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Regulatory Update

UK, September 2025

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1. FCA UPDATES & DEVELOPMENTS

1.1 FCA Flags Key Issues in IFPR Compliance and Reporting

On 01 September 2025, the Financial Conduct Authority (FCA) published its third IFPR Newsletter, outlining supervisory insights and common issues observed across investment firms subject to the Investment Firm Prudential Regime (IFPR).

The newsletter covers areas including group notifications, capital classification, K-factor calculations, ICARA governance, and financial reporting. The FCA emphasised the importance of accurate submissions and robust internal processes to ensure compliance with prudential requirements.

Key developments include:

- Investment Firm Groups (IFGs): Firms must notify the FCA promptly upon creation or changes to IFGs. The FCA noted inconsistencies in notifications and urged firms to ensure their records are up to date.
- CET1 Capital – LLPs: Some LLPs incorrectly classified allocated profits as CET1 capital. The FCA reminded firms that CET1 must meet specific criteria and advised reassessment where necessary.
- K-Factor Calculations: Clarifications were provided on calculating K-factors, including examples to support consistent application. Firms are encouraged to review their methodologies.
- ICARA and MIF007 Reporting: The FCA identified governance gaps in ICARA processes and errors in MIF007 submissions. Issues included some firms allowing too much time to elapse between completion of the ICARA and approval by the firm's governing body. The FCA also identified that Firms are frequently misreporting their Own Funds Threshold Requirement (OFTR) in cell 10A of MIF007. The FCA further identified that errors are also common in reporting the Liquid Assets Threshold Requirement.
- Accounts Submission – Small Companies' Exemption: The FCA flagged misuse of the small companies' exemption by MiFID firms. Senior Managers should ensure Companies House filings reflect the firm's regulatory obligations.

The FCA encourages firms to review their prudential frameworks, ensure accurate reporting, and engage with supervisory feedback.

2. REGULATORY REFORM

2.1 FCA Sets Out Regulatory Vision to Support Fintech Innovation and Growth

On 18 September 2025, the Financial Conduct Authority (FCA) shared its latest thinking on how regulation can support innovation and economic growth. The speech, delivered by Jessica Rusu at the Future of Fintech conference, focused on the FCA's evolving role in enabling technological advancement while safeguarding market integrity.

The address highlighted several initiatives designed to foster a more dynamic and globally competitive financial services sector.

Key developments include:

- Innovation Ecosystem: Expansion of the FCA's support infrastructure through the launch of the Supercharged Sandbox and AI Live Testing environments. These build on the existing Innovation Pathways service and aim to accelerate responsible deployment of emerging technologies.
- Fintech Investment and Scaling: Introduction of a dedicated scale-up unit and consultation on cryptoasset regulation. These measures are intended to provide clarity for firms seeking to grow within a stable regulatory framework.
- Open Finance and Data Sharing: Launch of the Smart Data Accelerator to promote secure and efficient data exchange. The FCA is also working with the Information Commissioner's Office to address cross-regulatory challenges.
- Strategic Alignment: The FCA reaffirmed its commitment to its secondary growth objective, positioning innovation and data as central to its regulatory approach.

Firms are encouraged to engage with the FCA's innovation services and forthcoming consultations, particularly in areas such as cryptoassets and open finance. Further updates are expected as these initiatives.

2.2 FCA Sets Out Consumer Investment Priorities Under Five-Year Strategy

On 30 September 2025, the Financial Conduct Authority (FCA) published a speech by Lucy Castledine, Director of Consumer Investments, delivered at the PIMFA Compliance Conference on 25 September. The speech outlined the FCA's regulatory priorities for the year ahead, framed within its five-year strategy.

The address focused on four strategic pillars: enabling growth, smarter regulation, consumer support, and tackling financial crime.

Key developments include:

- Targeted Support as a New Regulated Activity: The FCA plans to introduce "targeted support" as a distinct regulated activity, separate from traditional financial advice. Firms offering this service will be subject to a tailored conduct regime, which the Financial Ombudsman Service will consider when assessing complaints.
- Smarter Regulation: The FCA reaffirmed its commitment to being more agile and proportionate, encouraging firms to engage with consultations on simplified advice and targeted support.
- Consumer Navigation: Firms are urged to continue challenging themselves under the Consumer Duty framework, with a focus on helping clients make informed financial decisions.
- Financial Crime and Social Media: The FCA raised concerns about unlawful financial promotions by finfluencers and reiterated its intention to take enforcement action. Lucy Castledine also called on social media platforms to strengthen controls and prevent illegal content from circulating.

The FCA encourages firms to engage with its evolving regulatory approach and prepare for changes linked to targeted support and digital conduct oversight.

3. FINANCIAL CRIME

3.1 FCA Highlights Market Abuse Risks and Control Weaknesses in Corporate Finance Firms

On 08 September 2025, the Financial Conduct Authority (FCA) published a newsletter, sharing findings from its supervisory reviews of corporate finance firms advising small and mid-cap companies. The newsletter highlights weaknesses in handling inside information, market sounding practices, and personal account dealing (PAD), with a particular focus on smaller firms.

The FCA emphasised the importance of proportionate but effective governance, regardless of firm size, to uphold market integrity.

Key developments include:

- Market Soundings and MSR Governance: The FCA observed firms contacting large numbers of Market Sounding Recipients (MSRs) without clear justification. Good practice included senior approval of MSR lists and use of standardised scripts to ensure consistent disclosures.
- Gatekeeper Arrangements: Risks were identified where email chains expanded beyond wall-crossed individuals, raising concerns about unlawful disclosure. Firms are urged to review controls to prevent unauthorised sharing of inside information.
- Broker Conduct and Safe Harbour Limitations: The FCA flagged instances where brokers involved third parties in market soundings without issuer knowledge. Such practices may fall outside the UK MAR safe harbour, exposing firms to legal risk.
- Control Environment in Smaller Firms: Reviews revealed informal policies, overfamiliarity between compliance and business teams, and weak information barriers. The FCA expects small firms to maintain documented procedures and independent oversight.
- Personal Account Dealing (PAD): Breaches included pre-approval trading, insufficient compliance checks, and disregard for holding periods. In some cases, breaches were tolerated by senior staff. The FCA stressed that PAD controls are essential for managing conflicts and preventing market abuse.

The FCA encourages firms to benchmark their systems and controls against these observations and ensure their arrangements meet regulatory expectations.

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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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