Being better informed

FS regulatory bulletin

FS regulatory insights

December 2024

In this month's edition:

- Mansion House reforms focus on growth
- Regulators set out final rules for critical third parties
- Regulators propose changes to remuneration requirements
- FCA opens discussion on UK transaction reporting

Executive summary

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Welcome to this edition of ‘Being better informed’, our monthly FS regulatory bulletin, which aims to keep you up to speed with significant developments and their implications across all the financial services

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November was an eventful month, with the Chancellor announcing a package of financial services regulatory reforms in her maiden Mansion House speech. The speech set out the Government’s vision for the sector, prioritising competitiveness, growth, innovation and the transition to net zero. The Chancellor issued new remit letters to the UK regulators emphasising their secondary objective for growth and international competitiveness, and published a call for evidence ahead of a Financial Services Growth and Competitiveness Strategy to be issued in spring 2025. She also announced plans to replace the Certification regime under the SM&CR with something more proportionate, and a consultation on the UK’s regulatory approach to captive insurance firms. To support investment and innovation, the Treasury published the National Payments Vision, and confirmed plans to create pension ‘megafunds’ by consolidating defined contribution schemes and pooling assets from Local Government Pension Scheme authorities, and to launch a pilot Digital Gilt Instrument.

To support the transition to net zero, the Government is consulting on the value case for a UK Green Taxonomy, and on economically significant companies disclosing information using future UK Sustainability Reporting Standards. The announcements represent the next phase in the reform agenda, and all firms should consider the resultant strategic and commercial opportunities. See our At a glance publication and blog for further analysis.

Elsewhere, City Minister Tulip Siddiq confirmed that the Government will issue draft legislation on the regime for cryptoassets as early as possible next year. The FCA also issued a roadmap setting out its schedule to establish a regulatory framework for stablecoins and wider cryptoassets by 2026.

The Bank of England, PRA and FCA issued the final rules for the critical third parties (CTPs) regime, which aims to reduce systemic concentration risks to the stability of the UK financial system by bringing systemic third party providers into the scope of the regulators’ supervisory oversight. CTPs will be designated by HM Treasury on the basis of the regulators’ recommendations if they provide ‘systemic third party services’: those services provided to regulated financial services firms that, if disrupted, could threaten the stability of, or confidence in, the financial system. The final rules are largely aligned with those proposed in CP 26/23, but the regulators have made changes to clarify or amend certain requirements and expectations. Our Hot topic provides further details.

The Bank of England published the November 2024 edition of its Financial Stability Report, which includes updates to its future stress testing approach. This includes a shift to biennial stress testing from the current annual cycle, less burdensome testing and reviews in intervening years, and the continued use of exploratory exercises as a means of assessing other risks, including those not linked to the financial cycle. It also shared the results of its system-wide exploratory scenario exercise, which is designed to improve the understanding of the behaviours of banks and non-bank financial institutions during stressed financial market conditions. Based on the findings, the Bank has identified several next steps which include continuing to monitor core UK markets, further work to improve repo market resilience, and reducing risk to corporate bond markets through improved data collection and disclosures.

Meanwhile, the PRA and FCA published a joint consultation proposing significant changes to the remuneration requirements applicable to banks and building societies in the UK. The regulators note that some aspects of the remuneration rules are stricter in the UK than elsewhere, and their proposals therefore aim to support UK growth and competitiveness, including by simplifying the regime and making it more proportionate. The regulators propose changes across the following areas: identification of material risk takers, de minimis thresholds, percentage of variable pay subject to deferral, length of deferral periods, vesting schedule, retention periods, payment of dividends and interest, and buy-out rules. The regulators aim to publish final rules in H2 2025.

Other developments of note include the FCA's discussion paper on improving the UK transaction reporting regime. The regulator invites views on ways the UK's transaction reporting regime could be streamlined and tailored to the UK. Please see our At a glance publication for further details.

Finally, the FCA issued a consultation to extend the time firms have to respond to consumers about motor finance complaints relating to commission other than discretionary commission arrangements (DCAs). This follows a Court of Appeal judgement on 25 October 2024, which found it was unlawful for brokers to receive commission from a motor finance provider without obtaining the customer's informed consent. The two firms subject to the ruling have submitted an application for permission to appeal to the Supreme Court. The ruling has implications for the FCA's ongoing review into DCAs in motor finance. See our At a glance briefing for more information.

Please read on to find out more about these and other developments. You can also visit our PwC webpage for further regulatory insights, including our latest podcast episode on the impacts of the PRA's Basel 3.1 final rules and proposed Strong and Simple regime.

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Cross sector announcements

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Conduct

FCA invites views on MiFID Org Regulation improvements

On 27 November 2024 the FCA published CP 24/24 on transferring the firm-facing requirements of the MiFID Org Regulation into FCA handbook rules.

The MIFID Org Regulation is part of the body of EU-derived law that was brought into UK statute following Brexit ('assimilated law') that is being revoked under the Government's Smarter Regulatory Framework. It specifies a range of conduct, operating and systems and controls requirements for MiFID firms. The MiFID Org Regulation provisions will be incorporated into existing FCA Handbook sourcebooks and the glossary. The FCA has said it wants to provide continuity for firms and is therefore proposing to retain the current substance of the requirements while simplifying them where possible, without changing the scope or application.

The FCA also poses a 'discussion chapter' to rationalise or improve 'MiFID-derived' requirements. Current rules on conflicts of interest, best execution and personal account dealing are identified as potential areas for 'immediate rationalisation'.

Longer term, the FCA indicates it is open to reviewing the MiFID client categorisation boundaries and the calibration of the client protection rules that apply to each category, and invites views on possible improvements. The FCA, along with HM Treasury, is also considering policy options for the future regulation of 'Article 3 exemption' firms that are not subject to MiFID but must follow 'analogous' authorisation, conduct and operating conditions as MiFID authorised firms.

Responses are welcomed until 28 February 2025, with an additional deadline of 28 March 2025 for comments in response to the issues covered in the discussion chapter.

Digital assets

FCA publishes crypto consumer research

The FCA published Cryptoassets consumer research 2024 on 26 November 2024. This analysis looks at cryptoasset holdings in the UK and consumers' understanding, attitudes and behavioural patterns towards them. According to the research, 12% of UK adults own cryptoassets, compared to around 10% in 2022 and 4.4% in 2021. 93% of UK adults have heard of cryptoassets.

Enforcement

FCA seeks further views on enforcement transparency proposals

The FCA published a second consultation on 26 November 2024 on changes to its Enforcement Guide, and proposals to increase the transparency of its investigations. It also set out plans for further engagement after significant concerns were raised in relation to the original consultation (issued in February 2024).

The FCA is proposing four significant changes to its original proposals in response to feedback:

- The potential negative impact on a firm would be explicitly considered as part of a public interest test. Previously it was not included as one of the factors.

- Firms would be given 10 days' notice ahead of any announcement being made, rather than the one day originally consulted on. During this period, firms could make representations. If the FCA decides to announce, firms would then have an additional 48 hours' notice before it is published.
- The potential for an announcement to seriously disrupt public confidence in the financial system or the market has also been included as a new factor in the public interest test.
- The FCA has clarified it will not announce investigations which began before any changes to the policy come into effect. Although it may reactively confirm investigations which are already in the public domain, where this is in the public interest.

The consultation closes on 17 February 2025. The FCA will continue to meet with firms, trade associations, consumer groups, the legal community and others. The FCA Board aims to make a final decision on the proposals in the first quarter of 2025.

Financial crime

FCA updates Financial Crime Guide

The FCA issued a Policy Statement PS24/17 on Financial Crime Guide (FCG) Changes on 29 November 2024. The FCA has made amendments which reflect recent developments and findings in the areas of sanctions, transaction monitoring, cryptoassets, Consumer Duty and proliferation financing.

The FCG does not contain rules or impose new requirements, but it provides guidance, self-evaluation questions and examples of good and poor practice based on the FCA's work and other sources. The updates are intended to ensure that the FCG remains clear, relevant and useful for firms in identifying and addressing the financial crime risks they face, while serving their customers and markets.

The FCA expects firms to consider what adjustments may be needed to their financial crime systems and controls. This could include changes to internal policies, monitoring systems, training, governance or other elements of systems and controls.

Growth and competitiveness

Chancellor's first Mansion House speech focuses on growth

The Chancellor announced a package of financial services regulatory reforms in her maiden Mansion House speech on 14 November 2024. The speech set out the Government's vision for financial services, prioritising competitiveness, growth, innovation and the transition to net zero. The Chancellor set out reforms under the following themes:

Growth and competitiveness:

- New remit letters to the UK regulators (FCA, Prudential Regulation Committee) emphasising their secondary objective for growth and international competitiveness.
- Call for evidence ahead of a Financial Services Growth and Competitiveness Strategy in spring 2025, focused on FinTech, sustainable finance, asset management and wholesale services, insurance and reinsurance, and capital markets.
- Proposals to replace the Certification regime under the SM&CR with something more proportionate, and a consultation on the UK's regulatory approach to captive insurance firms.

Investment and innovation:

- Published the National Payments Vision, setting out priorities for the sector, including the deployment of next generation technology.
- Plans to create pension 'megafunds' by consolidating defined contribution schemes and pooling assets from Local Government Pension Scheme authorities, to channel investment in new businesses and critical infrastructure.
- Plans to launch a pilot Digital Gilt Instrument.

Sustainable finance and transition to net zero:

- Measures to support the transition to net zero, including consulting on the value case for a UK Green Taxonomy, and on economically significant companies disclosing information using future UK Sustainability Reporting Standards. The Government is also launching a Transition Finance Council.

See our At a glance publication for more information.

HMT seeks views on growth and competitiveness strategy

HM Treasury (HMT) launched a Call for Evidence (CfE) on 14 November 2024 seeking views on the Government's approach to developing a Financial Services Growth & Competitiveness strategy. This strategy will set out the Government's approach to the sector for the next ten years and serve as a framework through which the Government will aim to deliver long term, sustainable, inclusive growth and international competitiveness of the sector.

The CfE requests input on Government policy relating to the financial sector that will create the conditions for economic growth. In particular, HMT is seeking input on what firms see as major business growth opportunities, the factors firms consider when considering the UK as a destination to invest and grow, the role that regulation plays, and ways to improve international competitiveness of the sector, including the role of trade agreements, skills and access to talent, innovation and new technologies, and structural changes such as climate change and net zero transition.
The Government has identified five priority growth opportunities for the strategy to focus on: FinTech, sustainable finance, capital markets (including retail investment), insurance and reinsurance markets, and asset management and wholesale services.

The CfE will close on 12 December 2024. The Financial Services Growth & Competitiveness strategy will be published in spring 2025, alongside the Government's industrial strategy and other sector plans.

BoE Governor supports the case for growth

Bank of England (BoE) Governor, Andrew Bailey, delivered his Mansion House speech on 14 November 2024, setting out the BoE's view of growth in the economy, why it matters, and what can be done to support further growth in the future.

Bailey welcomed the Chancellor's recent Budget commitments and supported the need for strong business investment to drive growth. Bailey also raised the need for the financial system to be organised to supply capital in order to boost economic growth, noting issues with the fragmented nature of the UK pensions sector. In closing, Bailey recognised the value of openness in facilitating competition, innovation and specialisation and added that the UK must be alert to the opportunities to rebuild relations with the EU and the benefits this can bring to the UK economy.

FCA discusses inclusive growth

Sarah Pritchard, FCA Executive Director, Markets and International, gave a speech on inclusive growth at The Investing and Saving Alliance Annual Conference on 28 November 2024. Pritchard welcomed the Government's focus on financial inclusion, and highlighted the link to growth, by stressing that consumers need to be financially resilient, with access to the products and services they need in order to contribute to economic growth. She noted the importance of initiatives which build financial capability, not just in education but throughout consumers' lives.

Pritchard said the FCA hopes to develop a stronger investment culture, and said it's time to 'shift the conversation' by highlighting the opportunity costs of not investing, as well as the risks of investing.

The important role of innovation and technology in solving financial exclusion was also highlighted. Pritchard added that the FCA is aiming for a proportionate approach to regulation which supports fair outcomes without stifling innovation. On Buy Now Pay Later arrangements for example, the regulator will seek to design appropriate consumer protections with flexibility for firms to grow and innovate - and use this as an opportunity to examine the FCA's risk appetite, as directed in its new remit letter.

Operational resilience

Regulators set out final rules for critical third parties

The Bank of England, PRA and FCA issued the final rules for the critical third parties (CTPs) regime on 12 November 2024. The regime complements existing requirements for financial services firms by bringing into the regulatory perimeter third-party providers that deliver 'systemic third-party services' to financial services firms.

Third-party providers designated as CTPs by HM Treasury, based on the regulators' recommendations, will need to comply with a set of general rules and eight specific operational risk and resilience requirements. These cover domains such as governance, testing, incident management and supply chain risk management.

The final rules are largely aligned with those proposed in the consultation paper published in December 2023. However, the regulators have responded to feedback and have made changes to clarify, amend or moderate certain requirements and expectations.

As a result CTPs are no longer required to develop a standalone, financial sector incident management playbook. The finalised requirements on dependency and supply chain management have also been amended to direct focus onto key Nth party providers.

The rules come into force on 1 January 2025. The obligations and requirements will apply to CTPs from the date on which designation takes effect.

Key next steps include the regulators providing recommendations to HMT of third-party providers meeting the criteria set out in the rules, and HMT deciding on prospective CTPs, which it will notify. These steps will take place on an ongoing basis, and we may see the first designations in H1 2025, accounting for the likely three-month representations period.

See our Hot Topic publication for more information.

Pensions

FCA finalises pensions dashboard framework

On 7 November 2024, the FCA published PS24/15 which sets out the final regulatory framework for firms that operate pensions dashboard services.

Pension dashboards will be secure digital interfaces that allow consumers to find their pensions and view basic information about them. The framework set out in PS24/15 means the FCA will regulate firms operating such dashboards. The regulatory framework, as well as requiring firms to adhere to the general high standards expected of all FCA regulated firms, has specific provisions focussing on consumer protection and enabling consumers to confidently engage with pensions dashboards. Firms intending to operate dashboards will have to apply for authorisation, or a variation to their existing permissions, and the specific impact on firms will vary depending on their activities.

The FCA has not yet opened the gateway to receive applications for authorisation and variation of permissions. This will be done once the Government and the Pensions Dashboard Programme have provided sufficient information for firms to consider, and demonstrate they are ready to undertake the new activity.

Government updates on Pension Investment Review

The Government published an interim report for the Pension Investment Review on 14 November 2024, alongside two consultations covering proposed reforms to the Local Government Pensions Scheme (LGPS) and how to unlock growth in the defined contribution (DC) market.

The interim report details the two consultations and covers the initial findings for the four workstreams within the remit of the Review, which are as follows.

1. Consolidation in the DC market - The Government proposes 'fewer, bigger, better run schemes' which allow for economies of scale through reduced cost and greater investment capability. To support larger schemes the Government is consulting on two proposals to improve the productivity of default fund arrangements within multi-employer schemes, and also on establishing measures for asset transfers from contract-based schemes without individual consent.

2. Fragmentation and inefficiency in the LGPS - The Government is consulting on measures requiring all LGPS funds to delegate asset management to relevant asset pools which will conform to a rigorous set of standards, identify local investment opportunities, and meet minimum governance standards.

3. Cost vs value in the DC market - The Government is seeking further evidence on measures, such as the Value for Money framework, which can improve long-term outcomes for savers. Additionally, the Government is consulting on proposed changes to the role and regulatory status of employers and consultants and advisers.

4. UK investment - No specific recommendations have been made, but the Review will consider at its next stage whether interventions are needed to ensure that pension markets benefit UK growth.

A final report for the review will be published in the spring.

Redress

FCA issues call for input on modernising redress system

The FCA and Financial Ombudsman Service (FOS) issued a joint call for input (CfI) on modernising the redress system, on 15 November 2024. They are seeking views on what changes could be made to the redress framework to better identify and manage mass redress events and what changes could be made to how the two bodies work together to ensure their views on regulatory requirements are consistent. The publication also seeks views on any changes to complaints brought by professional representatives (PRs) and how more effective resolution of disputes can be managed.

The CfI proposes a number of options to modernise the redress system, distinguishing those which could be brought about in the short/medium and long term. Short to medium term options include: issuing further Dispute Resolution:

Complaints sourcebook (DISP) guidance or rules to help firms effectively identify and proactively address harm; re-instating a two-step complaints process; broadening complaint dismissal grounds; introducing different requirements for complaints brought about by PRs; and changes to FOS referral time limits.

Long term options for consideration include granting the FOS the power to pause complaints handling time limits in certain circumstances while the FCA considers the issues raised, and options for how the FCA can collect better data on emerging redress events.

The call for input closes on 30 January 2025 and the FCA plans to publish its next steps in H1 2025. The FOS also announced that, subject to necessary approvals, it intends to introduce a £250 fee for individual PR-represented cases, reduced to £75 if the outcome is in the consumer's favour.

Remuneration

PRA and FCA launch joint consultation on remuneration reform

The PRA and FCA issued a joint consultation paper on 26 November 2024 for proposed reforms to the remuneration regime. The aim is to make the remuneration regime for joint regulated firms more effective, simple and proportionate, while further embedding the accountability of individuals. This would be achieved by removing duplication of rules between regulators and streamlining the regime.

The proposals are relevant to all UK banks, building societies and PRA-designated investment firms, as well as third country banks with branches in the UK. They will be of particular interest to larger firms that are in scope of the remuneration rules on deferral and pay-out in shares/instruments. The regulators note that some aspects of the remuneration rules are stricter in the UK than elsewhere, and their proposals therefore aim to support UK growth and competitiveness.

The regulators propose changes across the following areas: identification of material risk takers, de minimis thresholds, percentage of variable pay subject to deferral, length of deferral periods, vesting schedule, retention periods, payment of dividends and interest, and buy-out rules.

The consultation closes on 13 March 2025, and the regulators aim to publish final rules in H2 2025. The rules would apply from a firm's first performance period commencing after the rules are published. For most firms, this would be the performance year beginning in January 2026.

Supervision

Bank of England consults on fundamental rules for UK FMIs

On 19 November 2024 the Bank of England (BoE) published a consultation on ten fundamental rules (FRs) for UK financial market infrastructures (FMIs) that fall within the BoE's supervisory remit. The FRs establish the Bank's overall requirements for FMIs, and are intended to complement the existing underlying regulatory frameworks.

The FRs will apply to UK central counterparties (CCPs), UK central securities depositories (CSDs), UK recognised payment system operators (RPSOs) and UK specified service providers (SSPs). The FRs will apply to group-wide activities, including unregulated activities, for CCPs and CSDs, with a more limited application for RPSOs and SSPs.

The proposed FRs include requirements on FMIs to have sufficient financial resources, to cooperate with and notify the BoE of any information and events it would reasonably expect to be told about, and to manage the risks their operations could pose to UK financial stability.

The consultation is open until 19 February 2025. Our At a glance publication has further information.

FCA sets two-year supervisory strategy for credit rating agencies

The FCA issued a supervisory portfolio letter for credit rating agencies (CRAs) on 12 November 2024. The letter highlights key supervisory priorities for the sector, covering:

- Governance and oversight - the FCA is focused on the effectiveness of CRAs' boards, senior leadership accountability and internal control structures. The FCA highlights concern with CRAs' visibility of non-UK interdependencies and whether control frameworks are robust enough to oversee and mitigate risks.
- Ratings process and methodologies - the FCA will assess CRAs' end-to-end ratings and methodology processes. It wants to see quality first line processes with strong second and third line controls, as well as adequate internal records to document rating opinions and rationale for rating actions.It also expects CRAs to assess the impact of recruitment and retention on ratings quality and processes.
- Operational resilience - it has identified weak business continuity and disaster recovery practices. Where weaknesses are identified, action plans should be in place. CRAs should also have a clear identification of your critical technology and cyber controls, and robust oversight of all outsourced activities.

The regulator explains its priorities are driven by specific factors relevant to the CRA sector. These are: conflicts of interest, location of activities and dependencies on non-UK based operations, impact on financial markets, and understanding and managing innovation in CRAs.

The FCA urges senior management and the boards of CRAs to discuss the contents of the letter, and demonstrate plans to meet its expectations. The FCA will follow up with boards to understand what action has been taken.

FCA outlines new strategy

FCA Chief Operating Officer Emily Shepperd gave a speech at TheCityUK national conference on the FCA's next five-year strategy, due to be published in the spring. The strategy will focus on four themes:

- Economic growth and innovation: The regulator will facilitate growth in the economy by reducing the cost of regulation, supporting innovation such as AI, and facilitating investment in the economy through methods such as resolving the advice guidance boundary review. It will build trust by being clear about why some risk is necessary and what it means in practice.
- Financial crime: The regulator's future strategy will re-enforce partnership working on an international scale through the use of shared data to identify and prosecute criminals. The regulator is open to ideas on how to take financial crime more efficiently and proportionately, while continuing to protect consumers and trust in the system.
- Consumer resilience: The FCA will ensure that consumers have access to appropriate products and services to support their financial wellbeing. This includes making sure that financially excluded individuals have access to appropriate products, refining the line between advice and guidance, and supporting the government's call grow the co-operatives and mutuals sector.
- Becoming a more efficient and effective regulator: It will address calls from firms for streamlined data requests and a more predictable, pragmatic and proportionate approach, and 'rethinking' how the FCA supervises.

City Minister Tulip Siddiq also spoke at the conference, re-iterating the Government's strategy for financial services as set out in the Chancellor's recent Mansion House reforms.

Sustainability

FCA presents on plans for future regulatory infrastructure, achieving net zero

Emily Shepperd, FCA Chief Operating Officer (COO), gave a speech at the UK Sustainable Investment and Finance Association Leadership Summit on 6 November 2024.Shepperd shares views on the role of the regulator and how it will seek to lay the UK regulatory infrastructure for future UK economic growth and enabling financial services to help the UK achieve and fund the transition to net zero by 2050.

The speech also reflects on the FCA's work to date and the agenda for key policy areas: sustainable finance, recent reforms to public markets, and the Consumer Duty. Future plans include:

- Improving retail access to fixed income markets.
- Strengthening expectations for listed companies' transition plan disclosures.
- Supporting the global adoption of International Sustainability Standards Board standards.
- Reviewing responses to the Call for Input on amending the handbook in light of the Consumer Duty, and publishing a response in 2025.

The regulator also highlighted the launch of the AI Lab and the work done in setting up the Early and High Growth Oversight program.

IFRS publishes guidance on identifying and disclosing material sustainability information

The IFRS Foundation published an educational guide on 19 November 2024 to help companies identify and disclose material information on sustainability-related risks and opportunities. This guide is intended to support the understanding and implementation of the ISSB Standards.

The guide covers the definition of (financially) material information, how it applies to the ISSB standards, which sustainability-related risks and opportunities could reasonably be expected to be material, along with identifying and disclosing material information. There are also three appendices covering:

- Using IFRS S2 to identify climate-related risks and opportunities.
- Reassessing the scope of sustainability-related risks and opportunities throughout the value chain.
- Interaction of ISSB standards with law or regulation.

Hypothetical situations are included to help illustrate how a company might apply some of the ISSB standards' requirements. IFRS also sets out some interoperability considerations (e.g. against the European Sustainability Reporting Standards or Global Reporting Initiative Standards). There is also information on how companies might "drive connectivity" between their financial statements and sustainability-related financial disclosures.

UK Government updates on ESG ratings providers and UK Taxonomy

The UK Government published on 14 November 2024 two updates relating to its sustainable finance agenda: a consultation response and corresponding draft Statutory Instrument (SI) on proposals for a regime to regulate ESG ratings providers, and a consultation paper on the value of introducing a UK Green Taxonomy Key elements of the FCA's approach will include industry engagement, balancing high standards with proportionate regulation, reducing greenwashing, promoting.

On ESG ratings, the Government has set out its proposed scope for the regulatory regime, including territorial application, definition of ESG ratings, and what activities have been excluded (e.g. ESG data, distribution of ESG ratings, certain use cases for providing ESG ratings). The legislation, once finalised, would bring ESG Ratings Providers under the FCA's regulatory perimeter. The FCA welcomes these publications and will work with Government and industry as it develops its proposals in 2025.

These FCA says its proposals will be in line with the International Organisation of Securities Commission (IOSCO) recommendations.

The consultation period for technical comments on the SI is open until 14 January 2025, with final legislation expected later in 2025. The FCA will subsequently consult on specific regulatory requirements in 2025.

Separately, the Government is considering whether to take forward the UK Taxonomy and is seeking views on the value case for doing so, particularly regarding what might be the Taxonomy's potential use cases and key design features (if taken forward). The Government wants to understand whether a UK Green Taxonomy would be a useful tool for reducing greenwashing and channelling investment into the net zero transition.

The UK Green Taxonomy consultation closes on 6 February 2025.

Transaction reporting

FCA finds transaction reporting weaknesses persist

The FCA published Market Watch 81 on 7 November 2024. The newsletter highlights findings from the FCA's recent supervisory work on MiFID transaction reporting.

The FCA found that firms are taking measures to improve the quality of their transaction reports, but data quality issues persist. The FCA found that reporting errors are more likely to occur where firms have weaknesses in various processes, including:

- change management
- reporting processes and logic design
- data governance
- control frameworks
- governance, oversight and resourcing.

The FCA notes that the likelihood of errors arising may increase where input from the first and second lines of defence is limited. The FCA also found that firms that exclude transaction reporting from their wider risk management frameworks, or that prioritise financial risk management over non-financial risks, can lead to weaknesses in the management of transaction reporting risk.

FCA opens industry discussion on UK transaction reporting

The FCA published a discussion paper (DP 24/2) on Improving the UK transaction reporting regime on 15 November 2024. DP 24/2 invites views on ways the UK's transaction reporting regime could be streamlined and tailored to the UK. The FCA's aims include cutting costs for businesses, improving the usefulness of transaction reporting through better data quality, and supporting the competitiveness of UK markets.

The FCA notes that some changes could be straightforward while others will be complex, and that it is not seeking change for the sake of change.

DP 24/2 closes on 14 February 2025. Our At a glance publication has further information.

Wholesale markets

FCA confirms bond and derivatives markets transparency rule changes

The FCA published its final rules for Improving transparency in bond and derivatives markets, on 5 November 2024. PS24/14 follows a previous consultation in which the FCA put forward a range of measures aimed at ensuring the UK's pre- and post-trade transparency requirements effectively support price formation and best execution, while also protecting the ability of liquidity providers to hedge their risks.

The final rules are consistent with earlier proposals in many areas, however the FCA has made some changes. The main area of change is to the proposals for calibrating the exemptions ('waivers' and 'deferrals') available from the transparency requirements for trades that are large in scale, which aim to protect the interests of firms trading in large volumes.

Banking and capital markets

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Conduct

FCA proposes expansion of motor finance complaints pause

The FCA issued a consultation paper (CP24/22) on 21 November 2024 to extend the time firms have to respond to motor finance complaints relating to commission arrangements other than discretionary commission arrangements (DCAs). This follows a Court of Appeal judgement on 25 October 2024, which found it was unlawful for brokers to receive commission from a motor finance provider without obtaining the customer's informed consent. The judgement related to fixed commission as well as DCAs. The FCA launched a review of motor finance DCAs in January 2024, and introduced rules to pause the time limit for firms to respond to complaints involving DCAs.

The FCA expects volumes of all motor finance complaints to increase "significantly" following the Court of Appeal judgement. It is therefore proposing to suspend the requirement to provide a final response to complaints and give complainants the right to go to the Financial Ombudsman Service within eight weeks until either 31 May 2025 or 4 December 2025. The earlier date reflects the FCA's best estimate for when the Supreme Court will decide to grant permission to appeal (including additional time for the FCA to respond by putting further measures in place). The later date aligns with the rules on motor finance DCA complaints.

The consultation closes on 5 December 2024, and the FCA plans to publish a policy statement by 19 December 2024, with the rules coming into force immediately.

The FCA is due to set out next steps from its DCA review and consult on any proposals for a consumer redress scheme in May 2025.

Please see our At a glance publication for more information.

Fraud

FCA updates guidance on APP fraud prevention

The FCA published the final guidance on changes to its Payment Services and Electronic Money Approach Document to support new legislation tackling authorised push payment (APP) fraud on 22 November 2024. It clarifies the approach which Payment Service Providers (PSPs) can take when delaying outbound payments due to reasonable grounds to suspect fraud or dishonesty. The Payment Services (Amendment) Regulations 2024 to allow this came into force on 30 October 2024.

The final guidance sets out the requirements for delaying outbound payments and determining whether the threshold for 'reasonable grounds to suspect' has been met, how PSPs should use the payment delay window, obligations on PSPs if they delay an outbound transaction, and the treatment of suspicious inbound payments.

Reducing and preventing financial crime, including APP fraud and money laundering, remains a priority for the FCA and is a key outcome in its Business Plan 2024/25.

Payments

HMT sets out National Payments Vision

HM Treasury (HMT) published a National Payments Vision on 14 November 2024. The Vision is a part of the Chancellor's Mansion House reforms. The purpose is to provide clarity and long-term direction to the sector. The Vision follows an independent Future of Payments Review 2023.

The Government's vision is to build "a trusted, world-leading payments ecosystem delivered on next generation technology, where consumers and businesses have a choice of payment methods to meet their needs". The foundations of the payments ecosystem will be underpinned by a clear, predictable and proportionate regulatory framework and resilient infrastructure. HMT will prioritise three pillars to guide activity across the ecosystem. These are market-led innovation, competition and security.

With the new Vision, HMT has issued a first of its kind payments remit letter to the FCA and Payment Systems Regulator (PSR) as well as copies to the Bank of England (BoE) and PRA. HMT expects authorities to coordinate the exercise of their specified functions relevant to payments and revise a Memorandum of Understanding outlining how they will fulfil that duty by Q2 2025.

The Vision also sets out the next steps for the UK's retail infrastructure: 1) timely and significant investment to ensure it is resilient and better enables innovation and competition, 2) a more agile and flexible approach in delivering the needs, and 3) the importance of interoperability between different systems.

HMT will establish and chair the Payments Vision Delivery Committee which includes senior representatives from the BoE, FCA and PSR, supported by the Vision Engagement Group, comprising public and private membership. Our At a glance provides more details.

Stress testing

Bank of England updates approach to bank stress testing

On 29 November 2024, the Bank of England set out its approach to stress testing the UK banking sector. It is designed to combine the predictability of regular stress testing with an adaptability to explore different risks as they emerge.

The updated approach includes three key components:

- Biennial Bank Capital Stress tests for the largest and most systemic banking institutions. This is a change from the current regime which includes annual testing. The aim of this test is expected to be in line with the current annual exercise.
- Testing and reviews in intervening years - this may include stress testing to supplement the Bank's assessment of the resilience of the sector to cyclical risks, but any testing is expected to be less burdensome than a Bank Capital Stress test. Stress testing performed in intervening periods may include desk-based exercises or be performed at a more granular level to assess a firm's vulnerability to specific risks.
- Continued use of exploratory exercises as a means of assessing other risks. Exploratory exercises have proven to be a successful part of the Bank's approach to stress testing in recent years and will continue to inform its approach to assessing systemic risk.

The Bank anticipates that its revised approach will give rise to a number of benefits including operational efficiencies, less burden on participating firms, allowing for the assessment of a wider range of risks, and allowing the Bank to better support the objectives of the PRA and FCA.

Asset management

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Investment research

FCA consults on investment research payment optionality

The FCA opened its consultation (CP24/21) on investment research payment optionality for fund managers on 5 November 2024.

Following recommendations of the Investment Research Review (IRR) and feedback to CP24/7, the FCA published PS24/9 in July 2024. This set out rules for a new option to bundle payments for third-party research and execution services which was made available to firms managing segregated accounts provided they implemented appropriate guardrails as detailed by the regulator. The new consultation (CP24/21) proposes extending payment optionality to cover UCITS management companies, full scope UK Alternative Investment Fund Managers (AIFMs), and small authorised UK AIFMs and residual collective investment scheme operators.

The proposals include guardrails to preserve the benefits of MiFID II reforms which previously required the unbundling of charges for execution and research. The proposed guardrails include requiring firms to:

- establish formal policies on joint payments
- set budgets for research costs purchased through joint arrangements, and escalate any payments over budget to the funds governing body
- include investment research within their assessment of value for each fund under the COLL rules
- provide appropriate disclosure of joint payments in fund documents.

The FCA is accepting responses until 16 December 2024 and plans to publish any rules or guidance in the first half of 2025..

Sustainability

FCA shares good practice examples of SDR disclosures

The FCA published on 1 November 2024 some illustrative examples of good practice for pre-contractual disclosures under its new Sustainability Disclosure Requirements (SDR) and investment labels regime for asset managers. These examples draw on the FCA's experience with applications to date and are mapped against the handbook requirements for the Sustainability Focus and Sustainability Improver labels, although the FCA considers that much of the good practice will be relevant across all the SDR labels. The examples provided by the FCA are intended to help firms meet these disclosure requirements.

Good practice examples include how to:

- disclose clear, explicit and measurable sustainability objectives
- link these objectives to positive environmental or social outcomes
- describe the approach to determining the sustainability characteristics of the fund's assets
- monitor performance, including policies, procedures, relevant KPIs and standards
- declare which KPIs will be tracked internally and published externally.

There are five high-level examples of poor disclosure practices. These relate to the disclosures on the asset selection process for a product and the Sustainable Improvers label.

The SDR and investment labels regime comes into force on 2 December 2024. Firms have been able to use the sustainability-related investment labels since 31 July 2024.

FRC proposes revisions to UK Stewardship Code

The FRC published a consultation on proposed revisions to the UK Stewardship Code on 11 November 2024. This follows interim measures published in July 2024.

The FRC wants to avoid ‘tick box’ reporting and to support asset managers, asset owners, and service providers (e.g. proxy advisers and investment consultants) to demonstrate their approaches to stewardship without creating a cumbersome reporting burden. Additionally, the FRC wants the UK Stewardship Code to drive effective stewardship, maintain its international reputation, support high-quality disclosures and reflect developing market practice.

Key proposals include:

- amending the definition of stewardship
- amending the reporting process
- streamlining the Principles
- tailoring the Service Providers Principles
- issuing guidance
- permitting cross-referencing to other, publicly accessible disclosures.

The consultation closes on 19 February 2025. The updated code is expected to be published in H1 2025 and be effective from 1 January 2026. First reports to the updated Code would be submitted to the FRC in 2026.

Please see our At a glance publication for more details.

Insurance

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Artificial intelligence

IAIS consults on supervision of AI

The IAIS published a draft Application Paper for consultation on the supervision of artificial intelligence (AI) within the insurance sector on 18 November 2024. The paper highlights both the commercial benefits and significant risks associated with AI adoption, and aims to help regulators apply existing IAIS Insurance Core Principles to promote consistent global oversight.

The paper covers the following topics with regards to the use of AI systems: governance and accountability, robustness and security, transparency and explainability, and fairness and ethics. It stresses the need for integrating AI into risk management, ensuring human oversight, and managing third-party AI model vendors. The IAIS underscores the importance of explainable AI outcomes and fairness by design, with considerations for societal impacts of granular risk pricing in insurance.

The consultation closes on 17 February 2025.

Capital and liquidity

PRA concludes its Solvency II review

The PRA published its final policy statement (PS15/24) to implement the conclusions of its Solvency II review on 15 November 2024. The PRA confirms that overall, its final policy is largely unchanged from what was consulted on in CP5/24, given the primary aim was to restate Solvency II assimilated law into the PRA rulebook and policy material, without material amendments to the policy substance.

Along with PRA rules and policy material, the PRA finalised reporting and disclosure templates and instructions, and Insurance Special Purpose Vehicle templates and instructions that will replace Solvency II assimilated law, which will be revoked on 31 December 2024.

Conduct

FCA calls for improvements to bereavement claims processes

The FCA published findings of its review into life insurers' bereavement claim processes on 22 November 2024. It requested data from 15 life insurers, representing over 75% of the life protection market to inform its findings.

The FCA found significant variability in how firms handle, measure, and monitor bereavement claims. It found that many firms did not capture full customer journey times, making it difficult to identify potential poor service outcomes. Additionally, service level agreements were set at thresholds that were unlikely to be breached, meaning they could not truly reflect good service outcomes. The FCA also identifies challenges such as resourcing issues and delays in receiving documentation as common barriers to progressing bereavement claims.

Despite some firms adopting good practices, such as using electronic documentation and offering claimant support services, the FCA calls for industry-wide improvements to ensure timely and fair customer outcomes in bereavement claims. The FCA urges firms to enhance their processes in line with the Consumer Duty, emphasising the need for better monitoring and service delivery for vulnerable customers. It may contact individual firms to discuss what steps they are taking in light of these findings.

See our Reflections article for further insights.

Supervision

Government consults on a regulatory regime for captive insurers

As part of the Chancellor's Mansion House announcements, HM Treasury (HMT) launched a consultation on a regulatory regime for captive insurers on 14 November 2024.

HMT explains that while captive insurance is a growing global market, it is underrepresented in the UK, due to the UK not being an attractive destination as captive insurers are subject to many of the same application, authorisation, governance and capital requirements as other UK (re)insurers. Ongoing compliance and reporting requirements are also the same for captives as for other UK (re)insurers.

Therefore, HMT is considering new regulatory approaches to attract more captive insurers by enhancing the UK's market attractiveness. Representations it has received from industry include proposals for: lower capital requirements, reduced application and administration fees, a faster authorisation process, and less stringent reporting and compliance requirements.

The consultation closes on 7 February 2025, following which HMT will engage closely with the PRA and FCA before deciding on next steps.

See our At a glance for more details.

PRA proposes changes to the ISPV framework

The PRA published a consultation paper (CP15/24) proposing reforms to the UK Insurance Special Purpose Vehicle (UK ISPV) regulatory framework, on 15 November 2024. The proposed reforms aim to make the UK ISPV regime more competitive and aligned with global practices, thereby enhancing the role of the UK non-life insurance sector in the global Insurance Linked Security market while maintaining policyholder protection.

Key proposals include structural changes to: clarify that UK ISPVs can consider realised investment returns for risk coverage; amend rules for multi-arrangement ISPVs; use grace periods for funding requirements; and clarify the use of Limited Recourse Clauses.

Additionally, the PRA proposes process changes to streamline the authorisation process for all UK ISPVs and accelerate this for certain types of UK ISPVs. It also proposes to update the expectations of (re)insurers ceding risks to SPVs, and create a new senior management function under the Senior Managers and Certification Regime for UK ISPVs.

The consultation closes on 14 February 2025. In addition to these proposals, the PRA intends to work with HM Treasury on potential legislative changes to further support the UK ISPV framework.

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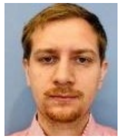

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