Being better informed

FS regulatory bulletin

FS regulatory insights

February 2025

In this month's edition:

- PRA sets out 2025 banking supervisory priorities
- Bank of England outlines revised approach to stress testing
- PRA highlights supervisory priorities for life and general insurers
- FCA reviews wholesale brokers' anti-money laundering practices

Executive summary

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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The Government’s growth and competitiveness agenda continues to evolve, with the FCA and PRA publishing responses to a letter from the Prime Minister, which asked for recommendations of actions to support economic growth. The FCA’s letter detailed a number of new areas of work, including developing open finance, setting new digital service standards, progressing with a machine-readable rulebook, and simplifying responsible lending and advice rules for mortgages.

The PRA letter contains a number of other initiatives, including the concept of a concierge service for firms wishing to gain authorisation in the UK, as well as other areas to explore with the Government, such as reforms to how it collects data from firms.

Elsewhere, the PRA issued Dear CEO letters to UK deposit takers and international banks and designated investment firms, setting out its supervisory priorities and activities for the year ahead. The PRA’s priorities represent a continuation of previous years’, with an emphasis on robust risk management, governance and controls, supported by accurate information, to proactively identify and mitigate risks, including from geopolitical and technological developments. The regulator highlights counterparty credit risk as a continued area of focus, and confirms that credit risk management thematic reviews are planned on forbearance and unsecured lending in 2025. In addition, the PRA calls out poor data as a recurring root cause in a number of risks, and references the delay to Basel 3.1 implementation in the UK to 1 January 2027. Please read our At a glance publication for more details.

Meanwhile, the Bank of England (BoE) set out a new approach to stress testing banks in a speech by Executive Director for Financial Stability Strategy and Risk, Nathanael Benjamin. He announced that the BoE will move from a framework which requires participating banks’ submissions annually, to a biennial schedule. This element of the framework will continue to inform capital buffer setting (the ‘Bank Capital Stress Test’). The test will be combined with desk-based exercises focused on banks in the intervening years, and other exploratory exercises to assess wider risks. Benjamin said the BoE will take an increasingly holistic view of stress tests, drawing synergies between exercises across various sectors.

Also of note was a speech by Carolyn Wilkins, an external member of the BoE’s Financial Policy Committee (FPC), exploring the link between geopolitical risk and financial stability. She suggested that financial services firms and Governments build financial and operational resilience in line with the geopolitical risk environment, focusing on scenarios which expose firms to the greatest vulnerabilities based on economic, financial and operational interdependencies. She suggested prioritising preparedness, including through war gaming and recovery and resolution plans. The speech comes at a time when regulators globally are increasingly focused on the impact of geopolitical risks.

In the insurance sector, the PRA issued a supervisory priorities letter to life and general insurers. In line with previous years, the PRA emphasises the importance of strong governance, risk management, and controls to effectively manage risks. Additional priorities include: incorporating the outcomes of the Solvency II review; closing risk management gaps in funded reinsurance arrangements to enhance systemic resilience; strengthening operational and cyber capabilities; leveraging CBEST insights and preparing for the cyber stress test. Our At a glance publication analyses the letter in further detail.

Life insurers will also be interested in the launch of the PRA’s life insurance stress test (LIST). The regulator plans to publish individual firm results for the core scenario (and aggregate results for exploratory scenarios) in Q4 2025. The core scenario will focus on the most material financial risk exposures for the annuity writers, including credit risk. The exploratory scenarios will be designed to build capabilities in emerging and evolving risks around: asset concentrations, as firms’ investments and credit risks change; and funded reinsurance, given its growing use in the bulk purchase annuity market.

In addition, the FCA published a portfolio letter for wholesale brokers, setting out its supervisory priorities and planned work for the next two years. Its priorities for proactive supervisory work include: testing controls for oversight of brokers’ activities and behaviours; reviewing firms’ policies and procedures for reporting and managing non-financial misconduct; testing firms’ risk and controls frameworks, with a focus on remuneration tools; and financial resilience. In a separate update, the FCA published findings of a thematic review of wholesale brokers’ anti-money laundering practices. It shared examples of good practice and areas for further improvement, including customer and country risk assessments and documentation, transaction monitoring capabilities, and knowledge of suspicious activity reporting.

Please read on to find out more about these and other developments. You can also visit our webpage for further regulatory insights, including our Reflections article which explores the ke themes set to characterise financial services regulation over 2025, and how firms should approach the resulting opportunities and risk

You can also catch up on the latest insights through our regular podcast, including our latest episode on the evolving landscape of sustainability regulation in the UK and globally.

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Cross sector announcements

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Conduct

FCA confirms rule changes for umbrella UCITS schemes

The FCA published Handbook Notice No 126 on 31 January 2025. It confirms changes to the Handbook to modify the investment rules for funds authorised as undertakings for collective investment in transferable securities (UCITS), so they work more effectively for funds with an umbrella/sub-fund structure, following consultation in CP24/11. The regulator also summarises feedback to the consultation.

Financial crime

FCA finds weaknesses in brokers' money laundering defences

On 23 January 2025, the FCA published a thematic review of wholesale brokers' anti-money laundering practices. Money laundering through the markets builds on a previous 2019 thematic review and focuses on brokers' financial crime systems and controls.

The FCA found examples of good practice among several firms, both large and small, but that further improvements are needed across a range of issues to mitigate risks. These include:

- Greater consideration of financial crime related risks inherent to brokers' business models.
- Improved customer and country risk assessments and documentation.
- Avoiding inappropriate reliance on other parties in a transaction chain to complete KYC and due diligence processes.
- Improvements to transaction monitoring capabilities and integration into wider processes
- Increased knowledge of suspicious activity reporting, and greater information-sharing between firms.
- Greater tailoring of financial crime training to the business models and related risks of brokerage firms.

Financial crime risks were identified as an area of supervisory focus for the wholesale broker sector in the FCA's 2025 wholesale brokers' supervisory priorities letter.

Market infrastructure

Equivalence decision for UK CCPs extended to 30 June 2028

On 31 January 2025, the European Commission's implementing decision extending the temporary equivalence decision for UK central counterparties (CCPs) by three years to 30 June 2028 was published in the Official Journal of the European Union.

The equivalence decision, which was due to expire in June 2025, enables UK CCPs to provide clearing services to EU-based clients. The EU has recently agreed changes to the European Market Infrastructure Regulation (EMIR) that aim to drive more clearing activity towards EU-based CCPs. Industry participants had raised concerns about the potential loss of access to UK CCPs, however, and the short timeframe for authorities to provide clarity over their continued use.

Supervision

FCA sets supervisory strategy for claims management companies

The FCA issued a portfolio letter to Claims Management Companies (CMCs) on 30 January 2025, setting out its view of harms and risks posed by CMCs and its priority areas of focus over the next two years.

The FCA highlights the growth of CMCs in recent years and notes there are a number of areas where firms continue to fall short of its expectations. The FCA notes that its supervisory focus will be on firms' embedding of the Consumer Duty, as well as a set of specific areas, including:

- Carrying out further work on service standards, particularly where CMCs submit high volumes of complaints to the Financial Ombudsman but achieve low uphold rates;
- Reviewing marketing literature and due diligence conducted around the sourcing of personal injury leads;
- Considering whether to consult on changes to the annual CMC001 report in order to gather information on lead generation more regularly.

The FCA also outlines a number of ongoing issues it has identified in CMCs and expects firms to be monitoring closely. This includes: the use of misleading advertising, particularly around housing disrepair and motor finance claims; insufficient due diligence on leads from third parties; ensuring firms' communications meet customers' needs and equip them to make informed decisions; and CMCs' attitude towards regulatory reporting obligations. The FCA also flags the temporary extension to the time firms have to provide a response to motor finance complaints, and expects CMCs to ensure customers understand what this means before entering into a contract for the provision of services.

Sustainability

FCA publishes 2025 Climate Adaptation Report

The FCA published its 2025 Adaptation Report on 28 January 2025 in response to the Department for Environment, Food and Rural Affairs' invitation to report on climate change adaptation challenges faced by financial services (FS) firms.

This is part of the fourth round of reporting and is not intended to set out regulatory expectations for firms. The FCA is concerned about the continued supply of insurance, lending and investment to support adaptation, particularly regarding:

- Data and modelling to help FS quantify and manage climate risks (e.g. barriers and gaps)
- Barriers and enablers to insurance underwriting for climate risks and subsequent effects on lending and investment
- Barriers and enablers to FS allocating capital to adaptation.

The FCA also reaffirms it intends to update its rules for listed companies so that the ISSB standards supersede TCFD-aligned requirements.

PRA publishes 2025 climate adaptation report

The PRA published its 2025 Adaptation Report on 30 January 2025. This was published in response to the invitation from the Department for Environment, Food & Rural Affairs (DEFRA) to report on climate change adaptation challenges faced by financial services firms. In its report, the PRA highlights the work undertaken by the PRA and Bank of England (BoE) regarding climate change risks, looks at steps taken by banks and insurers to respond to the impacts of climate change, and its planned consultation later in 2025 to update its Supervisory Statement SS3/19. The PRA notes positive steps taken by firms towards implementing its SS3/19 but further progress is needed by all firms. The report highlights work undertaken by the PRA and BoE, including:

- PRA: the use of its micro prudential toolkit (i.e. prudential supervision, domestic and international policy, and capability reporting) to encourage firms to effectively manage their climate risks.
- BoE: the 2021 Climate Biennial Exploratory Scenario exercise, prudential policy work to build resilience to climate risks (including international collaboration), and efforts to support industry to build its climate risk management skills.

Looking ahead, a key focus for the PRA will be updating its supervisory expectations. The BoE will continue to assess the potential for systemic risks relating to climate change and to collaborate internationally to support its statutory objectives regarding climate risk (e.g. the Network for Greening the Financial System, the Sustainable Insurance Forum, the Basel Committee on Banking Supervision, the Financial Stability Board, and the International Association of Insurance Supervisors).

Wholesale markets

FCA consults on further prospectus rule reform

The FCA published a consultation paper (CP) on 31 January 2025, setting out further proposals to reform prospectus rules and introduce a new public offers and admissions to trading regime (POATR) in the UK. The FCA also issued an accompanying CP on its approach to support the implementation of a new public offer platform (POP) regime.

The two CPs follow a set of papers (CP24/12 and CP24/13) published in July 2024, which sought feedback on the FCA's core proposals for a new prospectus regime and framework governing POPs. The latest CPs set out further proposals on disclosure requirements for low denomination bonds and to simplify the application process for further issuances. In particular, the FCA is consulting on setting a single standard for corporate bond prospectuses, covering both large and small (less than £100k) bond sizes.

This will align prospectus requirements for non-equity securities to current disclosure requirements for wholesale denominations, rather than having separate standards for lower denomination bonds.

The POP consultation sets out how the FCA intends to authorise and supervise firms seeking to operate POPs, as well as detail on a potential transition regime that could operate while Variation of Permission (VoP) requests are assessed. The FCA proposes a transitional regime that will allow existing authorised firms to be treated as holding a Part 4A permission for operating a POP during the period the FCA is assessing a firm's VoP application.

The consultations close on 14 March 2025. The FCA expects to issue final rules in summer 2025.

Banking and capital markets

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Capital and liquidity

PRA confirms Basel 3.1 implementation delay

The PRA confirmed the delay to the implementation of Basel 3.1 rules on 17 January 2025. The delay will push back implementation deadlines by 12 months, from 1 January 2026 to 1 January 2027, to allow more time for greater clarity to emerge on the US Basel endgame implementation position following the change in US administration. As a result, the transition period of the rules will be reduced to ensure full implementation remains at 1 January 2030. The PRA is currently considering the impact this delay will have on the time frame for implementing its Strong and Simple regime.

Payments

FCA and PSR set out next steps for Open Banking

The FCA and PSR outlined next steps for UK Open Banking in a joint statement on 23 January 2025. The regulators acknowledge that continued success in this area is crucial for the UK, as highlighted in the National Payments Vision and the Government's growth agenda.

The regulators' immediate focus will be on developing variable recurring payments (VRPs), which are expected to give consumers greater control over regular payments, reducing unexpected expenses. For businesses, VRPs could increase competition, lower processing fees, and improve payment completion rates.

The regulators laid out key next steps, including Open Banking Limited's role in establishing an independent central operator for VRPs. They will support this initiative through collaboration with industry and trade associations, with live services expected in 2025 for payments to utilities, government, and financial services. Work will also continue to develop commercial arrangements for VRPs and Open Banking in e-commerce.

The FCA and PSR will oversee these efforts via a joint steering committee.

Stress testing

Bank of England sets out revised approach to stress testing

The Bank of England's (BoE) Executive Director for Financial Stability Strategy and Risk, Nathanaël Benjamin, set out a new approach to stress testing banks and joining the dots between desk-based exercises and stress tests of different parts of the financial system, in a speech on 15 January 2025.

Benjamin announced that the BoE's new approach will move from a framework which requires participating banks' submissions annually, to a biennial schedule. This element of the framework will continue to inform capital buffer setting (the 'Bank Capital Stress Test'). The test will be combined with desk-based exercises focused on banks in the intervening years, and other exploratory exercises designed to assess wider risks.

Benjamin noted that the frequency of the cyclical tests can be reduced due to banks being better capitalised than in the past, and that the reduction in firms' submissions should represent a considerable efficiency gain for banks. He explained that the BoE will take an increasingly holistic view of stress tests and seek to draw synergies between the various bank stress tests and other stress tests including those of the general and life insurance sectors, central counterparties, and the system-wide exercise which covered banks and non-banks.

Supervision

FCA sets supervisory strategy for Credit Reference Agencies

The FCA issued a portfolio letter to Credit Reference Agencies (CRAs) and Credit Information Services Providers (CISPs) on 10 January 2025, setting out the regulator's two-year supervisory strategy for the sector.

The FCA plans to focus on CRAs' and CISPs' embedding of the Consumer Duty and their operational, cyber and financial resilience. In particular, the regulator plans to conduct further work to understand compliant practices across the portfolio. It will continue to assess how firms are meeting the price and value outcome, particularly for credit repair, credit builder and subscription model services.

The FCA reiterates that firms should have made significant progress to meet the 31 March 2025 operational resilience regulatory deadline, and it expects firms to continue to monitor and test cyber resilience capabilities, as well as the adequacy of capital and liquidity. The FCA states that firms in the portfolio should consider the application of the letter to their business and agree appropriate actions to ensure compliance with its rules and expectations.

The FCA reiterates that firms should have made significant progress to meet the 31 March 2025 operational resilience regulatory deadline, and it expects firms to continue to monitor and test cyber resilience capabilities, as well as the adequacy of capital and liquidity. The FCA states that firms in the portfolio should consider the application of the letter to their business and agree appropriate actions to ensure compliance with its rules and expectations.

PRA sets 2025 banking supervisory priorities

The PRA issued Dear CEO letters to UK Deposit Takers and International banks and designated investment firms on 21 January 2025, setting out its supervisory priorities and details of planned supervisory activities for the year ahead.

The PRA's priorities represent a continuation of previous years' focus areas, with emphasis placed on firms maintaining robust risk management, governance and controls, supported by accurate information, to proactively identify and mitigate risks, including from geopolitical and technological developments.

The regulator highlights counterparty credit risk as a continued area of focus, particularly firms' exposure to non-bank financial institutions and commercial real estate. The letters confirm credit risk management thematic reviews are planned on forbearance and unsecured lending in 2025.

The PRA also calls out poor data as a recurring root cause in a number of risks requiring remediation. In particular, it identifies technological developments and the increased use of AI as placing heightened importance on the quality and accuracy of data. The letters also outline the regulator's expectations in relation to funding and liquidity and operational resilience.

The PRA also references the delay to Basel 3.1 implementation in the UK to 1 January 2027, and that it is currently considering the impact this will have on the timeframe for implementing its Strong and Simple regime.

See our At a glance for more detail.

FCA shares supervisory priorities for wholesale brokers

The FCA published a Portfolio letter for wholesale brokers on 24 January 2025, setting out its supervisory priorities and planned work for the sector for the next two years. The FCA noted that the sector has seen uneven improvements across the FCA's priorities, including liquidity risk management, financial crime, culture, and non-financial misconduct.

The priority areas for proactive supervisory work include:

- Broker conduct: Testing of firms' controls for oversight of brokers' activities and behaviours.
- Culture: Reviewing firms' policies and procedures for reporting and managing non-financial misconduct.
- Business oversight: Testing firms' risk and controls frameworks, with a focus on remuneration tools such as variable remuneration deferrals, clawback or malus.
- Financial resilience: The FCA will publish a paper following its review of clearing brokers' liquidity risk management frameworks shortly and follow up with firms.

FCA confirms mortgage intermediaries supervisory strategy

The FCA issued a Dear CEO letter to mortgage intermediaries on 30 January 2025, setting out its areas of supervisory focus over the next two years. The FCA identifies four priority areas: the quality of advice and unsuitable products, high pressure selling and ancillary products, excessive fees and fair value, and financial promotions.

In relation to advice, the FCA emphasises the importance of firms focusing on customers' needs and circumstances in the advice process and that this should go beyond assessing whether a customer meets a lender's criteria. The FCA notes specific areas of focus in the first and second charge markets, including that firms need to do more to ensure customers have considered their options and to consider whether a secured loan is appropriate for customers in financial difficulty.

The FCA raises risks from firms' mismanagement of conflicts of interest, including mis-selling and product bias, and reminds firms to review incentive schemes to ensure they don't impede the firm from acting in the customer's best interest. The FCA also reiterates its expectations on fair value, emphasising that using competitor benchmarking is not sufficient and that increasing prices unfairly or without justification for certain products is not appropriate.

The FCA highlights the importance of ensuring the risks of secured lending are featured prominently alongside promoted benefits. The FCA reminds firms of its expectations under the Consumer Duty, as well as the outcomes from its work on later-life mortgage advertising and guidance on social media financial promotions. Firms are expected to discuss the letter with their leadership and be satisfied that the areas noted in the letter are being addressed.

Asset management

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Sustainability

FCA reflects on impact of SDR regime

On 6 December 2024 Sacha Sadan, Director of Sustainable Finance at the FCA, published an article looking at the impact of the FCA's sustainability disclosure and labelling regime (SDR) after one year. The article highlights the intention of the regime to improve trust in and transparency of sustainable investment products and raise the bar for industry. The FCA reconfirms its views that allowing flexibility was the correct approach, while noting that it leaves scope for interpretation which can cause uncertainty for firms. The FCA also notes that it will take time for fund managers to fully embed all of the changes.

The SDR naming and marketing rules entered into force on 2 December 2024. Large fund managers in scope of SDR will need to publish their entity-level disclosures by 2 December 2025, and smaller fund managers will need to publish their entity-level disclosures one year later (2 December 2026).

Insurance

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Supervision

PRA publishes 2025 insurance supervisory priorities

The PRA issued a Dear CEO letter to life and general insurers, setting out its supervisory priorities for 2025, on 9 January 2025. The PRA's key priorities build on previous years, focusing on adapting to ongoing changes in the external risk landscape. It also emphasises the importance of strong governance, risk management, and controls to effectively manage risks. Additionally, the regulator's priorities incorporate the outcomes of the Solvency II review and the necessary changes for firms and the PRA to achieve the goals of these major reforms.

Other PRA priorities include closing risk management gaps in funded reinsurance arrangements to enhance systemic resilience, strengthening operational and cyber security capabilities, leveraging CBEST insights and preparing for the cyber stress test, and preparing for the life insurance stress test. The PRA confirms that for the first time, it will publish individual stress test results, along with aggregate results, to enhance transparency and understanding of firms' financial positions under stress.

The PRA confirms that this year it will continue to engage with relevant firms on the proposed liquidity reporting requirements set out in CP19/24. It also confirms that it will follow-up on the thematic review it conducted last year on life insurers' liquidity risk appetites, where it identified approaches that would benefit from further development.

While uncertainties such as economic inflation have lessened, claims inflation, natural catastrophe losses, geopolitical risks, and cyber threats persist. Therefore, the PRA urges general insurers to maintain strong reserving standards and underwriting discipline through 2025.

See our At a glance for more detail.

IAIS sets out roadmap for 2025-26 deliverables

The International Association of Insurance Supervisors (IAIS) released its roadmap for 2025-26 on 27 January 2025, marking the first roadmap under its new Strategic Plan for 2025-29. Following a period of setting standards, including the adoption of the Insurance Capital Standard (ICS) in late 2024, the IAIS will now focus on ensuring the globally consistent implementation of these standards. Going forward, the IAIS will develop an implementation assessment methodology for the ICS.

The roadmap outlines the IAIS's core objectives, which include monitoring key risks and trends in the global insurance sector, maintaining effective supervision standards, supporting members with supervisory practices, and ensuring the consistent implementation of global standards. The IAIS will continue to assess risks, such as structural changes in the life insurance sector and financial stability concerns related to natural catastrophe protection gaps. It will also enhance its Global Monitoring Exercise to identify systemic risks.

The IAIS plans to support its members through guidance on supervisory practices and facilitating peer exchanges, focusing on strategic themes such as climate change, digital innovation and insurance's societal role in building resilience (covering protection gaps, financial inclusion and consumer protection).

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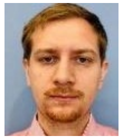

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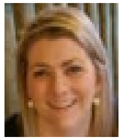

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