REGULATORY UPDATE

Financial Services End of Summer 2026 Postcard

7 September 2026

Anybody who has visited the UK for even a short period will know that the British obsession with the weather is a long-running cliché. Even so, as the summer of 2026 has seen an unprecedented heatwave across Europe, we hope you'll humour us as we lapse into yet another extended meteorological analogy to introduce this regulatory update.

Beginning with the cryptoassets space, the temperature has been steadily rising, with most of the new UK regulatory framework now finalised. Given that the FCA's application window for cryptoasset authorisations opens on 30 September, some firms will already be feeling the heat as they work to submit their applications. Similarly, with the looming shadow of T+1 securities settlement getting ever closer as the October 2027 deadline approaches, firms should be reviewing and optimising their systems and processes while the sun still shines.

Solo-regulated UK asset managers may feel that they have the wind in their sails after the FCA's consultation on reforming the remuneration framework; barring a few points of detail, the industry will be feeling the warm glow of de-regulation at work. On the other hand, the FCA's latest proposals for reforming the UK framework for fund managers look to be something of a damp squib, rather than the sunlit uplands that asset managers might have been expecting. Meanwhile, we await the emergence of the final FCA changes to the UK's client categorisation framework, but judging by the downpour of requests for clarification on the original proposals, there is a sneaking suspicion that rain may temporarily have stopped play there until later in the year.

Key EU dossiers, particularly the revised Sustainable Finance Disclosure Regulation and the Market Integration and Supervision Package, remain shrouded in dense fog, with an ever-present risk of hitting some nasty obstacles before the mists finally clear. The EU Retail Investment Strategy appears to have made its way through an earlier patch of rough weather, but now seems to be stalled in settled conditions until at least November, when a key vote is due in the European Parliament.

Given the wide range of other ongoing initiatives, perhaps the best that can be said for the remainder of the year is that it looks set to be a familiar mix of high pressure, ominous rumblings and periodic deluges, punctuated by the occasional bright spot. In the current regulatory climate, all four seasons really can happen in a day.

In this End of Summer Postcard, we give our forecast about key issues that may need some attention throughout the remainder of 2026 and beyond, along with some high-level action points for firms to consider.

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Our forthcoming UK/EU Alternative Insights webinar series

As we reach the end of the summer, we're pleased to announce the launch of our latest series of regulatory webinars. Each webinar will focus on a different regulatory theme which is topical for the asset management industry and will be presented by relevant experts from across Travers Smith.

Our first webinar will involve a timely look at the UK AIFMD Review and will take place at **16.00 (London time) on 22 September**.

We have sent out an email invitation for this webinar session and will share details on each webinar topic over the coming months.

If you want to make sure you receive these updates, please email us and we will add you to our marketing list.

1 UK AIFM Review

Key action points beginning in Q4 2026

- Firms should engage with the proposals and consider whether to provide any feedback to the consultations (either directly or through industry associations).
- Firms should also keep an eye out for the further FCA consultation, expected towards the end of 2026.

The big news of the summer, at least for asset managers, was the publication of the proposals for the overhaul of the UK AIFM regime. In an apparent recognition of the size and complexity of the proposals, the FCA has slightly extended the deadline for responding on most elements of the main consultation until **22 October 2026**. However, the deadline for responding to certain discussion chapters in the main consultation paper remains **18 September 2026** and the deadline for responding to HM Treasury's draft legislative changes is **14 October 2026**. Given these tight timeframes, firms and industry associations (as well as those of us at Travers Smith!) have had a very busy summer engaging with the new framework. The implementation date for the changes is expected to be an as-yet unspecified date in 2028 but assuming the proposals are adopted in their published form, there will be a lot of work needed before then. We discussed the UK AIFM and Fund Reporting for Asset Management Entities (FRAME) consultations in more detail in our briefing: *All change for UK AIFMD?*

So what do the proposals look like?

The core of the proposed regime consists of the new Alternative Investment Fund Managers Regulations 2026 (replacing the existing 2013 Regulations), together with a new FCA sourcebook setting out reworked rules for AIFMs, known as ALTS. This new ALTS sourcebook will replace the current rules in FUND and the AIFMD Delegated Regulation. The aim is to make the rules easier to navigate and more proportionate, but in a number of places there will be additional obligations.

For existing full-scope and small authorised AIFMs, the big change would be the proposed new three-tiered categorisation approach based on the net asset value of the assets managed by the AIFM. The rules will then apply on a proportionate basis, depending on whether the AIFM is considered a Large, Medium or Small AIFM (with the Large AIFMs being those with over £5bn NAV and Medium AIFMs those with £750m NAV or more).

Current small authorised AIFMs are likely to experience the biggest change as they would fall within the scope of the full AIFM rules for the first time (albeit applied proportionately). Some existing small registered AIFMs may also need to seek authorisation as an AIFM and comply with the AIFM rules. More controversially, the FCA has indicated that, following some proposed tweaks to the definition of an AIF in the new 2026 Regulations, it considers that some residual collective investment schemes will be considered AIFs under the new framework, with their operators therefore required to become authorised as AIFMs.

As regards the rules themselves, the FCA's stated aim is for these to apply more proportionately, with some of the less helpful rules removed. However, in some areas, particularly valuation, risk management and liquidity, there are some additional obligations for firms. The recent FCA focus on conflicts is incorporated in a number of places in the rules, including with enhanced rules on the independence of valuations and the risk management function.

The FCA has also sought feedback on a range of areas with a view to issuing a further consultation later this year. This includes the AIFM business restriction, the prudential regime and the role of depositaries.

If all that wasn't enough, the FCA has also issued its proposals for a wholesale reworking of the reporting regime with its FRAME proposals, as well as a consultation on remuneration (see Section 2 below). The remainder of 2026 therefore looks set to be a very hectic time for the UK asset management industry.

2 Reforms to the UK remuneration framework for solo-regulated firms

Key action points beginning in Q4 2026

- Finalise consultation responses to CP26/27 imminently, if they have not already been submitted.
- Review existing remuneration policies and procedures to identify potential changes in light of the increased flexibility under the proposed new framework.
- Keep an eye out for the publication of final rules in **Q1 2027**.

Following the liberalisation of the FCA and PRA's remuneration framework for UK banks in October 2025, UK asset managers had been eagerly awaiting the FCA's consultation on reforms to the remuneration rules for solo-regulated firms. When the proposals finally emerged in July 2026, they largely came as a pleasant surprise, representing a genuine simplification of the current fragmented framework and a move to a more flexible, principles-based approach. We summarised the FCA's detailed proposals in this area in our client briefing at the time: *Remuneration relaxation: The UK FCA's proposals in CP26/27*.

If the final rules are adopted in the same form as the consultation proposals, many UK asset managers are likely to conclude that they can simplify and streamline their existing remuneration arrangements. This is particularly the case if they are currently subject to onerous "pay-out process" requirements, such as obligations to pay part of senior executives' remuneration in non-cash instruments, or rules on deferral, malus and clawback. Firms will nonetheless still need to demonstrate that they are complying with broad remuneration principles and that their remuneration arrangements ensure appropriate risk alignment, taking into account conduct risk to the firms' clients or investors in relevant funds, and any wider risk to the firm or the financial markets. As a result, we anticipate that clear analysis and explanations of how any revised remuneration arrangements adequately address each of the new principles-based elements of the framework will be key.

The deadline for responding to the consultation (**Wednesday, 16 September 2026**) is imminent, so any firms or industry groups that wish to submit a response and have not yet done will need to finalise their submissions in very short order. Generally, we expect that asset managers are likely to be broadly supportive of the proposed changes, subject to some specific points of detail around areas such as technical definitions and transitional arrangements.

Based on the FCA's indicative timing, we are expecting to see finalised rules published in **Q1 2027**. The FCA has suggested that the rules could apply immediately in relation to performance periods which begin on or after the publication date, although that position could change in response to consultation feedback. On the current drafting of the proposals, the existing remuneration framework would continue to apply to any remuneration awarded in relation to any performance periods beginning before that date, meaning that staff who are currently subject to the existing requirements could find that there is a legacy effect of those rules for several years to come. We nonetheless expect industry associations to lobby on this latter point to allow more flexibility in relation to the treatment of remuneration attributable to previous performance years.

3 UK cryptoasset regulation

Key action points beginning in Q4 2026

- Firms should be ready to apply to the FCA for authorisation in the window that opens on **30 September 2026** and closes on **28 February 2027**, having taken advice on whether they need permission, and if so, for which activities.
- On the subject of permissions, firms should scrutinise the finalised Perimeter

  Guidance, expected around the time of this publication.
- Preparations for authorisation will need to cover operational resilience, financial crime, and senior management arrangements, as well as compliance with the new conduct of business and prudential rules.

For cryptoasset firms, 2025 and the first half of 2026 was marked by wave upon wave of consultations from HM Treasury and the FCA (and, to a lesser extent for those interested in stablecoins, from the Bank of England as well). Now, however, begins the time for execution.

We have previously written about the final package of Policy Statements in Can we finally "summit" all up? The FCA's cryptoasset regime (largely) emerges from the clouds. That article also collates all of the articles we have written along the way.

From 25 October 2027 (Crypto Day), there will be seven new regulated activities in the RAO:

- Issuing a qualifying stablecoin
- Safeguarding qualifying cryptoassets and relevant specified investment cryptoassets
- Operating a qualifying cryptoasset trading platform
- Dealing in qualifying cryptoassets as principal
- Dealing in qualifying cryptoassets as agent
- Arranging deals in qualifying cryptoassets
- Qualifying cryptoasset staking

There are two related but distinct considerations for firms.

First, it is absolutely imperative that firms analyse whether they need permission, and if so, for which activities – there are multiple new exclusions. This task is made slightly harder than would be ideal, because the FCA's Perimeter Guidance (**PERG**) is not yet finalised. In turn, the legislation is itself technically incomplete, given that HM Treasury has not completed the process to introduce proposed new exclusions, including for payments using UK-issued qualifying stablecoins and proprietary trading activities (as covered in The importance of paying attention: The FCA's consultation on cryptoassets perimeter guidance has been followed almost immediately by further legislative changes to the perimeter). This means that firms may need to make critical strategic decisions with incomplete or ambiguous information, and in any event, given the ubiquity of USD stablecoins issued by Circle and Tether, there are questions over how useful the exclusion is in practice.

Time is of the essence. The FCA will start accepting applications for authorisation on 30 September 2026, and this application gateway technically "closes" on 28 February 2027. "Closes", however, is potentially something of a misnomer as applications can still technically be made after this point. Firms that meet the deadline will benefit from a transitional provision meaning that, if their application has not been finally determined by Crypto Day, they are still permitted to continue operating as normal (the new regime is effectively postponed for those firms until such date as the application is determined). Firms that apply later than 28 February 2027 do not benefit from this. That means that, if their applications have not been determined as of Crypto Day, they cannot take on new customers unless and until their applications are approved (and if they are rejected, they must wind-down their business).

Second, for those firms applying, this is a significant undertaking. This is especially true where a firm is new to FCA regulation under FSMA. The new CRYPTO sourcebook, plus additional chapters of CASS, introduce substantial new compliance obligations even though the consultation process materially improved the design of the regime. Firms that have not been regulated by the FCA before will also need to comply with the full gamut of FCA sector-agnostic regulation, ranging from financial crime to operational resilience and everything in between.

Firms that have not started this journey will need to accelerate their programmes immediately.

4 UK Modernising Payment Services Regulation

Key action points beginning in Q4 2026

- Firms (acting through industry associations, where appropriate) should respond to HM Treasury's consultation by **6 October 2026**.
- Open Banking firms must be ready to analyse and engage with the secondary legislation that will be proposed under the Data (Use and Access) Act 2025 by the end of 2026.
- Firms should study and comment on the FCA's anticipated Engagement Paper

In its "Modernising Payment Services Regulation" consultation, HM Treasury has embarked on the most ambitious rewrite and reform of payments law since the implementation of the first Payment Services Directive in 2009.

As we discussed in our article To modernity and beyond! HM Treasury's consultation on payments regulation gives a thrilling glimpse of a high-tech future – if executed well, there are multiple important strands to this work.

At a strategic level, the FCA would be given a greater policy-forming role – it would not simply be a matter of requirements moving from the statute book to the FCA Handbook. In a number of areas, the FCA would be empowered to decide what the requirement should be. There are also questions about the precise shape of the perimeter.

At a more granular level, HM Treasury has three specific areas on which views are sought. Ranging from the least-developed to the most, these cover:

- agentic AI;
- tokenised payment instruments; and
- the future regulatory framework for open banking.

The deadline for responses is 6 October 2026, but this is a multi-year programme and is unlikely to be in force before the end of 2028. That said, we expect the FCA to commence its own process with an "Engagement Paper" outlining its thinking. The Payments Forward Plan originally had this appearing anytime from Q2 2026, so we assume that it must be imminent.

5 UK FCA/PRA/Bank of England operational incident and third party reporting regime

Key action points beginning in Q4 2026

- Continue preparations towards the **18 March 2027** "go live" date.
- In relation to **operational incident reporting**, consider reviewing internal processes and procedures for identifying and escalating operational incidents, embedding a standardised reporting process and providing appropriate training to staff.
- In relation to **reporting and maintaining a register of material third party arrangements** (where applicable), consider updating procedures for identifying and recording material arrangements, reviewing the template notification form to identify required data fields, and reviewing existing third-party contracts.
- Carry out testing of enhanced systems and procedures through simulated stress scenarios to ensure that these are fit for purpose and that staff understand the required processes before a genuine operational incident occurs.

In many ways, this package represents the UK's answer to those provisions of EU DORA that require regulated entities to notify their relevant regulator of operational incidents. Broadly, the new requirements are designed to give the UK regulators greater, in-depth insight into the threats that financial services firms face in relying on third parties to provide them with the resources they need to carry on their businesses, such as cloud service providers and IT providers.

On 18 March 2026, the FCA, PRA and the Bank of England published a co-ordinated set of policy statements, final rules and guidance on operational incident and third-party reporting. This followed consultations in December 2024 – we covered the consultations in our New Year Briefing 2025. Compared to the consultative texts, the final rules are a welcome move towards a more proportionate and standardised approach, although they are still likely to involve some implementation challenges.

The new rules will come into force on **18 March 2027**, less than six months away: in-scope firms should be well advanced in their preparations. If not, they have much to do in a short space of time.

The PRA's rules, which apply to UK deposit-taking banks, PRA-designated investment firms, building societies and UK Solvency II insurers, are designed to be consistent with the FCA rules and use the same reporting forms, with reporting taking place via the FCA's Connect platform. Equivalent rules also apply to financial market infrastructures under the Bank of England's framework. The summaries below focus on the FCA requirements.

Operational incident reporting

Broadly, this will apply to all firms with Part 4A permission (solo and dual-regulated), payment service providers, UK recognised investment exchanges (RIEs), registered trade repositories and registered credit rating agencies.

An "operational incident" is a single event or series of linked events that disrupts delivery of a service to an external end user, or affects the availability, authenticity, integrity or confidentiality of that end user's information or data. Not all disruptions will meet this definition, and not all operational incidents will be reportable. Reportability depends on whether the firm reasonably believes the incident has crossed the reporting threshold because it poses a risk of intolerable harm to consumers, a risk to the safety and soundness of the firm or other market participants, or a risk to market stability or confidence in the UK financial system. These threshold assessments must be made quickly, given the tight reporting deadlines discussed below. FG26/3 sets out some guidance as to what factors firms should consider when assessing whether an incident meets any of the above thresholds. In practice, the archetypal incident might be something like a significant cyberattack that disrupts the firm's ability to provide services to a significant number of clients, where firms will need to make a quick assessment about the potential impact of the incident and therefore whether it is reportable to the FCA. However, operational incidents are not limited to the cyber/IT context.

Firms subject to the standard reporting requirements (approximately 90% of firms) must submit a single, shorter template form within 24 hours of determining that a reportable incident has occurred. Firms subject to enhanced reporting, which applies to larger firms including enhanced scope SMCR firms, CASS large firms, banks, designated investment firms, building societies, Solvency II firms and payment service providers, must submit a more detailed initial report within 24 hours (or within 4 hours for payment service providers), followed where necessary by intermediate reports during the incident lifecycle, and a final report typically within 30 working days of resolution. All reports must be submitted via the FCA's Connect system.

Reporting of material third party arrangements

The good news is that only the largest firms will be subject to the material third party reporting requirements. These are enhanced scope SMCR firms, CASS large firms, designated investment firms, banks, building societies, Solvency II firms, UK RIEs, authorised electronic money institutions, authorised payment institutions and consolidated tape providers.

A "third party arrangement" is broadly defined to capture any arrangement under which a third party provides a product or service to the firm, including many intragroup arrangements and arrangements that go beyond traditional outsourcing. However, intragroup arrangements will be excluded from the definition where the group affiliate providing the product or service to the firm has not itself entered into arrangement with a person outside the group for the provision of the relevant product or service. A "material third party arrangement" is one where a disruption or failure could cause intolerable harm to clients, pose a risk to the stability or integrity of the UK financial system, or cast serious doubt on the firm's ability to satisfy its threshold conditions or its obligations under the FCA's operational resilience rules in SYSC 15A. FG26/4 sets out relevant factors and gives examples of services that will typically be material (such as cloud services, cybersecurity services and real-time market data) and those that will not (such as professional services, basic utilities and general procurement).

In-scope firms must notify the FCA at an early stage when entering into or significantly changing a material third party arrangement, using a prescribed template form submitted via Connect. They must also maintain a register of all material third party arrangements and submit it annually via RegData, within a 90 calendar day window that the FCA will notify to firms each year.

6 UK next generation retail payments infrastructure

Key action points beginning in Q4 2026

- Responses to the RPIB consultation were due by **11 September 2026**.
- Firms should continue to monitor developments, including the progress of the Financial Services and Markets Bill.

The Retail Payments Infrastructure Board (**RPIB**), chaired by the Bank of England, has consulted on early industry views on the design principles on which the next generation of retail payments infrastructure will depend. RPIB has the task of translating the strategy set out by the Payments Vision Delivery Committee into a design that can be executed by the industry-led delivery company.

This document is – as we noted in our article The RPIB has designs on your future: act now or pay later! – extremely early thinking, and for firms unfamiliar with the world of payment systems, it may seem somewhat nebulous in the absence of more advanced proposals. It is, however, absolutely critical. One of the triggers for the National Payments Vision was the need to upgrade payments infrastructure in the right way.

Firms looking at innovative payment methods – account-to-account or stablecoins, for example – will need to ensure that the evolution of retail payments infrastructure accommodates these innovations in a way which allows them to compete on a level playing field.

In a related development (and slightly surprisingly timed for the Thursday before the end of August Bank Holiday), HM Treasury announced its intention to amend the Financial Services and Markets Bill to give the Bank of England a new secondary objective: supporting innovation in payment systems and emerging forms of digital money, although we await the precise wording of that secondary objective (the introduction of which has already been pre-emptively welcomed by Sarah Breeden, Deputy Governor for Financial Stability).

7 UK tokenisation initiatives

Key action points beginning in Q4 2026

- Firms should engage with the expected FCA/Bank of England response statement following their Call for Input on tokenisation, which was expected "over the summer".
- If not already engaged, seek membership of one of the Wholesale Digital Markets Champion's Action Groups.
- Prepare for and engage within the Bank of England's expected discussion paper on the acceptance by CCPs of tokenised collateral.
- Prepare for and engage with the FCA/Bank of England tokenisation roadmap, expected by the end of the year.
- Firms interested in tokenised securities should monitor for HM Treasury's promised legislation making changes to the DSS.

Facilitating and accelerating the adoption of tokenisation in the financial markets remains a key priority of the Bank of England, FCA and HM Treasury.

There are two closely connected workstreams in train, which are feeding into and informing one another:

- The work led by Chris Woolard, HM Treasury's Wholesale Digital Markets Champion (DMC).
- Specific regulatory work being carried out by the Bank of England and FCA.

The DMC produced his first report in July 2026 (feedback was due by 4 September 2026), which was mainly a survey of what work had already taken place, as well as setting up a structure for how industry-led work will be taken forward. During September 2026, the membership and governance of nine Action Groups will be finalised. These will cover:

- Primary markets and funds
- Secondary markets
- Collateral and prudential standards
- FMIs and the cash leg
- Tax
- Legal
- Financial crime compliance and identity
- Resilience
- Communications

The early focus is likely to be on the fixed income market, as that is where work is already most developed. Specifically, the taskforce led by the DMC will build the capability to carry out a live trial, on-chain, of an end-to-end repo transaction.

HM Treasury is moving forward with "DIGIT", its tokenised sovereign debt issuance, on which it explained that work by HSBC (acting as issuer digital securities depositary) and LSEG (acting as investor digital securities depositary) is already underway. The DMC's report recommended that the first issuance take place no later than Q1 2027.

The DMC's report followed a joint Call for Input on tokenisation from the FCA and Bank of England. The authorities stated that they aimed to publish a "response statement" examining the input "over the summer", so it is possible that this could have appeared by the date of publication of this briefing.

The major short-term commitments are on fund tokenisation and collateral. The FCA has already published a policy statement and implemented new rules designed to facilitate the creation of tokenised authorised funds in the UK. Collateral is an extremely hot topic among the digital assets ecosystem. We expect some material developments in the short to medium term. Primarily, the Bank of England is committed to publishing a discussion paper on the acceptance by CCPs of tokenised collateral. Stablecoin issuers are particularly interested in this area, because many issuers or aspirant issuers see a potential role for stablecoins as collateral.

The authorities expect to publish a tokenisation roadmap by the end of the year. This will be critical to the next steps.

8 UK FCA client categorisation reforms

Key action points beginning in Q4 2026

- Keep an eye out for the FCA's delayed policy statement on its client categorisation consultation.
- Keep an eye out for a possible consultation or other publication from HM Treasury regarding the use of professional client categorisation terminology in UK legislation to identify professional fund investors.
- Start considering what types of updates and amendments will be required to the firm's policies and procedures, including its client categorisation/elective professional opt-up documentation.

Start considering whether and how the firm will repaper clients – and investors – if necessary.

In our End of Summer Postcard 2025, we highlighted that the FCA had announced that it was planning to review the existing UK rules on client categorisation, with the aim of ensuring that the framework is proportionate for firms dealing with wealthy or experienced investors. There was some excitement that this would mean a substantial liberalisation of the so-called elective professional "opt-up" to make it much more workable in the context of such investors.

On 8 December 2025, the FCA published CP25/36: Client categorisation and conflicts of interest. In the consultation, the FCA proposed to amend the rules relating to both the categorisation of per se professional clients (i.e. clients that can, on satisfying certain objective criteria, be automatically treated as professionals) and elective professional clients (i.e. clients who do not qualify as per se professionals but can be "opted up" to professional status).

But it was the specific proposals in relation to the amendment of the elective professional test that were of the most interest and which arguably fell some way short of what the industry had been hoping for. In outline, the FCA suggested a structure under which there would be two main ways in which clients and investors could be opted up to elective professional status – either using a new investable assets test or using a substantially-amended version of the current qualitative test based on an assessment of a person's ability to make their own investment decisions. The existing quantitative test would be scrapped.

In terms of the investable assets test, the FCA set the bar high: a firm would have to verify that a client/investor has a portfolio of *net* designated investments and cash worth £10 million or more. In practice, this would exclude direct holdings of real property (such as a person's main residence) and entitlements under an occupational pension scheme, but, in addition to shares, bonds, and derivative instruments, would appear to include (among others) personal/stakeholder pensions, life policies, and investments held via a SIPP or through a special purpose vehicle.

In terms of the qualitative assessment, this would be similar to the existing test used for non-MiFID categorisation and for the qualitative component of the current MiFID categorisation rules. However, there would be a great deal of guidance as to the process that firms would have to use and the factors they should consider in making their assessment. While the guidance is no doubt intended to be helpful, its volume and level of detail has raised concerns that the FCA is telegraphing a heightened, almost Utopian, set of expectations that will in fact make it harder for a firm to justify that a client/investor satisfies the qualitative test.

To compound things, the FCA is maintaining its existing approach of using the same set of rules and methodology for the categorisation of "true" regulatory clients and for the categorisation of fund investors. This has given rise to potential issues in relation to the proposals requiring a review of the categorisation of existing professional clients within 12 months of the new rules taking effect, and rules permitting elective professional clients to request recategorisation as retail clients. The FCA's expectations around the consequences of a change to the categorisation of an investor, particularly in a closed-ended fund, after the investor has been admitted to the fund are unclear. Overall, there is a clear sense that the rules have been drafted almost exclusively in contemplation of the categorisation of *regulatory* clients, without consideration of how they might apply in practice when the methodology is used to categorise *investors*.

On the subject of categorising fund investors, the FCA proposal to overhaul its MiFID-derived client categorisation rules has given rise to a connected issue: the fact that there is also a significant body of EU-derived, onshored UK legislation that broadly uses the MiFID definitions of "professional client" and "retail client" in order to identify professional and retail clients and investors (e.g. under the UK MiFID regime and the UK AIFMD regime). Submissions have been made to HM Treasury arguing that the legislative definitions need amending to ensure that they align with the FCA's revised definition going forward.

Finally, one other thorny issue relates to the extent to which the Consumer Duty applies to the elective professional opt-up process. Although this has never been expressly addressed in the rules themselves, the Finalised Guidance in FG22/5 has been clear from the outset that, while the Duty does not apply to clients (or investors) who elect to be treated as professional clients under the FCA rules, it nonetheless still applies to "*the process a firm uses to determine a client's status*" – i.e. the "opt-up" process (although there has never been any steer as to just how many components of the rules a firm is supposed to apply over and above what is required in the FCA client categorisation rules). In its client categorisation consultation, the FCA was silent on this point. However, in its latest consultation on clarifying the scope of the Consumer Duty (CP26/23), the FCA says that scope of the application of the Duty to the elective professional opt-up process will be confirmed in its responses to the client categorisation consultation.

In CP25/36, the FCA did not commit to a particular timetable for the publication of the policy statement following feedback, although the general expectation was that, since the consultation closed in February 2026, something would emerge towards the latter part of the year. Our understanding is that the process of finalising the rules may be proving somewhat more time-consuming than anticipated, but in light of the responses received from the industry (in relation to the issues summarised above and others) this is perhaps understandable.

This is an important moment for the FCA: there is an opportunity, as the ties with EU legislation are being increasingly unpicked, to reformulate the categorisation rules – for clients and for investors – into something that retains the fundamental concept of consumer protection at its heart but which recognises that there are high net worth individuals and other non-per se professionals who (having been appropriately assessed and having given their informed consent) are clearly not consumers and should not need to be afforded the same degree of protection.

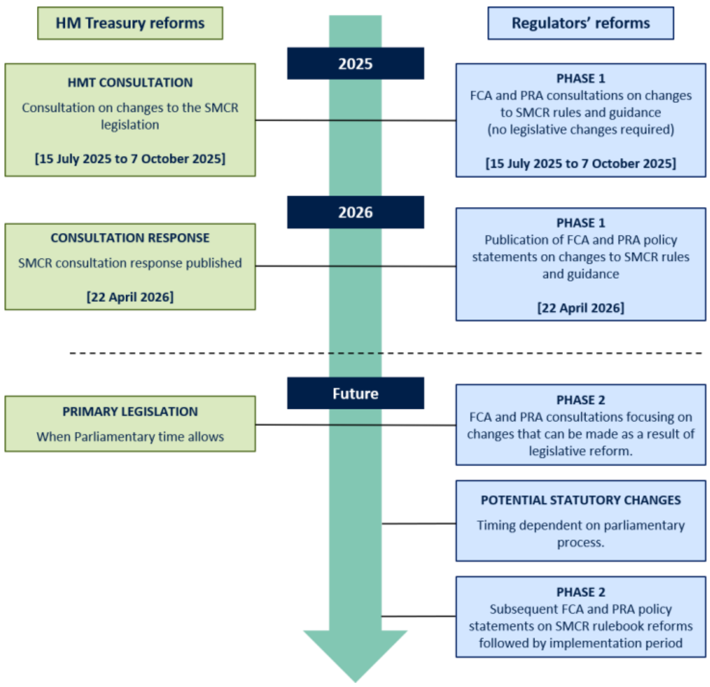
9 Reform of the UK SMCR

Key action points beginning in Q4 2026

- Firms should ensure that their systems and procedures are updated to reflect the Phase 1 changes that have now been implemented – for the most part, these are improvements (e.g. the changes to the 12-week rule).
- Progress on the Financial Services and Markets Bill 2026-27 should continue to be monitored: the Bill includes a number of fundamental reforms to the statutory provisions underpinning the regime, some of which will enable the FCA to proceed with its Phase 2 amendments.
- Firms should also keep an eye out for a further consultation from the FCA on Phase 2 changes – the FCA previously suggested that this may be towards the end of 2026, although this may slip if progress on the Bill is slow, since the FCA will want their rules to dovetail with the legislative framework.

Reform of the Senior Managers and Certification Regime (**SMCR**) has been under discussion for some time. The previous government's Call for Evidence in 2023 elicited an unsurprising reaction from the industry: that the administrative burdens of various aspects of the rules were outweighing the supposed regulatory benefits. As part of HM Treasury's Financial Services Growth & Competitiveness Strategy (July 2025), the UK government committed to stripping unnecessary regulatory burdens for financial services to stimulate growth. One of the targets was, naturally, the SMCR regime, and, to coincide with the publication of the Growth & Competitiveness Strategy, the government published a consultation on a number of key changes to the statutory provisions. At the same time, the FCA and PRA published their own consultations on changes to their rules that they could make in the short-to-medium term, pending the changes to the legislation.

So, a more extensive update of the regime will necessitate both statutory and regulatory changes, with the proposed timetable from HM Treasury shown in the diagram below.



Source: HM Treasury – Reforming the Senior Managers & Certification Regime – Consultation Response (April 2026)

As we previously reported, in response to its July 2025 consultation, the FCA confirmed in PS26/6: Senior Managers & Certification review that it would be pressing ahead with the first, relatively minor and largely deregulatory, phase of rule changes, pending the wider and more fundamental overhaul of the regime. That first phase was implemented on a staggered basis over the Spring and Summer, with the majority of the changes taking place on 24 April 2026, some additional tweaks on 10 July 2026 and then, most recently, on 1 September 2026, a final set of amendments largely to reflect changes to non-financial misconduct. See our April 2026 briefing for full details.

With the Phase 1 changes now in place, attention turns to the more fundamental changes in the second phase.

At the time of the FCA's April policy statement, HM Treasury had published its Consultation Response on reforming the regime, which set out how it proposed to change the SMCR legislative framework. The text of these reforms, along with other changes to the UK financial services regulatory framework, were contained in the Financial Services and Markets Bill 2026-27, which was published on 20 May 2026: see our May 2026 briefing. The key changes include:

- A welcome removal of the Certification Regime from FSMA, leaving it to the FCA (and PRA) to develop a calibrated alternative set out in their rules, rather than in statute.
- The modification of the requirement for regulatory pre-approval for some senior management functions.
- The removal from the statute of the requirement for statements of responsibilities, so the regulators will have the power to decide when these may be required and what form they should take.
- The removal of some of the specific FSMA requirements on the conduct rules, meaning the regulators will have more discretion.

According to the UK Parliament website, the Bill, which started in the House of Lords, is still proceeding through the Upper House, currently at the report stage and awaiting third reading thereafter. There is therefore still a long way to go. After completing its passage through the Lords, the Bill will need to clear the House of Commons before being enacted. As will be seen from the Treasury's timeline, there is no clear indication of when this is likely to be finalised – the timeline even uses the word "Future" rather than "2027". Any delay to the progress of the primary legislation is likely to push back the publication of the regulators' Phase 2 consultations.

10 UK T+1 settlement

Key action points beginning in Q4 2026

- **30 December 2026** is the deadline for four workstreams: allocation and confirmation changes (including policy and procedural changes); FMI system updates; adoption of FMSB SSI templates; and automation of stock lending recalls.
- Identify inefficiencies in settlement processes and causes of settlement failures.
- Continue the focus on testing in advance of the deadline.

Although the deadline for the move by the UK (and the EU and Switzerland) to move to T+1 settlement of in-scope securities is not until **11 October 2027**, the sheer scale of the programme means that many of the changes need to happen (and be tested) in 2026.

The FCA **recently noted** two points of which affected firms should be aware:

- While the majority of the market is progressing well, some firms require "significant and urgent remediation" in order to catch up.
- The FCA is "considering more action" on buy-side firms, having heard concerns about buy-side readiness.

11 UK reforms to the appointed representatives regime

Key action points beginning in Q4 2026

- Monitor for the publication of any FCA consultation proposals on new rules for the UK appointed representative regime.
- Create an inventory of any existing appointed representative relationships to identify agreements and arrangements that will need to be reviewed when the new rules are confirmed.
- When final details of any grandfathering or transitional arrangements for existing principal firms are published, confirm that any existing appointed representative arrangements will be covered so that there will be no disruption to ongoing operations.

The UK's regulatory framework governing appointed representatives (**ARs**) has historically provided a flexible and straightforward means for some firms to begin carrying on regulated business in the UK without the need to become authorised by the FCA. However, as we explained in our briefing in August 2025, the AR regime is now being reformed by the UK government and the FCA to introduce a new requirement for firms acting as the principal of an AR (including in an intra-group context) to obtain permission from the FCA before doing so. In addition, there will be a range of other changes, such as the extension of the Senior Managers and Certification Regime to ARs and (we anticipate) more detailed requirements for the agreements between ARs and their principals being set out in future FCA rules.

The FCA has not yet published its consultation on changes to its rulebook to accommodate the revised AR regime, presumably because it is awaiting further clarity on the applicable legislative framework as the current Financial Services and Markets Bill makes its way through the UK Parliament. However, given that one objective of the new regime is to transfer more of the detail from statute into the regulator's rules, firms that currently act as principal to ARs or are otherwise reliant on AR arrangements should ensure that they engage with any FCA consultation paper when it is eventually published. The relevant changes may ultimately require updates to existing AR agreements, as well as new governance and oversight arrangements within both the AR and the principal firm.

The timing for the introduction of the revised AR regime is still unclear and will partly depend on the parliamentary timetable. However, allowing for the legislation to be enacted and the FCA to consult and adopt final rules in this area, we think it is now unlikely that the revised regime could take effect before **Q2 2027** at the earliest, and probably substantially later than that.

Based on the draft legislation, it is currently expected that there will be broad grandfathering provisions which will confer a deemed principal permission on all firms which are already acting as principal to an AR when the new framework takes effect. However, it appears that this grandfathering may ultimately operate at the discretion of the FCA, so firms should monitor for any future proposals or communications about how this will operate in practice and any practical actions they might need to take to secure grandfathered status.

12 EU Market Integration and Supervision Package

Key action points beginning in Q4 2026

Continue to monitor the evolution of the EU MISP package, engaging with industry associations where appropriate to provide feedback on any more contentious or challenging proposals that may emerge.

The overall ambition of the EU's Savings and Investments Union (**SIU**) is to create a more efficient and competitive EU financial system, resulting in greater access to capital for EU businesses and more opportunities for EU investors to grow their wealth through investments. In December 2025, the European Commission published its Market Integration and Supervision Package (**MISP**), which it advertised as a central component of the SIU initiative, seeking to remove barriers and targeting national fragmentation of regulatory regimes with the ultimate aim of further developing an EU single market for financial services.

As we explained in our briefing at the time, MISP is a wide-ranging set of texts which amend many existing EU legislative acts in the field of financial services, including significant amendments to EU AIFMD, the EU UCITS Directive and the Cross-Border Distribution of Funds Regulation. It would also introduce a new Settlement Finality Regulation, which would replace the existing EU Settlement Finality Directive.

From an asset management perspective, many of the suggestions in the original MISP proposals were positive, including amendments which aimed to:

- Streamline marketing and passporting processes for EU AIFMs and EU UCITS managers (although unfortunately, marketing by non-EU AIFMs under national private placement regimes is not subject to similar proposals);
- Reduce the availability of national discretions and gold-plating of requirements under AIFMD or the UCITS Directive to create more level playing field between Member States;
- Streamline intra-group delegations; and
- Create a "depositary passport", allowing EU AIFMs and UCITS managers to appoint a depositary in a Member State other than the home Member State of the relevant AIF or UCITS.

Nonetheless, some other elements were less welcome, such as an increased role for ESMA in the supervision of large EU asset management groups (although, as the Commission was at pains to point out, this did not envisage direct ESMA supervision of the relevant entities).

As the European Parliament and Council of the EU have begun to stake out their own negotiating positions on MISP, it has become increasingly clear that some of the Commission's original proposed changes are contentious and that there is a risk of the EU institutions throwing additional elements into the mix. For example, a report produced by one of the Parliament's rapporteurs for the MISP dossier included proposed additions or amendments to the text that would have:

- Inserted a bonus cap into the AIFMD remuneration framework, capping variable remuneration at 100% of an individual's fixed remuneration;
- Made ESMA the direct supervisor of significant EU asset management groups; and
- Imposed a range of new obligations in relation to AIFMs of open-ended AIFs.

While we expect many of these amendments to be resisted, they illustrate the potential for MISP to develop in unexpected (and often undesirable) ways. Meanwhile, there appears to be disagreement in the Council about some elements of the original MISP proposals, with some Member States expressing concerns about the proposed depositary passport and ongoing debates about the extent of ESMA's asset management supervisory role.

As a result, many aspects of MISP remain uncertain, and firms and industry associations will want to keep a close eye on the evolution of the proposals before they enter the secretive trilogue negotiations between the three EU institutions in due course.

13 Reforms to the UK transaction reporting regime

Key action points beginning in Q4 2026

- Assess the impact of the finalised transaction reporting rules on the firm's operations by mapping common transaction flows against the new requirements.
- Consider engaging with any approved reporting mechanism (ARM) used by the firm to discuss how the ARM can support in the transition to the new regime.
- Consider whether to take advantage of the immediate supervisory flexibility introduced by the FCA from 3 August 2026, but check the detailed breakdown in the FCA's policy statement to confirm which reporting fields / approaches are subject to that flexibility.
- Monitor for the publication of updated draft transaction reporting guidance in October 2026, along with revised validation rules and a new reporting schema.

Towards the end of 2025, the FCA launched a consultation with the aim of simplifying the transaction reporting framework that the UK had inherited from the onshored UK MiFIR regime. At the beginning of August 2026, the final policy statement containing the revised rules was published, with the FCA trumpeting its analysis that the reforms would collectively save the financial services industry over £100 million.

Taking the bad news first, despite sustained lobbying by the UK asset management industry, the FCA has confirmed that it will not be exempting buy-side firms from the transaction reporting requirements. As a result, transaction reporting obligations will continue to apply to both buy-side and sell-side firms where they are engaged in relevant transactions involving in-scope instruments.

Nonetheless, the scope of UK transaction reporting is changing, as are the requirements governing the content of the relevant reports. By way of a very brief summary, key changes include (among others):

- Reducing the scope of transaction reporting to exclude instruments which are tradeable only on EU (rather than UK) venues;
- Removing FX derivatives from the reporting obligation (relying instead on reporting under the UK EMIR framework);
- Defining the FCA's Financial Instrument Reference Data System (FIRDS) as the "golden source" for determining whether an instrument is reportable under the UK regime;
- Introducing a new "conditional single-sided reporting" mechanism as a replacement for the existing "transmission" mechanism, which can be used to relieve some entities from the reporting obligation (although in practice, the new mechanism may be of limited utility);
- Excluding corporate actions (other than IPOs, secondary public offerings, placings and debt issuance) from the scope of reporting;
- Reducing the number of reporting fields from 65 fields to 52, although there are some changes which may require additional information or new codes to be reported for some transactions; and
- In due course, the publication of a UK Transaction Reporting User Pack (TRUP) for consultation in or around October 2026, which is intended to replace the existing lengthy and complex ESMA transaction reporting guidance.

Although the relevant changes are intended to be de-regulatory, they will still require firms to make changes to their existing reporting systems and the FCA recommends that firms should map their key transaction flows against the new rules to identify when reporting will apply and what information would be required. Firms may wish to liaise with their ARMs (where they use one) to understand any support that will be available to manage the transition.

To ensure adequate time to make the necessary changes, the FCA is providing a lengthy implementation period, with the revised rules taking effect on **3 April 2028**. However, the regulator has also stated that it will be exercising supervisory flexibility in relation to many of the changes from 3 August 2026, so that the FCA will not take action against firms which do not report during the interim period a range of data fields which are being removed in the final rules. The UK transaction reporting reforms continue a trend of growing divergence between the UK and EU in a range of dossiers that have their origins in EU law. This means that firms or groups which are subject to transaction reporting regimes in both jurisdictions will need to operate two different reporting systems, with the associated increased costs and complexity that involves.

14 ESG update: EU SFDR 2.0 and FCA ESG sourcebook changes

Key action points beginning in Q4 2026

- Keep an eye out for the SFDR 2.0 text from the European Parliament – expected at some point in Q4 2026 – and compare/contrast the respective positions of the Council and the Parliament going into trialogue negotiations.
- Continue to consider how, when SFDR 2.0 comes into effect, the firm is likely to position new funds within the new product categories (Article 7 ("Transition"), Article 8 ("ESG Basics"), Article 9 ("Sustainable") or Article 9a (combination products) bearing in mind there will likely still be movement on the perimeters of these.
- Keep an eye out for an FCA policy statement or other confirmation of its proposals regarding the simplification of climate disclosure under the ESG Sourcebook – and consider, in the light of the finalised rules, how to amend the firm's existing procedures to reflect the simplification.

EU SFDR 2.0

As we have previously reported, the European Commission published its legislative proposal to update the EU Sustainable Finance Disclosure Regulation (S**FDR 2.0**) in November 2025. It then fell to the Council of the European Union (the **Council**) and the European Parliament to review the Commission text and come up with their respective negotiating mandates. On 24 June 2026, the Council published its agreed negotiating position on SFDR 2.0 – see our June briefing for the details.

We are now waiting for the European Parliament to finalise its negotiating position. The Parliament's ECON Commission published a draft report on SFDR 2.0 in April 2026. Amendments to that draft report were tabled in committee in June 2026. The Parliament in plenary will need to approve its formal negotiating mandate. We previously expected this to be over the summer, but this did not happen in the July plenary meeting, and the vote is not currently tabled on the draft agenda for the next meeting which takes place in September in Strasbourg. So, we will be looking at some time in Q4 2026.

When the formal negotiating mandate is agreed, trilogue discussions will begin between the Commission, the Council and Parliament to agree a final text. As we said in our June briefing, it is difficult to predict the length of the trilogue process, but assuming that the negotiations take several months, and assuming that the institutions agree to the Council's 2-year implementation period, it is unlikely that the SFDR 2.0 framework will take effect before mid- to late-2029 at the absolute earliest.

ESG sourcebook: simplification of climate disclosures

On 5 June 2026, the FCA published CP26/17: Quarterly Consultation No 52 (**QCP**). Chapter 2 of the QCP set out some broadly welcome proposals to simplify product-level, climate-related disclosure requirements in the ESG Sourcebook, with minor consequential amendments both in ESG and in the Collective Investment Schemes (**COLL**) sourcebook. The consultation closed on 13 July 2026. As of yet, there is no indication as to when the FCA will confirm its final position or when the new rules would take effect; although it is more than likely that, because the FCA will see the changes as deregulatory in nature and not as imposing any new obligations, they will come into effect immediately on such confirmation.

Broadly, under the proposals, the existing TCFD product reporting requirements will be removed, and replaced by new and amended requirements. A distinction will be drawn between communicating with retail clients and communicating with institutional clients.

Communicating with retail clients

In terms of scope, this will be the same as the application of the products in scope of the current public TCFD product reports.

As stated above, the existing TCFD product reporting requirements will be removed and replaced by a new rule:

- A firm must consider periodically whether climate risks and/or opportunities could be materially relevant to the financial performance or return of the product; and
- Where it identifies such materially relevant risks and/or opportunities, it must disclose them in communications that are intended for retail clients and provide general information on risk and financial returns.

The firm's obligations may be met as part of its usual risk assessment procedures.

Firms subject to the consumer composite investment (**CCI**) regime will have the option of choosing to disclose climate risks and/or opportunities as part of the risk and return information contained in the CCI product summary.

Because of the materiality threshold, firms will not need to disclose climate information for each in-scope product, although they will need to remain mindful of their obligations under the Consumer Duty: the consumer understanding and the products and services outcomes, for instance, may require the firm to go beyond its mandatory obligations under ESG.

Communicating with institutional clients

In terms of scope, the revised rules will apply to all products currently in scope of public and on-demand TCFD product reporting requirements; the latter will be removed. In their place, under amended "on-demand" rules:

- A firm will have to provide, at a minimum, data on scope 1, 2 and 3 greenhouse gas (GHG) emissions when requested by a client that requires such information to satisfy their climate disclosure obligations.
- Clients will only be able to request this information once per calendar year, per product (in line with how frequently firms are required to report scope 1, 2 and 3 GHG emissions under the existing rules).

The firm will have to provide such information within a reasonable period of time and in an appropriate format. However, it should not disclose climate-related information to a client or person where there are "unpluggable" gaps in the underlying data available to the firm.

On the face of it, the restriction of the required metrics only to scope 1, 2 and 3 GHG emissions is a significant concession: under the new guidance, there will no longer be an absolute rule requirement to provide information and metrics on total carbon emissions, total carbon footprint or weighted average carbon intensity. However, the rule does say "*at a minimum*" and ESG 2.3.8 (which will be recategorized as guidance rather than a rule) says that if a person requests additional climate or carbon-related data in order to satisfy their climate-related financial disclosure obligations, then the firm will have to do so, provided it is reasonably practicable and allowed under any contractual arrangements governing the firm's use of the data. It therefore remains to be seen how much simpler on-demand disclosures will actually be in practice.

15 UK retail investment disclosure reforms

Key action points beginning in Q4 2026

- Keep an eye out for the publication of the final FCA rules updating the retail disclosure obligations in COBS, currently expected towards the end of 2026.
- Where the firm provides investment services or insurance distribution services to retail clients, it may wish to begin a gap analysis of its current approach against the proposed updated requirements to identify areas that may require a substantial lead time to implement (e.g. changes to the presentation of costs information).
- In relation to professional clients, the firm may wish to consider a potential strategy for obtaining the client's agreement so that the firm need only provide the minimum mandatory disclosures for such clients.

Over the last few years, the UK government and the FCA have been seeking to encourage greater retail participation in investment activities to support the UK's growth agenda and to counter concerns that many UK adults are holding a disproportionate amount of their wealth in cash. A key component of this strategy has been to reform the existing UK frameworks governing investment disclosures, on the basis that clearer articulations of risks and benefits will make UK consumers feel more empowered to make investment decisions.

To date, the relevant changes to retail disclosure rules have taken two key forms:

1 The introduction of the new CCI regime, replacing the previous regime for Packaged Retail and Insurance-based Investment Products (PRIIPs), which was inherited from the EU at the time of Brexit. The new CCI regime will take full effect from **8 June 2027**. We summarised the final CCI rules and their key implications for firms in our client briefing in December 2025.

2 Proposals published in July 2026 to simplify the FCA's conduct of business (**COBS**) rules governing investment disclosures. While the CCI rules above focus on the obligations of product manufacturers and distributors in relation to the product itself, these latest proposals seek to reform the rules governing information disclosure by regulated firms in the context of investment business more broadly, including in relation to relevant accompanying

services (such as investment advice or execution services). The consultation closed on 21 August 2026, and final rules are expected at some point towards the end of 2026. The new rules are subject to a complicated set of transitional provisions, but broadly speaking, it is proposed that certain requirements (which dovetail with the CCI rules) will take effect from 8 June 2027, while the majority of the new requirements would take effect from **8 June 2028**.

The proposed COBS reforms are relevant to both MiFID and non-MiFID investment business, as well as to insurance distribution business. One of the FCA's key aims is to consolidate and streamline the existing disparate rules for these activities (which are spread across various parts of the FCA Handbook) into a single new chapter of its COBS rules, allowing firms to adopt a more consistent approach across these business lines.

The COBS proposals are relevant to business carried on for both retail and professional clients, although in the latter case, it is proposed that firms will be able to agree in writing with the client that they will not provide disclosures contained in the rules, other than certain minimum prescribed information. This means that provided that the firm has a written agreement with professional clients that the firm will not be providing the new disclosures, the substantive changes will be relevant only to retail investment business. However, as the draft transitional provisions do not currently provide for any grandfathering of existing professional client relationships, it appears that this could require some repapering in advance of the June 2028 implementation date.

Broadly speaking, the new COBS rules would:

- Create high-level rules on general pre-sale disclosures, which are similar to those that exist today, governing areas such as information about the firm's services, its contact details and authorisation status, how it deals with conflicts of interest, and how it will safeguard client money or assets (if applicable).
- Introduce revised requirements for costs and charges disclosures, which will break down into general requirements, pre-sale information and, for continuing services, post-sale information. This is likely to require firms to revisit their existing systems and disclosure templates. For investments that are CCIs, the product-related figures must be taken from the CCI product summary.
- Introduce other rules governing areas such as ensuring adequate arrangements to obtain information from product manufacturers, notifying clients of material changes to information provided in the disclosures where relevant to the service provided to the client, and confirming that where the firm carries out a series of transactions for the same client in relation to the same type of investment, it need not repeat identical disclosures each time unless expressly required by a specific rule.

Assuming that the final rules are adopted in the form in which they were proposed, these changes will therefore require UK firms carrying on retail investment business to review and update their existing disclosure and client reporting arrangements.

16 Other developments

The new Burnham administration and the UK approach to financial regulation

The continuing uncertainty of British politics claimed another Prime Minister over the summer, as Sir Keir Starmer stepped down on 20 July 2026, handing over the reins of power to Andy Burnham. The UK financial services industry will be eagerly waiting for clear signs of the new administration's approach to financial regulation and financial services more generally, and in particular, whether the drive to increase UK economic growth will yield further targeted de-regulation for the sector.

The UK Autumn Budget, currently scheduled for 28 October 2026, may provide the first significant indication of the new government's attitude towards the industry, with rumours of a potential windfall tax on banks, possible changes to the capital gains tax rules and even a potential wealth tax. Meanwhile, the new government's priorities may also affect the content and progress of key financial services legislation and the strategic direction it sets for the UK's financial services regulators.

Reforms to the UK short selling regime

The new UK short selling regime came into effect on **13 July 2026**, replacing the previous framework in the onshored Short Selling Regulation inherited from EU law. Broadly speaking, the key changes introduced by the reforms included:

- Creating a definitive list published by the FCA (the Reportable Shares List), which specifies companies whose shares are caught by the rules on reporting of net short positions. The list is available on the FCA website;
- Excluding UK sovereign debt and associated credit default swaps from the scope of the net short position reporting obligations, and UK sovereign debt from the scope of the covering requirement;

- Extending the reporting deadline for net short position reports until 23:59 UK time on T+1;
- Introducing new reporting templates and associated guidance; and
- Recalibrating the UK public disclosure regime so that the FCA will publish only a single aggregate net short position in each relevant company where this equals or exceeds 0.2% of the company's issued share capital, without disclosing the individual net short positions comprising the aggregate position.

This is another area in which there are now significant divergences between the approach adopted by the UK and EU frameworks, meaning that firms engaged in short selling activity in both the UK and the EU will need to ensure that they are operating systems and controls which can meet the requirements of both regimes.

EU Retail Investment Strategy

We haven't forgotten the EU Retail Investment Strategy proposals, even though they no longer seem to be an EU priority. Political agreement has been reached although the text has not yet been published, and the European Parliament is expected to consider the proposals in November 2026. The changes are therefore unlikely to become effective in the near future.

In many cases, the proposed changes will increase obligations for firms when dealing with clients – and, despite the name, this is not limited to retail clients. Areas covered include product governance, inducements, disclosure requirements and value for money. However, there are also some potentially positive changes, including additional categories of persons that could be opted up to professional status. EU MiFID investment firms and EU AIFMs will be particularly affected by the proposals.

We discussed the Retail Investment Strategy in more detail in our Financial Services Regulatory Roadmap 2026.

EU Anti-Money Laundering Regime

The new EU anti-money laundering regime is due to start to come into force from **10 July 2027** and we are currently seeing a raft of implementing legislation and guidance being published.

Firms will need to start considering what changes will be needed to their systems, arrangements with third parties and their policies and procedures. Areas for firms to consider include the new customer due diligence requirements (including any gaps between new information gathering requirements and current practice as well as the ability to rely on third parties), the application of requirements on a group-wide basis, and the ongoing monitoring requirements.

ESMA Common Supervisory Action on AIFMs' and UCITS managers' risk management functions

In July 2026, ESMA announced that it was launching a common supervisory action (**CSA**) focusing on the risk management function within EU AIFMs and UCITS management companies. The CSA will be conducted in conjunction with EU national regulators throughout 2026 and 2027, and will consider how the relevant fund managers are complying with the risk-related requirements under AIFMD and the UCITS Directive. ESMA is expected to report on its findings in 2028, and its conclusions may influence broader supervisory strategy across the EU. However, it is possible that individual national regulators involved in helping ESMA to conduct the CSA may also provide immediate feedback to firms that are within scope of the review.

Given the expected focus on risk management frameworks, EU AIFMs and UCITS managers may wish to review their existing risk management frameworks, including areas such as investment due diligence, governance and oversight, reporting, portfolio stress testing, and escalation procedures for risk-related issues. In doing so, managers may wish to benchmark their arrangements against the specific requirements set out in the relevant EU and national implementing legislation (including any associated Level 2 measures and EU or national guidance) to ensure that they are in a position to demonstrate how they comply with each applicable obligation.

We understand that the UK FCA is also showing increasing interest in how risk management frameworks operate within UK asset managers more generally – which would be consistent with the additional risk management obligations the FCA proposes to impose on AIFMs under the UK AIFM Review (see above). In light of ESMA's activity in this area, it is possible that the UK regulator might seek to undertake a similar review in due course. Asset management groups that have fund management entities in both the UK and the EU may therefore wish to conduct a joined up exercise to benchmark against the (currently very similar) requirements under both the UK and EU regimes.

Empowering Consumers for the Green Transition Directive

The EU's Empowering Consumers for the Green Transition Directive ("**EmpCo**") amends the existing Unfair Commercial Practices Directive and is due to apply across EU Member States from 27 September 2026. Implementation has so far been uneven, with

Luxembourg among the few Member States on track to transpose on time.

EmpCo introduces a range of anti-greenwashing requirements attaching to "environmental claims" made in the context of commercial practices. The drafting of EmpCo is not a model of clarity, and its application to fund products and marketing materials remains ambiguous, although it is broadly worded to cover a wide range of legal rights and interests held by consumers. Its interaction with EU sectoral legislation such as SFDR is similarly ambiguous.

In practice, the majority of EmpCo's requirements are high-level and most firms should find that their existing approach to anti-greenwashing compliance already addresses them. However, firms may wish to review whether any fund documentation or marketing materials contain environmental claims related to future environmental performance, such as firm-level net zero commitments referenced in promotional materials. Under EmpCo, any such claims must be supported by a detailed, resourced and independently verified implementation plan. For firms whose materials already reflect the fair, clear and not misleading standard, EmpCo is unlikely to require a significant uplift. Nonetheless, with the regime now imminent, firms may wish to carry out a targeted review of existing materials as a precaution.

FCA examples of good and bad practices in relation to AI governance

The use of AI in financial services firms (and in the broader economy) remains a hot topic and a key strategic question for businesses across the globe. Although the UK financial services regulators have maintained their stance that their existing "technology neutral" rules are generally sufficient to cover the use of AI in regulated firms, the FCA is nonetheless expected to publish examples of good and bad practices in relation to AI governance by the end of this year.

Although the precise scope of the FCA's forthcoming examples has not been confirmed, following on from the recent publication of the Mills Review into AI and the future of retail financial services in July 2026, the regulator may well set out some views on how the use and oversight of AI interacts with the SMCR, the Consumer Duty and the new operational resilience framework, among other areas. Where a firm uses AI to support its activities but has not unleashed it to act semi-autonomously, the examples may not be particularly radical, but this remains a key area to keep under review as AI usage continues to evolve.

Critical third parties designated by HM Treasury

By way of reminder, on 10 July 2026, HM Treasury announced its first ever designation of technology companies as "critical third parties" (**CTPs**) under the regime introduced in FSMA 2023. This followed some surprise (especially from the Treasury Select Committee) about the length of time this process had taken – indeed, we write about an earlier stage in the design of the regime over two and a half years ago in Situation critical: Proposed new rules to regulate Critical Third Parties.

The companies designated (who are now subject to the rules promulgated by the FCA, PRA and Bank of England) are:

- Amazon Web Services EMEA SARL
- Google Cloud EMEA Limited
- Microsoft Ireland Operations Ltd
- Oracle Corporation UK Limited

Regulated firms and FMIs that deal with these CTPs must remember that this does not replace or reduce their own operational resilience and outsourcing obligations.

Bank of England work on CCP recovery and resolution

In May 2026, the Bank of England **published a discussion paper** on "resolution execution and resolvability outcomes", the deadline for which has just passed on 4 September 2026. The Bank's intention is to publish a fuller consultation before the end of 2026, and CCPs (and their participants) should engage with that when published.

EU PSD3/PSR

We remain somewhat surprised that the final legislative text of the EU's third Payment Services Directive and accompanying Payment Services Regulation has not yet been released, given that political agreement was supposedly reached before Christmas 2025. It is expected very soon. The four key points are that:

- the payments and electronic money regimes are being merged (we tentatively expect the same to happen under the UK's Modernising Payment Services Regulation programme);
- the Payment Services Regulation is being used to harmonise a number of elements of the conduct of business rules, on the basis that the Commission clearly considers that there is too much variation in Member States' approaches;

- a number of exclusions from scope are to be clarified and/or narrowed; and
- new and interesting rules on liability are being introduced, some of which mark the EU catching up with the UK (authorised push payment fraud), and others see the EU moving more quickly (liability attaching to social media and other platforms).

Get in touch

If you have any questions on any of the topics covered in this End of Summer Postcard, or if you would like to discuss how Travers Smith can help your organisation with any of the issues raised, please contact any of the individuals named below.

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ANNEX: REGULATORY TIMELINE