In CRD VI, there is an exemption from the licensed branch requirement where the non-EU firm lends to EU credit institutions. In July, however, the EBA decided not to recommend extending this exemption for lending to other financial sector entities.
- There is another exemption for non-EU entities providing core banking services on an ancillary basis to certain MiFID investment services. There is some debate over whether this extends to core banking services provided on an ancillary basis to MiFID ancillary services, such as safekeeping. Helpfully, some member states appear to be favouring this latter interpretation in their implementation but affected entities should monitor this closely in the jurisdictions in which they provide services.

Amendments to the UK Money Laundering Regulations

- In July 2025, HM Treasury published a consultation response confirming a range of targeted amendments to improve the effectiveness of the UK Money Laundering Regulations 2017 (MLRs), which we summarised in a client briefing at the time. This

was followed by the publication of the relevant draft legislation in September 2025. We anticipate that the final legislation will be made during H1 2026.

- The updates to the MLRs are fairly limited in scope and therefore are unlikely in practice to result in a significant reduction in the burdens faced by firms. Nonetheless, there are some welcome changes, including some relaxation of the requirements around enhanced customer due diligence in connection with certain higher risk jurisdictions, and an updated approach in relation to when complex transactions will trigger enhanced due diligence. In addition to changes to the substantive obligations, certain monetary thresholds in the MLRs are being restated into sterling.
- Once the final legislation is confirmed, firms may need to review and update their internal policies and procedures to reflect the revised framework and updated monetary values.
- HM Treasury has also indicated that it will also be working with supervisory authorities and industry bodies to clarify the meaning of a range of obligations in the MLRs, including to update guidance on when a business relationship is considered to be "established" (which is a trigger for customer due diligence) and when a firm will be required to check the source of funds as part of standard customer due diligence. During 2026, firms should therefore monitor for any consultations from the Joint Money Laundering Steering Group or other relevant bodies, and should consider whether they wish to provide feedback through industry associations to ensure that any updated guidance is clear and practical.

Senior Managers and Certification Regime

- The FCA consulted on some relatively minor changes to its rules in order to reduce the regulatory burden for firms under the SMCR: CP25/21: Senior Managers & Certification Regime review. Similarly, the PRA also issued its own consultation: CP18/25 – Review of the Senior Managers and Certification Regime (SM&CR) | Bank of England
- The FCA's changes included extending the validity period for criminal records checks, adjustments to the operation of the 12-week rule and increasing the thresholds for enhanced scope SMCR firms. If adopted, these are not expected to take effect until mid-2026 at the earliest.
- HM Treasury also consulted on some more fundamental changes including the removal of the Certification Regime from legislation (to be replaced by more flexible regulatory rules) and a reduction in the number of senior manager roles: Reforming the Senior Managers Certification Regime. If these proposals go ahead, these will take longer to implement and will require further consultation by the FCA and PRA. Therefore, these changes are not expected to take place in the very short term.
- Further details of the proposals can be found here: Management review: proposed overhaul of the SMCR.

Client categorisation rule changes

- In December 2025, the FCA published CP25/36, setting out its proposals to update the client categorisation framework for investment activities in the UK. Firms have until 2 February 2026 to respond to the consultation. Although there is no express timeline for the FCA to publish any final rules resulting from the proposals, it appears likely that these may emerge in mid- to late 2026.
- Under the proposals, the FCA would delete the existing distinction between the MiFID and non-MiFID tests for the purposes of categorising clients as elective professionals. Instead, the client would need to meet one of the following criteria:
    - The firm must have verified that the client has investable assets (which include cash and the net value of designated investments, such as shares, bonds, units in funds, interests in pension schemes, etc.) of at least £10 million; or
    - The firm must reasonably have concluded that the client is capable of making their own investment decisions and understanding the risks involved in light of the transactions or services envisaged. If the firm is using this qualitative test, it must take into account certain factors specified in the rules, such as the client's personal investment history, financial capacity and other relevant information, such as any characteristics of vulnerability.
- In addition to ensuring that the client meets one of the above criteria, the firm will also need to meet certain other conditions, such as ensuring the client has explicitly requested to be opted up and has given informed consent, and that the firm is treating the client fairly and acting in accordance with the Consumer Duty. In practice, there is therefore likely to be greater emphasis (and greater regulatory scrutiny) on the processes that firms use to satisfy themselves that opt-up is appropriate for the client.
- The FCA is also proposing to update the test for per se professionals. Among other changes, this would include:
    - removing the distinction between the MiFID and non-MiFID test for large undertakings, so that this would be based on the existing MiFID thresholds, but restated into sterling. This means that the undertaking would need to meet two out of three of the following: a balance sheet total of at least £20 million, net turnover of at least £40 million and own funds of at least £2 million; and
    - allowing special purpose vehicles to be treated as per se professionals when they are established or managed by another per se professional client (or group containing such a client) for the specific purpose of carrying on regulated or ancillary activities. In practice, this is designed to allow "below the fund" investment vehicles and similar entities to be categorised as per se professionals.

PSD3 / PSR: New EU payments legislation

- With provisional political agreement having been achieved in November 2025, we expect the final text of the third Payment Services Directive (PSD3) and an accompanying Payment Services Regulation (PSR) to be published, potentially very soon (earlier in the process the aim was to have the trilogue completed under the Danish presidency of the Council, which ended on 31 December 2025).
- While not as far-reaching as the first two directives, the entry into force of the legislation (expected to be fully operative by H2 2027 or, the Commission's preference, 6 months later) will trigger significant projects.
- The package introduces a number of anti-fraud protections, most notably those aimed at online platforms. First, platforms can be liable where their users fall victim to fraudulent content where the platform has been told about the fraudulent content. In addition, adverts on platforms for financial products will be restricted to firms that are authorised or exempt in the relevant Member State.
- In addition, verification of payee account name is being extended, something the UK has already experienced. In another area where the EU can be seen to be emulating the UK, cashback transactions will be available without making a purchase at the same time.
- There are also new requirements on the transparency of fees and charges, including a requirement that merchants' normal trading names appear against transactions. This is intended to reduce confusion.

Fundamental Rules for financial market infrastructures

By way of reminder from our earlier publication in the summer of 2025, the Bank of England's new Fundamental Rules for FMIs will apply from 18 July 2026. As we mentioned in that piece, given that the industry successfully persuaded the Bank of England to permit a substantial extension to the implementation period, FMIs would be wise to assume that any excuses about implementation are unlikely to be sympathetically received once that deadline passes.

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