

# Regulatory Update

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## 1. FCA UPDATES & DEVELOPMENTS

### 1.1 Supervisory correspondence

On 30 April 2025, the FCA published updated [guidance](#) on how it uses supervisory correspondence to regulate firms and promote good outcomes in financial markets.

Supervisory correspondence is a key tool used by the FCA to communicate with the firms it oversees. It helps the FCA:

- Share its views on firm and market performance
- Explain its regulatory focus and priorities
- Set clear expectations for firms

This correspondence can take various forms, such as direct letters to senior managers, industry-wide "Dear CEO" letters, and thematic updates. The FCA also uses digital channels like social media, newsletters (e.g. *Regulation Round-up*, *Market Watch*), and outreach events to reinforce its messages. One of the FCA's main methods is through **portfolio letters**, which are addressed to groups of firms with similar business models.

These letters outline:

- Key risks of harm within the portfolio
- Expected actions firms should take to mitigate those risks
- Supervisory work that the FCA will carry out in response

Firms that operate across different sectors may receive a letter based on their main portfolio but are encouraged to read letters relevant to all areas of their business. In more urgent or serious cases, the FCA uses targeted "Dear CEO" letters to prompt quick, decisive action from firms' leadership.

Overall, the FCA's supervisory correspondence aims to enhance accountability, prevent harm, and ensure firms understand and meet their regulatory responsibilities.

### 1.2 FCA Initiates Discussion on Comprehensive Cryptoasset Regulation

On 2 May 2025, the UK's Financial Conduct Authority (FCA) released Discussion Paper 25/1 ([DP25/1](#)), inviting feedback on proposed regulatory approaches for various cryptoasset activities. This initiative aims to establish a robust framework that ensures market integrity and consumer protection while fostering innovation in the crypto sector.

#### Key Proposals and Considerations:

**Trading Platforms:** The FCA proposes that cryptoasset trading platforms (CATPs) adhere to standards akin to traditional financial markets. This includes implementing rules to manage conflicts of interest, especially concerning proprietary trading, and ensuring transparency in operations.

**Intermediaries:** The paper explores the application of best execution obligations, order handling rules, and transparency requirements to cryptoasset intermediaries. The FCA emphasises the need for intermediaries to manage conflicts of interest and ensure fair treatment of clients.

**Lending and Borrowing:** Given the risks associated with cryptoasset lending and borrowing, the FCA proposes restricting these services for retail consumers in their current form. Feedback is sought on how these activities can be structured to protect consumers effectively.

**Use of Credit:** Concerns about consumers incurring unsustainable debt when purchasing cryptoassets with credit have led the FCA to consider restrictions on such practices. However, exemptions may apply to qualifying stablecoins issued by FCA-authorised entities.

**Staking:** To address potential misunderstandings about staking processes, the FCA proposes that firms obtain explicit consent from retail customers, detailing the terms and conditions associated with staking activities.

**Decentralised Finance (DeFi):** While truly decentralised DeFi activities may fall outside the proposed regulatory scope, the FCA indicates that activities with identifiable controlling parties will be subject to regulation. Guidance will be developed to assist firms in understanding their obligations.

**Next Steps:** Once stakeholders have submitted their feedback on DP25/1, the FCA will consider these responses in shaping its final regulatory approach. Subsequent consultation papers will address specific areas such as stablecoin issuance, custody, and prudential requirements, with the aim of implementing a comprehensive cryptoasset regulatory framework by 2026.

### 1.3 FCA Releases Appointed Representatives Data, Underscores Oversight Imperatives

On 7 May, 2025, the Financial Conduct Authority (FCA) published new data highlighting the makeup and conduct of [Appointed Representatives](#) (ARs) across the UK financial sector. The release forms part of a broader effort to improve standards in the AR regime by promoting transparency and placing clearer accountability on principal firms.

**Overview of the AR Landscape** - According to the FCA's findings, the overwhelming majority of ARs — approximately 88% — operate primarily to market or distribute financial products. A smaller portion, around 7%, function under hosting or compliance service arrangements, where the principal firm provides regulatory permissions but may not be actively involved in the underlying activities. This “regulatory host” model has come under increased scrutiny due to its heightened risk profile, prompting greater supervisory attention.

**Revenue Patterns and Business Models** - More than half of ARs earn under £100,000 a year from regulated activity, and the vast majority — 96% — report less than £1 million in regulated income. Nevertheless, some ARs, including large non-financial companies such as retailers or airlines, derive significant income through associated non-regulated business lines. The FCA notes this raises questions about the adequacy of control by principal firms, especially where regulated activities are not the AR's core function.

**Inactive ARs and Relevance of Relationships** - The data also revealed a subset of ARs that appear dormant, having not carried out regulated activity for extended periods. The FCA suggests principal firms should assess

whether these relationships remain necessary or appropriate, with a view to terminating inactive AR agreements where there is no clear benefit or ongoing purpose.

**Deficiencies in Oversight** - Findings show that oversight practices among some principal firms fall short of expectations. Key issues include outdated or ineffective self-assessments, infrequent review of AR agreements, and limited use of data to track and assess AR conduct. These gaps undermine the FCA's goal of ensuring that ARs operate safely within the parameters set by their principals.

**Regulatory Guidance and Expectations** - The FCA reiterates that principal firms are ultimately accountable for the conduct of their ARs. Firms must carry out formal annual reviews, maintain robust oversight frameworks, and regularly evaluate whether ARs remain fit for purpose within their business models. Strengthening internal governance and adopting a data-informed approach to monitoring will be critical going forward.

## 1.4 FCA Review Highlights Compliance and Areas for Improvement Among Smaller Asset Managers

On 8 May, 2025, the FCA released findings from its [review](#) of 410 smaller asset management and alternative investment firms, each managing less than £1 billion in assets. Collectively overseeing approximately £220 billion, these firms were assessed to identify business models that may pose risks to consumers, in line with the FCA's 2022 alternative supervision strategy.

### Key Findings:

- **High-Risk Investments (HRIs):** While most firms appropriately categorised HRIs, some lacked robust processes to ensure these investments were suitable for clients. Deficiencies included inadequate client assessments and insufficiently tailored risk evaluations.
- **Conflicts of Interest:** The review uncovered that in many smaller firms, senior staff held multiple roles without recognising or managing potential conflicts arising from overlapping responsibilities. This oversight increased the risk of consumer harm due to ineffective conflict management arrangements.
- **Consumer Duty Compliance:** Although most firms are progressing in embedding the Consumer Duty into their operations, some have yet to adjust their processes to align with the Duty's requirements, indicating a need for greater understanding and implementation.

**Next Steps:** The FCA is collaborating with firms identified as having weaknesses to implement necessary improvements. Ongoing monitoring will continue, focusing on securing positive outcomes for consumers and ensuring firms remain vigilant to conflicts of interest, especially as business models evolve.

Firms are encouraged to assess their capabilities, oversight frameworks, and controls to support confident customer investment, particularly in the growing private markets sector.

For further details, please refer to Waystone's summary of [the FCA's Smaller Asset Managers and Alternatives Business Model Review - Waystone Compliance](#) available on the Waystone Compliance website.

## 1.5 FCA Launches Consultation to Streamline Complaints Reporting

On 22 May, 2025, the Financial Conduct Authority (FCA) released Consultation Paper [CP25/13](#), outlining plans to enhance the way regulated firms report consumer complaints.

Since 2002, the FCA has collected complaints data to track market trends and identify risks to consumers. However, the current reporting system has not undergone a full review since 2015, despite the FCA's expanded responsibilities. This has led to inefficiencies, with some sectors using separate complaints processes that may overlap with existing requirements.

The FCA aims to:

- Simplify and standardise complaints reporting for regulated firms
- Make the process more efficient and consistent
- Enhance the quality and usefulness of collected data

These changes are expected to ease the reporting burden for firms while delivering clearer insights to benefit consumers.

The consultation is open until 24 July, 2025. A policy statement reflecting stakeholder feedback will follow later in the year.

## 1.6 FCA Launches Consultations on Stablecoin Issuance, Crypto Custody, and Prudential Standards for Cryptoasset Firms

On 28 May 2025, the FCA published two major consultation papers [CP25/14](#) and [CP25/15](#) marking a significant step in the UK's regulatory framework for crypto assets. These proposals follow HM Treasury's draft legislation (published 30 April 2025) aimed at establishing a comprehensive regime for cryptoasset activities, with the FCA designated as the lead regulator.

CP25/14 focuses on the issuance of qualifying stablecoins and the custody of qualifying cryptoassets. Under the proposals, stablecoin issuers must back tokens with secure, liquid assets held in a statutory trust via a third-party custodian, offer redemption rights to all holders, and clearly disclose redemption policies and asset composition. Custodians of qualifying cryptoassets would be required to segregate client assets, hold them in trust, maintain accurate records, and implement robust governance and controls to safeguard client holdings. Notably, the consultation paper does not cover payment services using stablecoins, as these are not currently within the scope of UK payments regulation.

CP25/15 introduces a proposed prudential regime for cryptoasset firms, to be implemented through a new sourcebook—CRYPTOPRU—alongside the existing COREPRU framework. The proposals cover capital definitions and composition, own funds requirements (including permanent minimum capital and fixed overheads), liquidity standards, and concentration risk monitoring. These rules aim to ensure financial resilience and sound risk management among firms conducting regulated cryptoasset activities.

Both consultations close on 31 July 2025, and the FCA plans to issue final rules and guidance in subsequent policy statements. These consultation papers are intended to be read together and form part of the FCA's broader cryptoasset regulatory roadmap.

## 1.7 FCA Streamlines Permissions and Directions Across Regulated Firms

On 29 May, 2025, the FCA [announced](#) a broad review and update of the Requirements, Directions, and Limitations applied to over 9,000 regulated firms. This initiative is part of the FCA's effort to ensure that the data it holds is accurate and that the language used in these regulatory instruments is up to date.

The FCA outlined two types of updates:

- Minor (immaterial) changes: These involve small wording adjustments that do not alter a firm's permissions. Such changes will be implemented automatically.
- Major (substantive) changes: If a change could affect what a firm is allowed to do, the FCA will engage directly with the firm to manage the update efficiently.

These updates will be rolled out over the coming months and may lead to changes in how firms are listed on the Financial Services Register.

## 2. REGULATORY REFORM

### 2.2 FCA enables Greater Flexibility in Research Payments for Fund Managers

On 9 May, 2025, the Financial Conduct Authority (FCA) introduced [Policy Statement 25/4](#), setting out a revised approach to how fund managers can pay for investment research. This update stems from the recommendations of the 2023 Investment Research Review and responses to a prior consultation held in 2024. The aim is to support a more competitive environment for asset managers while safeguarding investor interests.

Key Elements of the Updated Framework:

- **Combined Payment Approach:** Fund managers are now allowed to pay for investment research using a bundled payment that includes both research and trade execution costs. This is intended to simplify operational processes and reduce administrative friction.
- **Flexible Policy Structures:** Firms may create a unified policy for handling joint payments, which can be tailored for different funds where necessary. This supports more streamlined governance while allowing fund-specific adjustments.
- **Adaptable Budgeting:** The FCA is permitting more flexible budget-setting practices, allowing firms to determine research budgets based on their internal investment processes rather than on a strict fund-by-fund basis.
- **Fair Cost Distribution:** When research budgets cover several funds or services, firms must ensure costs are allocated proportionately across the relevant funds and client mandates.
- **Simplified Disclosure:** Instead of disclosing exact research budget figures, firms will now need to report percentage increases in annual fund reports. This change aims to enhance transparency without adding undue complexity.
- **Value for Money Oversight:** The FCA has retained the requirement that research must be evaluated for value and quality at the individual fund level, rather than across broader investment strategies.

- **Operational Oversight:** Firms are expected to manage the administration of payment accounts used for research, including where commission sharing arrangements already exist. However, there is no requirement to establish separate arrangements for each fund.
- **Notification of Changes:** The adoption of the joint payment model is considered a significant change, requiring advance notification to both investors and the FCA through standard approval channels.
- **Minor Non-Monetary Benefits:** The regulator has refined its position on what qualifies as a minor non-monetary benefit. Short-form market commentary without detailed analysis will now qualify, whereas research focused on smaller listed companies will no longer be automatically exempt.

The updated rules took effect immediately on 9 May, 2025. Fund managers are advised to evaluate whether the new joint payment option aligns with their business model and to ensure timely compliance with the new rules.

For further details, please refer to Waystone's summary of [FCA Consultation Paper CP24/7 – Payment Optionality for Investment Research](#), available on the Waystone Compliance website.

## 2.2 UK Treasury Sets Legal Basis for New Private Trading Platform: PISCES

On 15 May 2025, HM Treasury [formally enacted legislation](#) under the Financial Services and Markets Act 2023 to establish a new sandbox structure for trading in private securities, known as the Private Intermittent Securities and Capital Exchange System (PISCES).

**Purpose and Vision for PISCES:** The primary goal of PISCES is to create a regulated environment where shares in private companies can be traded on an intermittent basis. This structure is intended to support liquidity in private markets and provide a stepping stone for businesses that may consider entering public markets in the future.

**Sandbox Framework and Operation:** The regulation empowers the FCA to oversee and operate a dedicated sandbox for PISCES. This sandbox enables testing and development of the trading infrastructure and rules in a controlled setting.

Key elements include:

- **Operational Scope:** The sandbox permits platforms that facilitate trading in private securities under specific regulatory conditions.
- **Eligible Participants:** Only firms that are already authorised to arrange investment deals or operate trading venues may apply to run a PISCES platform.
- **Regulatory Supervision:** The FCA has discretion to draft rules and supervise activity within the sandbox, ensuring that safeguards are in place to protect market integrity.
- **Duration:** The sandbox will be active until 5 June 2030, although it may be extended or wound down earlier depending on regulatory assessment.

**Tax Incentives:** To promote adoption, HM Treasury is also exploring legislative adjustments so that employees exercising share options through PISCES platforms can retain their tax advantages. This change is aimed at ensuring consistency with existing employee share schemes.

**Next Steps:** The FCA is expected to release finalised rules shortly. Once these are in place, firms can apply to operate PISCES platforms. The first trading events are anticipated to take place before the end of 2025.

This initiative marks a key development in the UK's efforts to enhance its capital markets, with the aim of supporting private sector growth and broadening investment opportunities outside traditional public exchanges.

## Waystone Compliance Solutions

Waystone Compliance Solutions offers a new and unique approach to compliance services at a corporate level. Formed by merging four specialist compliance companies, we have the capabilities to help you manage regulatory risk right across your organisation and covering the UK, Middle East, United States, and Asia. We can provide key services from initial registration and licensing to compliance programme integration. Our compliance solutions span business strategies, market activities, operational and technology infrastructure, not to mention sales and marketing procedures.

Our aim at Waystone is simple: to enable our clients to navigate the complex regulatory environment with confidence. At Waystone, we have brought together the experience, the expertise, and the global reach to give you the certainty you need to address the ever-changing regulatory world. And by doing so, provide you with a secure route on the road to success.

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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 at the details below:

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