Regulatory Update

UK, March 2025

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Regulatory Update March 2025 – UK Region

This UK regulatory update includes a roundup of the latest news and publications from the Financial Conduct Authority (FCA) including a review of private market valuation processes, a statement clarifying its stance on sustainability regulations and the publication of the FCA's Five-Year Strategy to Simplify Regulatory Requirements.

FCA Updates and Developments

1.1 Enhancing Private Market Valuation Practices: Current Strengths and Areas for Growth

On 26th March 2025, the FCA published its review of private market valuation processes, highlighting both good practices and areas needing improvement. The UK, being the largest centre for private market asset management in Europe, has seen significant growth in these markets. Unlike liquid public markets, private markets necessitate robust valuation practices to ensure fairness and confidence due to infrequent trading and price discovery.

The FCA's assessment covered valuation practices and governance for private equity, venture capital, private debt, and infrastructure assets. It found commendable practices in investor reporting, process documentation, the use of third-party valuation advisors, and the consistent application of valuation methodologies. However, the review also pinpointed areas for improvement, including:

- Better identification and documentation of potential conflicts of interest.
- Increased independence within firms' own valuation processes.
- Enhanced processes for ad hoc valuations during market disruptions.

The FCA considers that these improvements are particularly crucial given the growing retail investor exposure to private assets.
Camille Blackburn, a director at the FCA, stressed the importance of good valuation practices for maintaining fairness and confidence in the expanding market. She noted that while firms generally demonstrated independence, expertise, transparency, and consistency in their valuation processes, there is still more work to be done.

The findings from this review will inform the FCA's examination of the Alternative Investment Fund Managers Directive (AIFMD) and contribute to IOSCO's review of global valuation standards. The FCA selected valuation case studies to understand the valuation process in practice but did not independently validate firms' fair value assessments. The review focused on private market assets using Level 3 inputs under IFRS 13 and ASC 820, which require significant judgement.

1.2 FCA's Stance on Sustainability Regulations and UK Defence Policies

On 11th March 2025, the FCA issued a statement clarifying its stance on sustainability regulations and their impact on the UK defence sector. The FCA stressed that its sustainability rules do not prohibit investment in or financing of defence companies. Instead, these regulations aim to enhance transparency and reliability in sustainability-related investment information and improve the overall quality of sustainability data in the market. The rules do not dictate investment choices or treat defence companies differently.

Key Points: The FCA highlighted several important aspects:

Disclosure Rules: Based on the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations, these rules are designed to improve climate-related information. There are plans to update them to align with the International Sustainability Standards Board (ISSB) standards.

Sustainability Disclosure and Labelling Regime (SDR): This regime aims to prevent unsubstantiated sustainability claims and ensure the credibility of such claims, without restricting investments in specific sectors like defence.

Benchmark Portfolios: Companies involved in controversial weapons must be excluded from benchmark portfolios aligned with the Paris Climate Agreement (UK Paris-aligned Benchmarks or UK PABs) or UK Climate Transition Benchmarks (UK CTBs). However, firms can choose whether to use these benchmarks.

ESG Ratings Providers: HM Treasury is finalising the regulatory regime for ESG ratings providers, with the FCA planning to consult on proposed rules later in 2025 to enhance transparency and quality of ESG ratings.

Bank Policies: No FCA sustainability rules prevent banks from serving defence clients, although banks may have their own policies related to defence.

1.3 Delivering Positive Outcomes for Vulnerable Customers: Best Practices and Opportunities for Improvement

On 7 March 2025, the FCA released the results of a comprehensive review examining how firms treat vulnerable customers. This review, which aligns with Finalised Guidance 21/1 (FG21/1), highlighted both commendable practices and areas needing improvement to ensure firms provide appropriate care under the Consumer Duty.
The review revealed that 44% of vulnerable customers had negative experiences with financial services firms, compared to 33% of non-vulnerable customers. Additionally, while 42% of vulnerable customers disclosed their personal circumstances to firms, only 19% were encouraged to do so, and 22% felt it was necessary.

The FCA identified both good and poor practices in governance, consumer support, understanding, and product/service design. Effective governance was characterised by active senior leadership engagement, whereas poor governance involved a lack of senior leader involvement. Good consumer support included clear communication, tailored channels, and proactive identification of vulnerability, while ineffective support was marked by rigid adherence to standardised processes and a lack of flexibility in responding to customer needs. In terms of product design, good practices involved collaboration with knowledgeable third parties, while areas for improvement included insufficient vulnerability training for product and service design staff.

The FCA concluded that FG21/1 remains appropriate and helpful alongside the Consumer Duty, and therefore, no updates will be made. Additionally, the FCA published consumer research conducted in May 2024.

1.4 FCA Review of Consumer Support: Best Practices and Areas for Improvement

On 7 March 2025, the Financial Conduct Authority (FCA) published findings from its review of firms' approaches to the Consumer Support Outcome under the Consumer Duty. This review aims to help firms understand the FCA's expectations by highlighting examples of good practices and areas needing improvement.

Key Findings:
Good Practices
- **Customer-Centric Approach:** Effective frameworks to understand and meet customer needs.
- **Proactive Understanding:** Improved systems for tailoring support, especially through digital channels.
- **Accessible Support:** Removal of barriers in customer journeys and incorporation of appropriate friction.
- **Culture of Support:** Changes in remuneration, performance management, and governance to emphasise consumer support.
- **Monitoring Customer Support:** Use of various metrics to gain insights and address risks.

Areas for Improvement
- **Aligning Support:** Better alignment of support processes with the needs of the target market, including vulnerable customers.
- **Post-Sale Support:** Ensuring post-sale support is as effective as pre-sale support.
- **Embedding the Right Culture:** Driving cultural change and providing appropriate staff training.
- **Broader Outcome Monitoring:** Using a wider range of metrics and proactive approaches to monitor and improve customer outcomes.

Specific Findings:

Meeting Customer Needs

- **Good Practices:** Use of online tools, the TEXAS model, and enhanced digital support.
- **Areas for Improvement:** Aligning support processes to the target market and avoiding sales prioritisation.

Access to Support

- **Good Practices:** Customer profiles, journey mapping, and tailored communications.
- **Areas for Improvement:** Making post-sale support as accessible as pre-sale support.

Culture, Governance, and Accountability

- **Good Practices:** Customer advocacy as a performance metric and structured training programmes.
- **Areas for Improvement:** Driving cultural change and aligning mission statements with the Duty.

Outcomes Monitoring

- **Good Practices:** Monitoring a range of support metrics and using both qualitative and quantitative information.
- **Areas for Improvement:** Using a broader range of metrics and addressing root causes of identified risks.

1.5 FCA's Five-Year Strategy to Simplify Regulatory Requirements: Enhancing Flexibility, Predictability, and Efficiency

On 7 March 2025, the Financial Conduct Authority (FCA) unveiled its five-year strategy for 2025-2030, focusing on rebalancing risk to foster sustainable growth in the UK's financial sector. Recognising global instability, demographic shifts, and rapid technological change, the FCA has identified six core priorities:

Supporting Growth:

- **Enhancing the UK's Financial Hub:** Strengthening the UK's position as a leading global financial centre by rebalancing risks to unlock investment opportunities and promote economic growth.
- **Encouraging Innovation:** Initiatives such as the digital securities sandbox, new long-term investment funds, and capital markets reforms to facilitate innovation and improve pension returns.
- **Widening Access:** Streamlined disclosure requirements and expanded retail access to investments to help businesses raise capital, boost liquidity, and deliver better returns to investors.
- **Tech-Driven Productivity:** Fostering a tech-positive environment to support innovation in financial firms, with over 200 firms testing AI and machine learning technologies since 2021.

Authorisation Reforms:

- **Digitisation and Simplification:** Digitising the authorisation process to reduce complexity, minimise follow-up requests, and improve the quality of submitted applications.
- **Accelerated Approvals:** Implementing a faster, more efficient system to enable firms to achieve regulatory approval sooner.

Addressing Geopolitical Uncertainty:

- **Navigating Global Challenges:** Helping businesses and consumers adapt to market volatility and geopolitical instability.
- **Future-Proofing Strategies:** Identifying and managing challenges to safeguard the sector's long-term stability.

Rebalancing Risk:

- **Encouraging Informed Risk-Taking:** Promoting a balanced approach to risk that fosters innovation while protecting consumers.

- **Three Levels of Risk Management:**
  1. **Regulatory Risk:** Balancing harm prevention with avoiding barriers to competition and new market entrants.
  2. **Market and Firm Risk:** Allowing firms to innovate while addressing excessive or systemic risks.
  3. **Consumer Risk:** Supporting consumers in making informed decisions while recognising their acceptance of financial risks.

Tackling Financial Crime:
- **Combating Misuse of Regulation:** Identifying and disrupting criminal activity within the financial sector.
- **Strengthening Defences:** Equipping firms to act as effective first lines of defence against financial crime.

Expanding International Presence:
- **Strengthening Regional Impact:** Enhancing the UK's global competitiveness by doubling the FCA's presence in Edinburgh since 2021 and opening a Leeds office, with plans to increase staffing in these locations to over 1,000.

Building on prior successes, the strategy outlines four primary goals aimed at transforming the UK's financial services sector into one that is efficient, innovative, and growth-oriented:

Strategic Goals:
- **Becoming a Smarter Regulator:** Streamlining supervisory priorities, publishing annual market risk reports, digitising authorisation processes, and reducing regulatory intensity for firms demonstrating best practices.
- **Supporting Sustainable Economic Growth:** Promoting investment and innovation to sustain the UK's global financial leadership, expanding retail access to investment opportunities, and introducing Open Finance to enhance data-sharing.
- **Empowering Consumers:** Boosting trust and fostering innovation within the financial services sector, enhancing consumer decision-making, implementing the Consumer Duty, and protecting consumers against scams and unfair practices.
- **Combating Financial Crime:** Taking decisive action against those exploiting regulation for malicious purposes and strengthening the sector's ability to address cyber risks and digital finance complexities.

Leadership Vision: Ashley Alder, FCA Chair, emphasised the importance of embracing opportunities rather than fixating on risk avoidance. CEO Nikhil Rathi reaffirmed the FCA's commitment to acting swiftly, working collaboratively with stakeholders, and driving smarter regulation to support growth, protect consumers, and combat crime. This strategy builds on the FCA's recent achievements, such as reforms to the listing regime, the introduction of the Consumer Duty, and expediting authorisation processes while safeguarding against harmful entrants.

1.6 FCA Launches Initiative to Simplify Regulatory Requirements and Enhance Consumer Protection

On 25 March 2025, the Financial Conduct Authority (FCA) published a feedback statement (FS25/2) outlining its ambitious initiative to simplify regulatory requirements for firms. This programme follows a Call for Input in July 2024, which gathered feedback from 172 stakeholders on streamlining regulations after the introduction of the Consumer Duty.

Key Objectives:

- More Flexibility: Allowing firms to innovate and tailor their approaches to customers, especially those with vulnerabilities.
- More Predictability: Providing clarity on priorities and upcoming consultations to aid firm planning.
- Improved Efficiency: Reducing the time, cost, and complexity of meeting FCA expectations while ensuring good customer outcomes.

Planned Approach:
The FCA's work plan is structured around four key areas:

- Reviewing the Foundations: Addressing how the FCA regulates, the scope of its rules, their application to customers outside the UK, and reviewing core definitions.
- Future-Proofing Disclosure: Allowing more flexibility in customer communications to promote understanding and accommodate modern customer journeys.
- Reducing the Administrative Burden: Giving firms more flexibility in applying requirements to be more outcomes-focused and reduce unnecessary burdens.
- Streamlining Requirements: Removing or reviewing outdated or unnecessarily complex requirements.

Immediate Actions:

- The FCA will use an accelerated consultation process to act quickly on measures with clear support for change.
- It will review all Dear CEO and portfolio letters predating the 2022-25 strategy, withdrawing them unless exceptions are identified, while keeping them publicly accessible.
- Further engagement will occur in areas with mixed feedback to gather more input and identify needs for significant change.
- An in-person summit is planned for the summer with representatives from various UK authorities, firms, trade bodies, and consumer organisations.
- A further statement outlining the programme of work and progress will be published in September 2025.

Specific Actions and Proposals:

1. Reviewing the Foundations:
    - Already Doing: Mortgage rule review, review of international application of conduct rules in the insurance sector, reforming the Consumer Credit Act, review of the Senior Managers & Certification Regime.
    - Committing To: Ensuring consistency in definitions, reviewing the international application of broader conduct rules.
    - Next Steps: Consultation paper and discussion paper on mortgage changes (May and June 2025), discussion questions on the international scope of conduct rules in the insurance sector (Summer 2025).
2. Future-Proofing Disclosure:
    - Already Doing: Mortgage rule review.
    - Committing To: Review the rules for advertising consumer credit.
    - Proposing To: Review retail banking disclosures, discuss Annual Percentage Rate (APR) disclosure with stakeholders.
    - Next Steps: Discussion paper on mortgage disclosures (June 2025), consult on credit advertising rules (next year).
3. Reducing the Administrative Burden:

- Already Doing: Simplifying the rules for insurance and funeral plans, transforming data collection.
- Committing To: Review Assessment of Value reporting for asset management, amend specific record keeping and reconciliation requirements in the Client Assets sourcebook.
- Proposing To: Explore options for Training and Competence requirements with stakeholders, review insurance pricing reporting requirements, clarify product governance rules, clarify the application of the Consumer Duty through supply chains.
- Next Steps: Consultation paper and discussion questions on insurance changes (Summer 2025), review of Assessment of Value reporting (later this year), consult on updating requirements in the Client Assets sourcebook (later this year).

4. Streamlining Requirements:
    - Already Doing: Updating the FCA Handbook website, Rule Review Framework.
    - Committing To: Pilot a smaller firm guide, retire outdated guidance, withdraw historic supervisory communications while keeping them publicly accessible, consult on targeted clarifications of Handbook materials, improve accessibility of the rule review feedback tool.
    - Proposing To: Explore options for the Senior Management Arrangements, Systems and Controls sourcebook with stakeholders.
    - Next Steps: Publish a smaller firm guide (2025), withdraw historic communications (end of April 2025), consult on targeted clarifications of Handbook materials (later this year), improve accessibility of the feedback tool as part of the Handbook website update (Q3 2025).

This comprehensive programme aims to simplify regulatory requirements, making it easier for firms to comply while ensuring robust consumer protection and fostering innovation.

1.7 UK Government to Abolish Payment Systems Regulator

On 11 March 2025, Gov.uk published a feedback statement announcing that the Payment Systems Regulator (PSR) will be abolished, with its functions primarily consolidated into the Financial Conduct Authority (FCA)

This decision aims to streamline the regulatory landscape, reducing red tape and fostering economic growth. Businesses, particularly smaller ones, have expressed concerns about dealing with multiple regulators, and this move is expected to alleviate those burdens, encouraging innovation and investment, and ultimately improving living standards.

Until the necessary legislation is passed, the PSR will continue its operations but will collaborate closely with the FCA to ensure a smooth transition. This initiative is part of a broader government effort to review and reform the regulatory framework to promote economic growth.

1.8 FCA's Multi-Firm Review

On 10 March 2025, the Financial Conduct Authority (FCA) released the results of its multi-firm review of liquidity risk management practices at wholesale trading firms.

The FCA has been engaging with firms that faced sudden and firm-specific liquidity shocks during stress events such as the COVID pandemic, the Russia/Ukraine conflict, the nickel price surge, and energy price fluctuations. These shocks included significant cash outflows due to margin calls, buy-ins of large open short settlement positions, and poor management of client relationships.

Recent communications, including Dear CEO letters to sell-side firms (wholesale brokers in January 2023 and January 2025, principal trading firms in August 2023, and wholesale banks in September 2023), have highlighted various issues and expectations regarding liquidity risk management. The FCA notes that while sell-side wholesale firms under the IFPR are not globally systemic, they are key players in specific markets like commodities, metals, and energy. A disorderly failure of these firms could amplify market-wide shocks and cause significant disruption, as they provide essential clearing and settlement services and could pose contagion risks.

Key Findings

The FCA's review of liquidity risk management at various wholesale trading firms, particularly brokers under the IFPR, revealed several key observations:

- Many firms had appropriate and proportionate liquidity management approaches considering their business model's nature, scale, and complexity. However, some firms had weaker approaches that did not match their size, complexity, and the instantaneous nature of their liquidity risks. These firms often had not updated their assumptions based on recent events.
- Several firms showed weaknesses in liquidity stress testing and contingency funding plans, lacking a range of actions to mitigate common liquidity stress scenarios promptly. The FCA emphasized that these findings reinforce the message from their Dear CEO letters about the lack of experience and underestimation of event severity.
- All firms identified intra-day (T0) and inter-day (T1) stressed cash outflows as their primary liquidity risk, with an average of 80% of stressed liquidity outflows occurring on T0 or T1.
- The review highlighted good and poor practices in governance and risk culture, stress preparedness, contingency funding plans, wind-down plans, and liquidity risk management capabilities. The FCA encourages similar firms to reference these practices to strengthen their liquidity risk management.

Following the review, the FCA provided direct feedback to all in-scope firms, identifying weaknesses and areas for improvement. Firms with potentially critical weaknesses received prompt initial feedback. The FCA plans to continue using regulatory tools to ensure firms properly manage their liquidity risks.

The FCA's publication of its findings is part of a broader communication strategy. It plans to organise roundtables with firms, industry trade bodies, and consultants to share observations and findings. The FCA will also take questions and participate in discussions aimed at improving liquidity risk management in the sector and promoting good practices.

Regulatory Reform

2.1 UK Government Announces Abolition of Payment Systems Regulator

On 11 March 2025, the UK government announced plans to abolish the Payment Systems Regulator (PSR) as part of its initiative to reduce regulatory burdens and stimulate economic growth.

Background

The decision comes after payment services firms raised concerns about having to interact with three different regulators, which was costly in terms of time, money, and resources. To address these concerns, the government has proposed merging the PSR, responsible for overseeing payment systems like Faster Payments and Mastercard, into the Financial Conduct Authority (FCA).

Implications

While the announcement may seem significant, it primarily involves transferring the PSR's responsibilities to the FCA. This move is expected to streamline regulatory processes, as the FCA already has a broader mandate for financial services regulation. The industry has previously voiced various issues regarding the PSR, so this consolidation is seen positively.

The effectiveness of this change will depend on whether it leads to substantial improvements in regulatory approaches and practices. The consolidation aims to simplify interactions for payment services firms and enhance regulatory efficiency.

2.2 FCA's March 2025 Letter to Treasury Select Committee: Enforcement, Diversity and Inclusion, and Non-Financial Misconduct

On 11 March 2025, the Financial Conduct Authority (FCA) sent a letter to the Treasury Select Committee, detailing its approach to enforcement, diversity & inclusion, and non-financial misconduct.

Enforcement: The FCA has significantly increased the pace and focus of its enforcement work, closing recent investigations more swiftly. Since 1 April 2023, the number of open operations has decreased by approximately 35%. Notably, no investigations into regulated firms opened since April 2023 have closed with no further action. Despite a lack of consensus, the FCA will retain its "exceptional circumstances test" for publicising investigations into regulated firms. The FCA will continue to confirm investigations announced by others, issue public notifications on potentially unlawful activities of unregulated firms and publish anonymous details of issues under investigation.

A final policy statement and updated Enforcement Guide will be released by the end of June 2025. As of 5 March 2025, the FCA has 105 open investigations, including 37 into regulated and/or listed firms, with 22 already public.

Diversity and Inclusion: The FCA and PRA have decided not to introduce new rules on diversity and inclusion, opting instead to support voluntary industry initiatives. This decision reflects feedback, legislative developments, and concerns about unnecessary costs. The FCA acknowledges that diversity and inclusion within regulated firms can improve governance, decision-making, and risk management, and support the competitiveness of UK financial services.

Non-Financial Misconduct: The FCA remains committed to addressing non-financial misconduct to enhance market and consumer outcomes. A corporate culture that tolerates harassment or other non-financial misconduct is unlikely to foster an environment where individuals feel able to speak up and challenge decisions. The next steps will be outlined by the end of June 2025, in alignment with planned legislation. While the FCA is not proceeding with new diversity and inclusion rules, it continues to prioritise tackling non-financial misconduct.

Review of the Removal of the Bonus Cap: The FCA and PRA will evaluate the impact of removing the bonus cap on gender pay and inequality during the 2026/27 financial year.

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If you wish to discuss how Waystone can assist you with any of the issues raised in this regulatory update, please contact us the details below:

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