

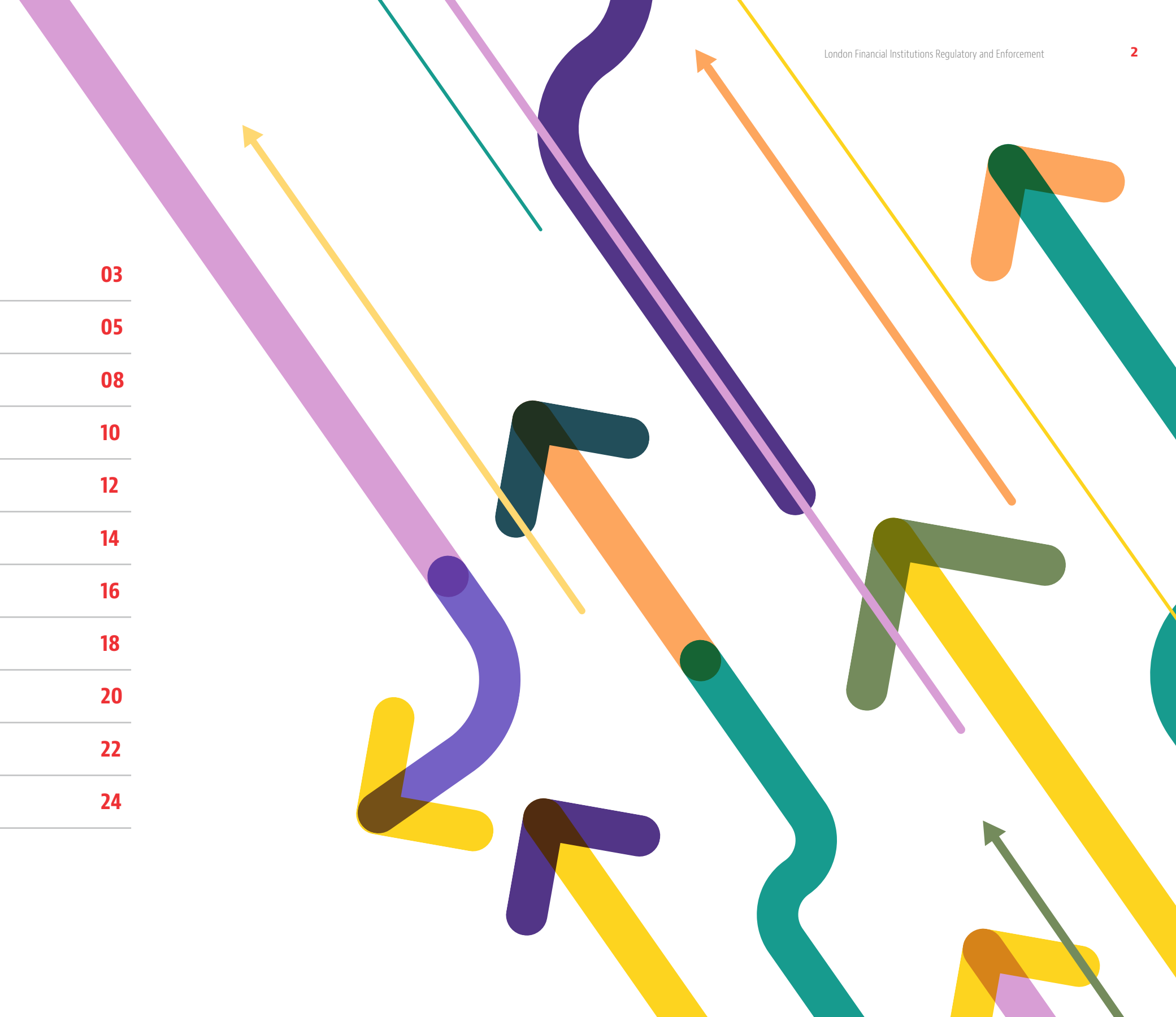
What does 2025 hold?

Key Upcoming Developments and Enforcement Trends



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What should we expect in 2025?

As ever, last year was a big year in financial services. Significant progress was made throughout 2024 in implementing the post-Brexit Smarter Regulatory Framework (SRF) reforms: policymakers have been actively working to replace retained EU law – now called “assimilated law” – with UK-specific regulations, including enhancing the regulatory approach to asset management, tailoring prudential requirements to the UK markets, and updating the retail funds regime.

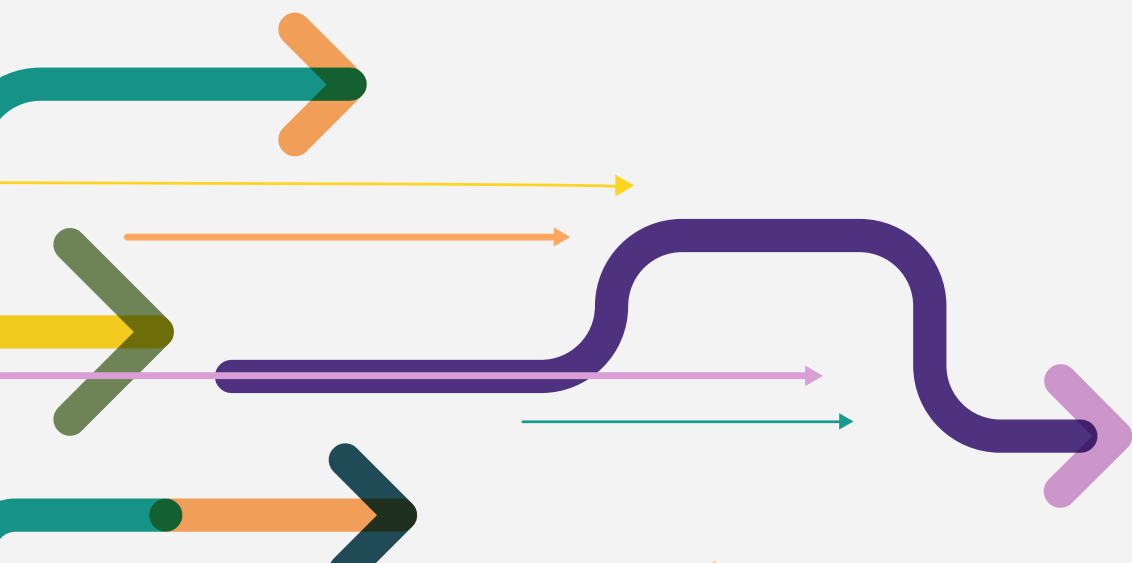
Regulatory divergence between the UK and EU was a critical issue in 2024, with firms needing to navigate the complexities of differing regulatory regimes and ensure compliance across multiple jurisdictions as regulators grappled with challenges in often differing ways. We also saw a ramping up of measures aimed at modernising financial services legislation in the UK, with the new Labour government confirming its updated approach to crypto regulation, long-awaited plans to regulate buy-now-pay-later (BNPL) lending finally moving forward, and hints toward the end of 2024 that policy decisions are imminent on reforms to the Senior Managers and Certification Regime (SMCR) and the entrenchment of diversity, equity and inclusion (DEI) in regulation. However, progress slowed or stalled somewhat on other reform programmes, such as the development of the UK Green Taxonomy, reforms to payments regulation and measures addressing AI in financial services. In enforcement, we saw a shift in the FCA’s approach in the post-Mark Steward area, as the regulator sought to make more use of its supervisory intervention powers before progressing to targeted enforcement action – with proposals to “name and shame” firms under investigation continuing to progress.

So what should we expect from the coming year? The primary emphasis in 2025 will be the continued implementation and operationalisation of major changes to the UK’s post-Brexit financial services regulatory framework as assimilated law is repealed and replaced with the FSMA model of regulation. The previous Conservative government had proposed wide-ranging regulatory reforms to reshape the UK financial services landscape; as expected, the new Labour government has continued with these reforms, prioritising the review of those regulatory regimes it expects to facilitate notable economic growth and greater investment once reformed. Structural changes will continue in the new year: we should see the implementation of the new designated activities regime (DAR) in 2025, and the anticipated FCA Handbook Review should

result in the streamlining of regulatory rules to make them more user-friendly for business. However, firms with footprints in both the UK and the EU will continue to find regulatory compliance increasingly challenging as rules and requirements diverge ever further.

We also expect to see a number of post-financial crisis reforms rolled back as the government encourages firms to warm up to a higher level of risk-taking than the current regime allows for. The Treasury and the regulators have expressed their intention to reduce duplicative and overly burdensome compliance obligations, especially in light of the Consumer Duty – this means we expect deregulation to an extent in areas such as retail disclosures and senior management certification. And while the results of the 2024 UK general election did not lead to a fundamental reorientation of financial services regulatory policy toward EU alignment, the new government has embarked on a more collegial relationship with EU regulatory policymakers and movement has trended generally toward more alignment across all sectors including financial services, which we expect will result in a less hostile environment for cross-border transactions.

Amidst these forthcoming structural changes, the regulators will also be busy on thematic reforms. As the UK continues to reshape the regulatory landscape post-Brexit, the Treasury has repeatedly emphasised the need for regulation to support growth and competitiveness, including a reinvigorating of the UK capital markets toward global openness and inward investment. Major reforms to the funds, derivatives and retail disclosure regimes are set to take place – firms with EU footprints will need to prepare for changes arising from AIFMD II and EMIR 3.0 implementation, while the UK is set to finalise its new retail disclosure regime replacing PRIIPs. Alongside these changes we expect significant developments in the ESG space, as the UK tentatively moves forward with the development of a tailored Green Taxonomy, and plans to regulate ESG ratings providers progress in both the UK and EU.



Risk management will feature heavily on the agenda in 2025. This will be a key year for firms’ operational resilience programmes as deadlines for compliance with both the EU Digital Operational Resilience Act (DORA) and the UK regime come to pass early in the year, and implementation of the UK’s critical third parties (CTP) regime continues to progress. We also expect significant movement in 2025 on DEI in financial services, with the regulators finally set to implement a number of requirements designed to further embed DEI into firm conduct and culture – firms should watch out for these developments as the relevant changes may require a compliance uplift with respect to existing policies, procedures and internal governance frameworks, and additional resourcing. It is anticipated that we will see the long-awaited outcomes from the SMCR review in 2025 alongside consultations on proposed changes to the SMCR framework, and further clarity is also expected on the extension of the regime to a wider range of firms.

We will also see regulators take further steps in 2025 to wrestle with technological advances that threaten to continue outpacing supervisory responses. In the EU, national regulators will be busy monitoring compliance with the new crypto regime established by the Markets in Cryptoassets Regulation (MiCAR), which applied to cryptoasset service providers (CASPs) from the end of 2024. In the UK we expect to see further progress on the development of crypto regulation after the new Labour government confirmed it will proceed with proposals to bring the crypto sector within the UK’s regulatory perimeter. This is likely to lead to further divergence in regulatory orientation: while the EU is maintaining its file-by-file approach to regulation, the UK is developing an entirely new regime to sit within the overarching FSMA model. Progress on AI regulation is also expected in both the EU and UK – firms will need to begin considering the impact of the EU AI Act on their businesses and should look out for further developments at both a legislative and regulatory level in the UK.

Consumer protection will remain a key priority for regulators in 2025. The Consumer Duty has been a core focus for the FCA and will continue to be key to supervisory activities in 2025 as the FCA continues to enforce and refine its implementation by firms. Firms should look out for the results of implementation reviews and be ready to act on any FCA findings and next steps. Consumer credit is back on the agenda for 2025 –

after significant delays, the UK government is finally advancing plans to regulate BNPL services, and further consultations are expected in 2025 on reforms to the Consumer Credit Act 1974 (CCA). In the payments space, 2025 will see the authorised push payment (APP) fraud reimbursement scheme continue to bed in and further developments in the “confirmation of payee” space, and changes to the safeguarding rules may result in the need for operational changes.

Finally, we will no doubt see a continued regulatory focus on enforcement and holding firms to account for harmful conduct in the sector. While financial crime will continue to be a standing priority in 2025, we also expect regulators to scrutinise and take action on failings relating to retail conduct as well as culture and governance. We expect to see the FCA continue its current approach to enforcement, using its supervisory tools for early intervention together with streamlined, targeted enforcement action for the most egregious harms.

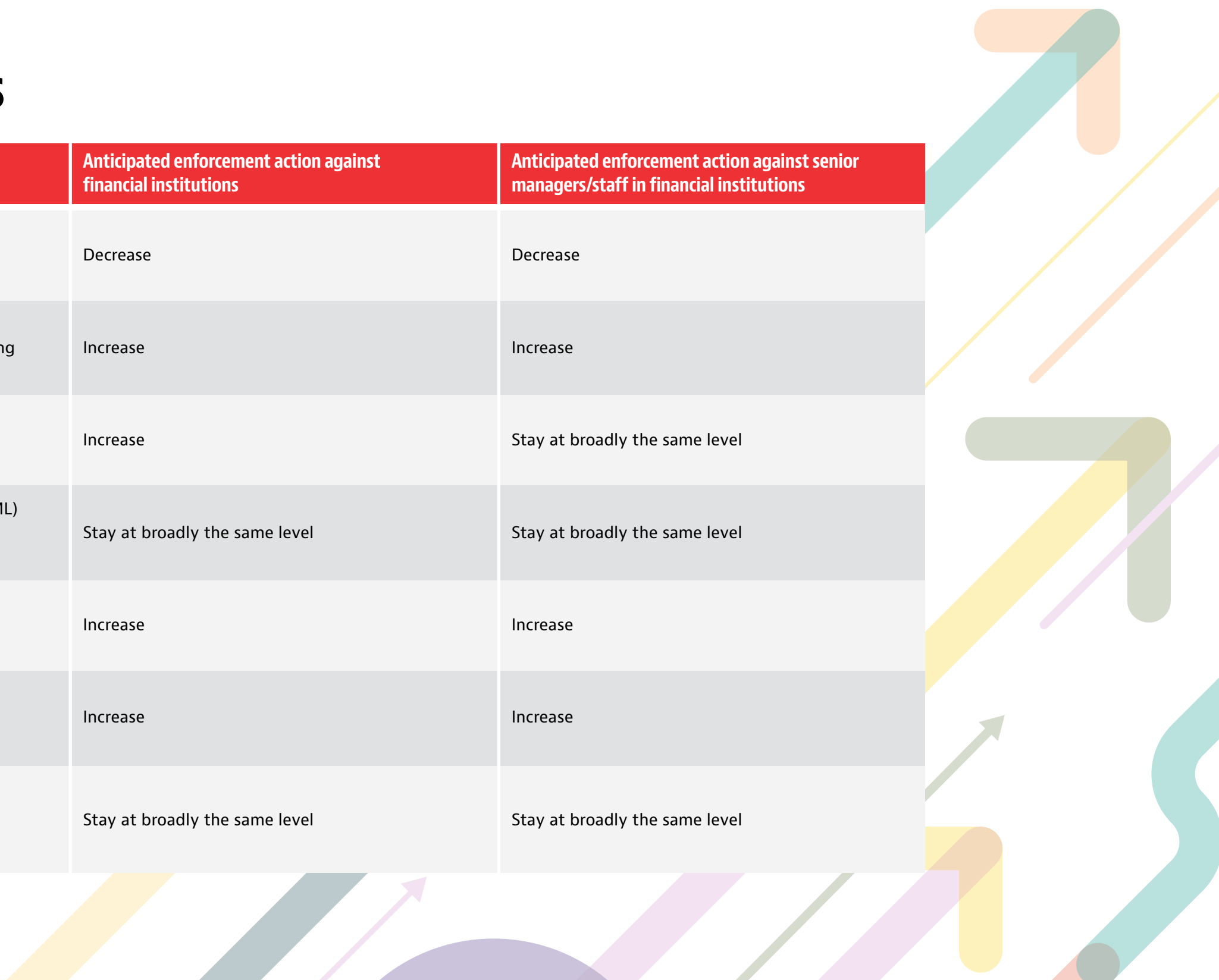


Whatever 2025 may bring, whether predicted or not, we look forward to working with you on what’s to come.











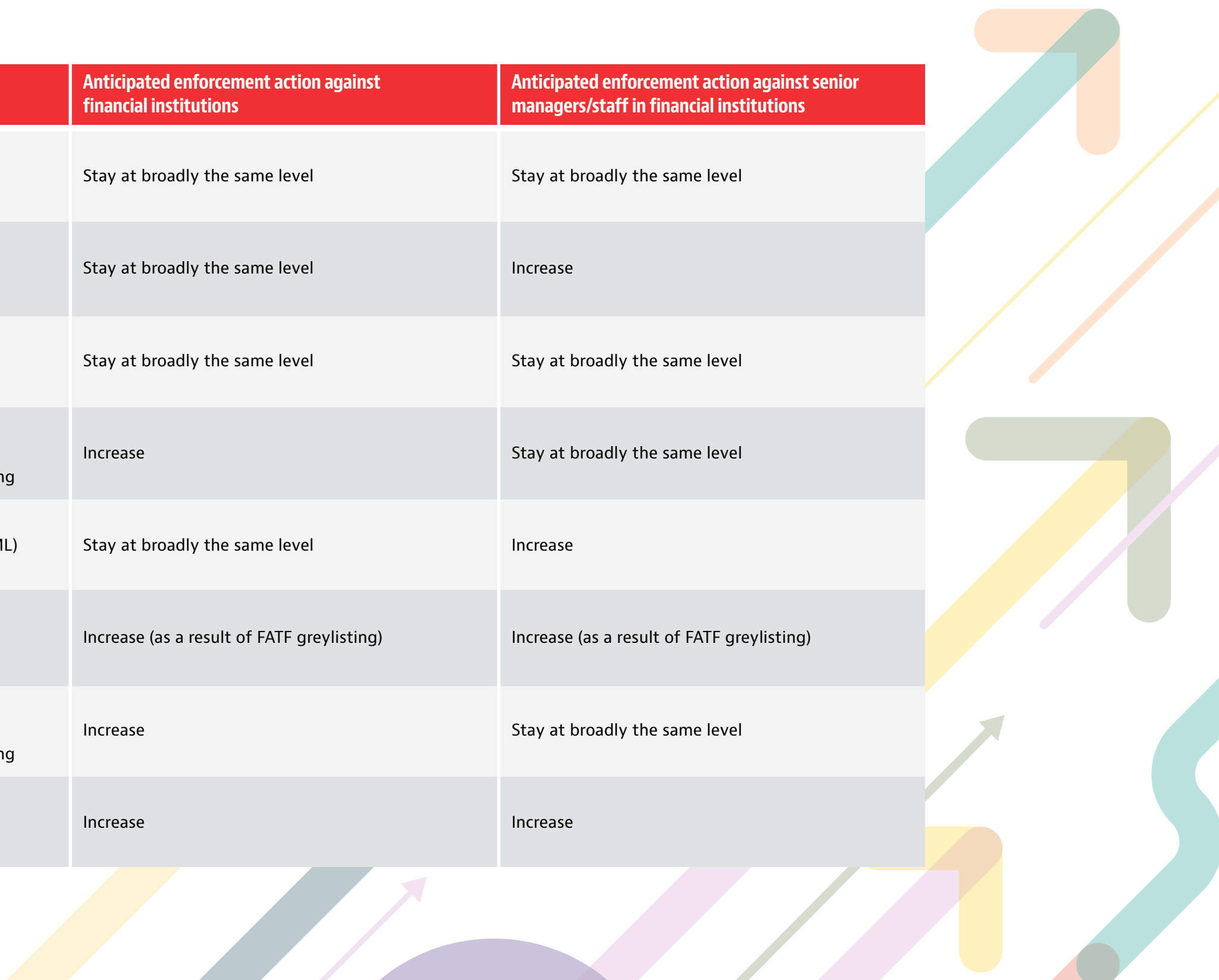
Global Enforcement Themes






Jurisdiction	Top 3 enforcement areas	Anticipated enforcement action against financial institutions	Anticipated enforcement action against senior managers/staff in financial institutions
Argentina	<ul style="list-style-type: none"> Retail lending Retail conduct Client money/assets 	Decrease	Decrease
Australia	<ul style="list-style-type: none"> Retail conduct Financial promotions/advertising Culture/governance 	Increase	Increase
Belgium	<ul style="list-style-type: none"> Financial crime Mis-selling Culture/governance 	Increase	Stay at broadly the same level
France	<ul style="list-style-type: none"> Financial crime (particularly AML) Market conduct/market abuse Mis-selling 	Stay at broadly the same level	Stay at broadly the same level
Germany	<ul style="list-style-type: none"> Financial crime Culture/governance Retail conduct 	Increase	Increase
Hong Kong	<ul style="list-style-type: none"> Financial crime Market conduct/market abuse Culture/governance 	Increase	Increase
Italy	<ul style="list-style-type: none"> Retail conduct Non-financial misconduct (particularly AML) Mis-selling 	Stay at broadly the same level	Stay at broadly the same level





Jurisdiction	Top 3 enforcement areas	Anticipated enforcement action against financial institutions	Anticipated enforcement action against senior managers/staff in financial institutions
 Japan	<ul style="list-style-type: none"> Financial crime Mis-selling Culture/governance 	Stay at broadly the same level	Stay at broadly the same level
 Luxembourg	<ul style="list-style-type: none"> Client money/assets Financial crime Mis-selling 	Stay at broadly the same level	Increase
 Netherlands	<ul style="list-style-type: none"> Financial crime Culture/governance Retail conduct 	Stay at broadly the same level	Stay at broadly the same level
 Poland	<ul style="list-style-type: none"> Retail conduct Market conduct/market abuse Financial promotions/advertising 	Increase	Stay at broadly the same level
 Singapore	<ul style="list-style-type: none"> Market conduct/market abuse Financial crime (particularly AML) Mis-selling 	Stay at broadly the same level	Increase
 South Africa	<ul style="list-style-type: none"> Financial crime Culture/governance Client money/assets 	Increase (as a result of FATF greylisting)	Increase (as a result of FATF greylisting)
 Spain	<ul style="list-style-type: none"> Culture/governance Market conduct/market abuse Financial promotions/advertising 	Increase	Stay at broadly the same level
 Switzerland	<ul style="list-style-type: none"> Financial crime Culture/governance Market conduct 	Increase	Increase



Jurisdiction	Top 3 enforcement areas	Anticipated enforcement action against financial institutions	Anticipated enforcement action against senior managers/staff in financial institutions
 Taiwan	<ul style="list-style-type: none"> ▪ Financial crime (particularly relating to scams) ▪ Culture/governance ▪ Client money/assets 	Increase	Increase (the Taiwan banking industry's senior manager accountability regime took effect on 1 January 2025)
 Thailand	<ul style="list-style-type: none"> ▪ Financial crime ▪ Market conduct/market abuse ▪ Culture/governance 	Stay at broadly the same level	Stay at broadly the same level
 UAE	<ul style="list-style-type: none"> ▪ CBUAE: Financial crime (particularly AML) ▪ SCA: Retail conduct ▪ SCA: Market abuse ▪ VARA: Financial promotions/advertising 	Increase	Increase
	<ul style="list-style-type: none"> ▪ Wholesale conduct ▪ Financial crime ▪ Mis-selling 	Increase	Increase
	<ul style="list-style-type: none"> ▪ Wholesale conduct ▪ Financial crime ▪ Mis-selling 	Increase	Increase
 UK	<ul style="list-style-type: none"> ▪ Financial Crime ▪ Retail conduct ▪ Culture/governance 	Stay at broadly the same level	Stay at broadly the same level
 USA	<ul style="list-style-type: none"> ▪ Retail conduct ▪ Client money/assets ▪ Financial crime/market conduct/market abuse 	Stay at broadly the same level	Stay at broadly the same level





Enforcement, Financial Crime and Market Conduct

The coming year should prove eventful from an enforcement perspective, as global financial services regulators continue to clamp down on harmful practices. Internationally, financial crime remains top of the enforcement agenda, as scams continue proliferate, the rapid expansion of innovative technologies facilitates an increase in money laundering and reforms to anti-money laundering (AML) frameworks progress. We expect that retail conduct, mis-selling and breaches of financial promotions and advertising will all feature in global enforcement action in 2025 – with particular areas of focus to include greenwashing, harmful social media advertising practices, and consumer protection. It is also no surprise that culture and governance feature highly on the list of regulatory focus areas, given the challenges facing firms in relation to the management of ESG risks, changing approaches to individual accountability, and the complexities presented by the incorporation of new innovative solutions like AI which still exist on the edges of the regulatory boundary.

Turning to the UK, the FCA's enforcement approach in the post-Mark Steward era has seen a greater use of supervisory tools for early intervention, such as voluntary requirements and skilled person reviews, reserving enforcement for the most serious cases of harm. As we head into 2025, we expect the FCA to continue its strategy of early supervisory engagement through the deployment of targeted information requests, the commissioning of reports by skilled persons, reviews of firms' policies and procedures and other intervention tools, with streamlined enforcement action leading to fewer delays in outcomes. The FCA's proposals on

enforcement transparency will continue to be a hot topic, with the potential for publication of enforcement investigations adding to the importance of firms seeking to minimise the risk of enforcement action.

In its 2022-2025 3-year strategy, the FCA confirmed its commitment to reducing and preventing financial crime, evidenced by a number of high-profile enforcement actions. With the 3-year strategy set to end in 2025, financial crime remains a key pillar of the new 5-year strategy to be implemented and we expect the FCA's supervisory and enforcement focus on financial crime to continue. A recent speech given by Sarah Pritchard of the FCA emphasised the importance of financial crime prevention for regulated firms, in which she likened the rise of financial crime to the great fire of London: when smaller incidents go unchecked, they can grow into a much larger problem. With this in mind we expect to see the FCA continue its approach to enforcement in support of its financial crime strategy, using its supervisory tools for early intervention together with targeted enforcement action.

In 2025, firms should consider whether changes are needed to policies and procedures to address newly revised regulatory guidance, including the FCA's recently confirmed changes to its Financial Crime Guide and the focus on politically exposed persons. Firms with retail customers should pay particular attention to the interplay between the Consumer Duty and financial crime in the updated Financial Crime Guide.

AML will also be a hot topic for 2025 in the EU, with significant reforms to the AML framework set to begin taking effect. The new Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA) is expected to open its office early in 2025, in preparation for the commencement of its supervisory activities in 2026. Firms are advised to begin preparing for any revisions to their compliance processes, as some of the changes to the requirements in the AML framework will begin to apply as early as the summer.

In addition to AML, firms should continue to focus on fraud in 2025. The UK APP fraud reimbursement scheme will continue to bed in for banks and payment firms and we expect to see learnings in this space on best practice for fraud prevention and whether related measures, such as the ability to delay outgoing payments, have been successful in helping to reduce APP fraud. Of relevance to large companies, the new failure to prevent fraud offence under the Economic Crime and Corporate Transparency Act 2023 (ECCTA) will come into force on 1 September 2025. The Home Office issued guidance on the new offence in November 2024, including the "reasonable fraud prevention procedures" that firms can put in place to prevent fraud. Firms should review this guidance and act to update internal policies and training to prepare for the new offence.

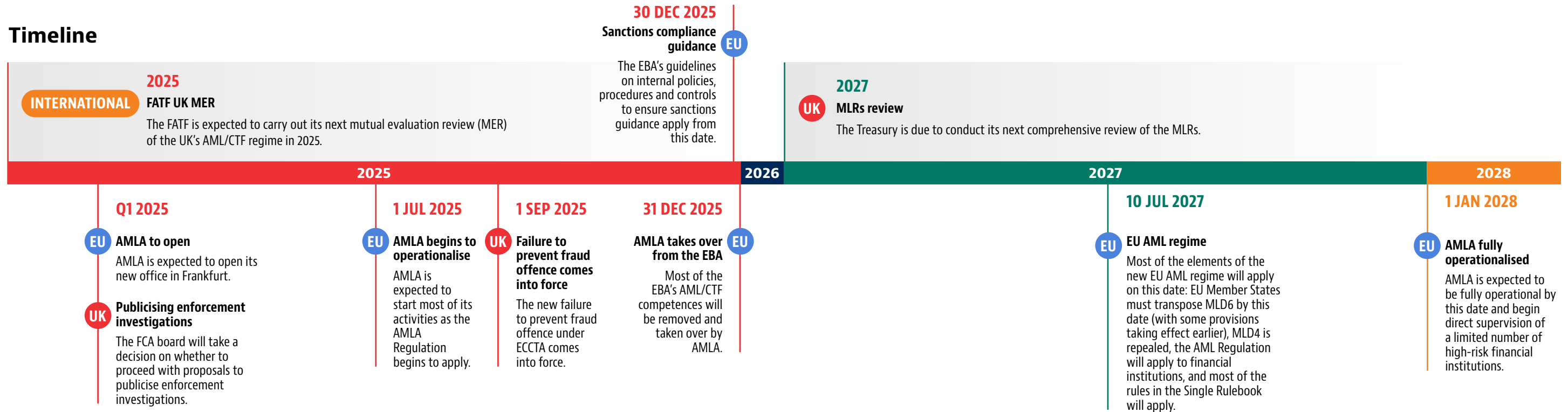
Sanctions compliance remains a key priority for both policymakers and regulators, as the scale and complexity of sanctions imposed by the UK and other authorities continues to increase in response to geopolitical events. Recent enforcement action by the FCA confirms that the regulator will take a robust approach to sanctions compliance breaches; all firms, and particularly those in the custody and fund services and retail banking sectors, should look out for proactive engagement from the FCA on sanctions governance and controls as part of its sector supervision work. Firms with EU footprints should review their internal policies, procedures and controls to prepare for implementation of the EBA's guidelines on sanctions compliance, which will apply from the end of 2025.

Finally, in the market abuse space, the FCA pursued a number of criminal and civil enforcement actions in 2024. Tackling market abuse forms part of the FCA's 3-year strategy and the FCA's 2024/2025 business plan, and we expect to see continued assertive action in this area in 2025.

KEY TRENDS AND ISSUES:

- 1 The FCA's 3-year strategy will end in 2025 and the new 5-year strategy will take its place, including a continued focus on proactive assessments of firms' AML systems and controls. Firms can expect to see a continuation of the use of supervisory and enforcement tools in this space to improve conduct.
- 2 Fraud will be on the agenda for 2025, with the new corporate criminal offence of "failure to prevent fraud" coming into force in September, and continued regulatory focus on APP fraud.
- 3 In the EU, the new AMLA will begin to operationalise in preparation for the new AML framework coming into effect.

Timeline





Regulatory Direction of Travel in the UK

→ The primary emphasis in 2025 will be the continued implementation and operationalisation of major changes to the UK's post-Brexit financial services regulatory framework as retained EU law, now known as "assimilated law", is repealed and replaced with the FSMA model of regulation.

The previous Conservative government had proposed wide-ranging regulatory reforms to reshape the UK financial services landscape, most notably through the Edinburgh Reforms programme of post-Brexit structural changes. Significant progress was made on the programme, particularly in respect of reforms that involved a review of assimilated law. The new Labour government has continued with these reforms, prioritising the review of those regulatory regimes it expects to facilitate notable economic growth and greater investment once reformed.

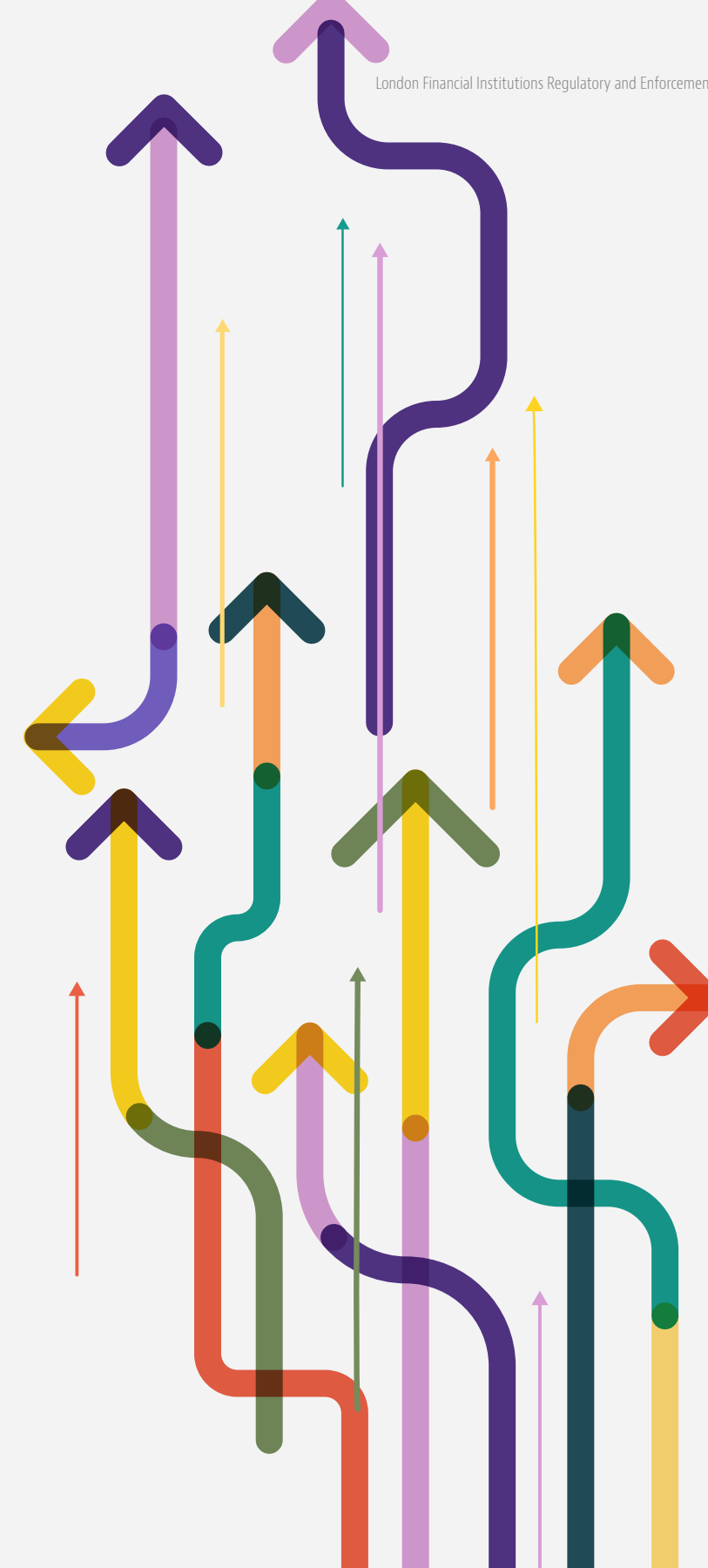
The Treasury has repeatedly emphasised the need for the regulatory landscape to support growth and competitiveness, and new remit letters to this effect were issued in 2024 to the regulators. The government will publish a new Financial Services Growth and Competitiveness Strategy in the first half of 2025 which will focus on fintech, sustainable finance, asset management and wholesale services, insurance and reinsurance, and capital markets. The intention of the strategy is to use these five priority growth opportunities to promote confidence in the financial sector such that there is a growth in business and private investment. However, we may see this priority come into conflict with other regulatory objectives in 2025; for example, the Treasury is consulting on improvements to the Financial Ombudsman Service (FOS), which may result in a tightening of redress opportunities for consumers.

A number of post-financial crisis reforms are also expected to be rolled back as the government encourages firms to warm up to a higher level

of risk-taking than the current regime allows for. The Treasury, PRA and FCA are exploring scrapping the current Certification Regime under the SMCR and replacing it with a more proportionate approach. Following on from the removal of the bankers' bonus cap, the PRA is consulting on further changes to its remuneration rules such as shorter pay deferral periods. The anticipated FCA Handbook Review should result in the streamlining of regulatory rules to make them more user-friendly for business.

We should see the implementation of the new DAR in 2025, providing a mechanism for the Treasury and FCA to regulate certain activities relating to financial markets that are typically carried out by non-financial institutions as well as financial services firms. The initial focus of the regime will be on activities currently set out in assimilated law that the Treasury does not intend to bring within the existing regulatory perimeter – this includes the new short selling and retail disclosure regimes, and perhaps also activities relating to benchmarks and derivative contracts.

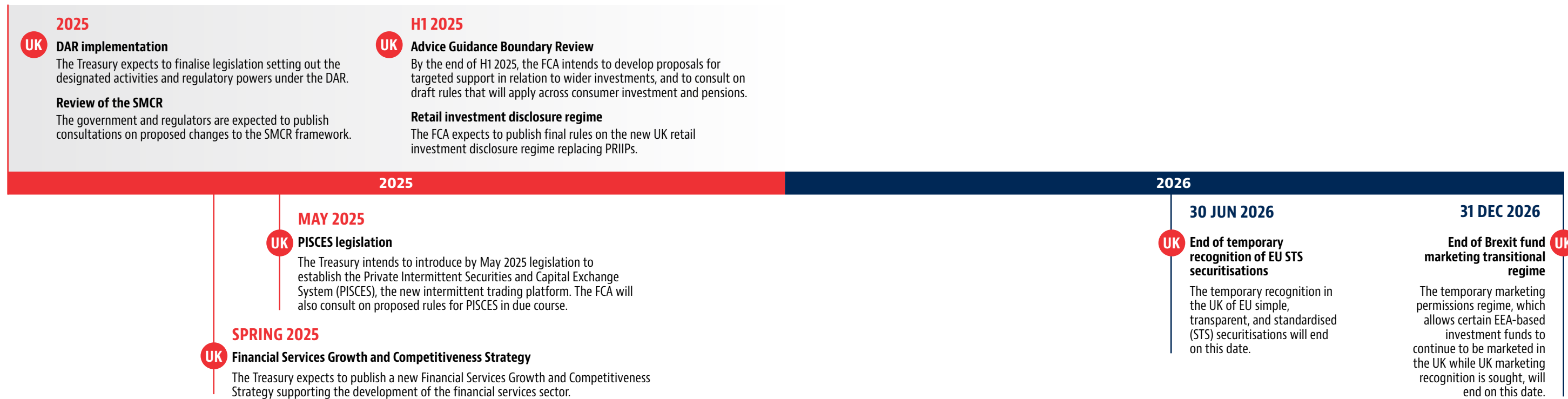
As expected, the Labour government has not engaged in a formal reorientation of regulatory policy to more closely align with the EU – instead, it has continued with many of the previous government's initiatives. The current government has been notably friendly towards fintech and has shown early indications that it is willing to listen to feedback from industry stakeholders. For example, the crypto regulation being implemented in 2025 has been watered down in respect of staking and stablecoins, and draft BNPL legislation has been measured and receptive to consultation feedback. We may also see a revision of the relationship between the FCA and FOS as the FCA aims to prevent further significant FCA-led consumer redress exercises, with clearer expectations set on historical and mass redress events, potentially impacting consumer redress arrangements.



KEY TRENDS AND ISSUES:

- 1** As expected, the results of the 2024 UK general election did not result in a formal reorientation of financial services regulatory policy toward EU alignment, although it has embarked on a more collegial relationship with EU policymakers. In fact, the Labour government has continued to progress the previous government’s work in building a tailored post-Brexit regulatory framework for the UK – and in 2025, we expect to see more assimilated law repealed and replaced with the FSMA model of regulation. However, analysis suggests that the government is generally aligning legislation more closely with the EU across all industries, including the financial services sector, even if this is not stated policy. This is expected to result in a less hostile environment for cross-border transactions.
- 2** The new DAR will be used to regulate a number of activities typically carried on by non-financial institutions. Designated activity regulations have already been made for activities relating to public offers and admission to trading, securitisation, short selling and retail disclosure (also known as consumer composite investments). We may see the finalisation of the overarching DAR framework in 2025, opening the regime to the inclusion of further activities for regulation.
- 3** As the existing reform agenda is exceptionally busy, firms must take great care in navigating the changing regulatory landscape. There is an opportunity for firms to contribute to the proposed reforms, thereby playing a role in shaping their future regulatory obligations. The Treasury and the regulators have expressed their intention to reduce duplicative and overly burdensome compliance obligations, especially in light of the Consumer Duty. This means deregulation is expected to an extent in areas such as retail disclosures and senior management certification.

Timeline





Markets, Funds and Investments

As the UK continues to reshape the regulatory landscape post-Brexit, the Treasury has repeatedly emphasised the need for regulation to support growth and competitiveness, including a reinvigorating of the UK capital markets toward global openness and inward investment. As part of this strategy, the UK government is moving forward with its proposals to establish a new intermittent trading venue (PISCES), where private companies can list their shares at predetermined and infrequent intervals, during which time professional investors can access the types of data typically associated with a public company. Final legislation should be published by May 2025. The Short Selling Regulations 2025, made in early January 2025, will bring a welcome change to UK equities market participants.

We also expect progress from the FCA in 2025 on proposals to reform the UK's bond and derivatives transparency regimes, following on from the Treasury's Wholesale Markets Review. These proposals include further changes to the UK's systematic internaliser (SI) framework, and restricting the scope of post-trade transparency requirements to specific types of instruments such as bonds traded on UK trading venues and certain OTC derivatives subject to the UK clearing obligation.

Reforms to both the UK and EU funds regulatory regimes will progress in 2025. In the EU, Member States will continue to work throughout 2025 to transpose AIFMD II before the April 2026 deadline. Among other reforms, AIFMD II introduces new rules creating a set of common standards for loan-originating AIFs in the EU, and fund managers will need to prepare for compliance with these new obligations. There is also a push to reform UK AIFMD, and we may see traction in this space in 2025. We may also see progress on the expansion of the UK Overseas Funds Regime:

while initial feedback from the market on the regime for EEA UCITS has been very positive, it remains to be seen whether the Treasury and FCA will move to recognise further funds, particularly EU-authorized MMFs.

Regulators are also beginning to roll back reforms arising out of the flurry of rulemaking in the wake of the financial crisis. To give buy-side MiFID investment firms greater flexibility on how to purchase investment research, both UK and EU regulators have introduced reforms that allow the rebundling of payments for third-party research and execution services. We expect the FCA to issue final rules in the first half of 2025 on whether to extend this new payment optionality to fund managers. Further MiFID reforms being considered by the FCA include whether to bring AIFMs and UCITS management companies with MiFID top-up permissions within the scope of MiFID transaction reporting. The FCA is also consulting on proposals to transfer the firm-facing requirements of the MiFID Org Regulation into the FCA Handbook, replacing some of the existing rules with a more outcomes-based approach to compliance with conduct regulation. The transfer may also see some of the EU Level 3 measures inherited from ESMA being reviewed and replaced.

Major reforms are set to progress on the retail side, with the FCA due to publish final rules in 2025 on the new UK retail investment disclosure regime for Consumer Composite Investments (CCIs) that will replace the UK PRIIPs Regulation. In line with its new supervisory strategy for the financial advice sector and its mission to close the "advice gap", the FCA also intends to publish – as part of the Advice Guidance Boundary Review (AGBR) – two consultation papers in 2025: one focusing on pensions and another on retail investments. Firms active in the retail space should keep watch on these regulatory developments.

Reforms to the UK pensions market are a key part of the Treasury's plans to boost investment and growth, with the previous government's "Mansion House Compact" aiming to unlock pension funds to increase inward investment and achieve better results for retirement savers.

As part of the Compact, the largest UK defined contribution (DC) pension providers have committed to allocate at least 5% of their default funds to unlisted equities by 2030. The new Labour government is taking forward these reforms, now consulting on two key measures to accelerate and help enable scale and consolidation in the DC market. We expect to see the results of these consultations in 2025.

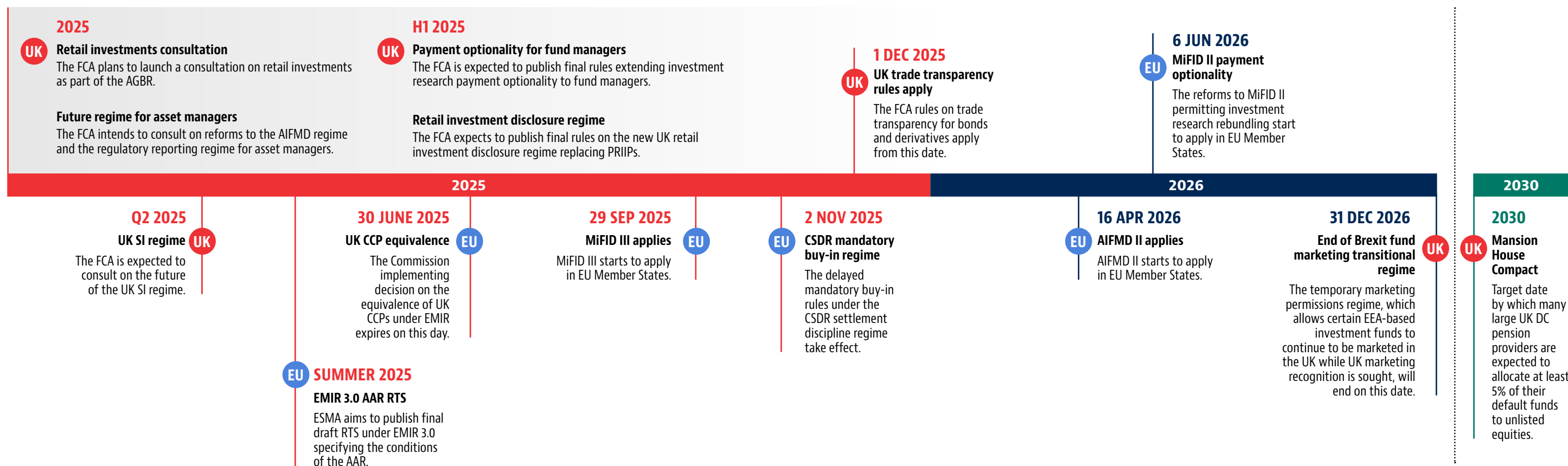
2025 will also bring significant change in derivatives regulation, particularly in the EU. With EMIR 3.0 having entered into force in December 2024, we expect preparations to begin in early 2025, principally in respect of the new active account requirement (AAR) which will oblige the largest EU market participants to clear on an annual average basis a "representative" number of in-scope derivative transactions through an active account held at an EU CCP. Much of the key detail of the AAR remains to be developed by ESMA, which is expected to publish regulatory technical standards (RTS) in the summer of 2025. EMIR 3.0 will also, amongst other things, amend existing classification calculations and clearing thresholds – both financial and non-financial counterparties will need to keep watch for further detail from ESMA to determine the full impact of these changes. Further, EU market participants that are subject to the regulatory initial margin rules will be required to seek supervisory authorisation and validation of their initial margin models. There will also be changes in the derivatives space in the UK: once the DAR is finalised, we expect that activities related to entering into derivative transactions (OTC and exchange-traded) and holding positions in commodity derivatives will become designated activities in 2025. Further, the FCA intends to proceed with a fairly extensive transfer of its powers relating to position limits, such that trading venues will be responsible for setting them in respect of derivatives transactions.



KEY TRENDS AND ISSUES:

- There are a wide range of potential changes in the markets and investments space being considered, both as part of the Mansion House package and broader regulatory reforms, and firms will need to cast a wide net when considering which reform programmes will impact them going forward.
- There are significant changes expected to the regulations around how companies access capital, including the establishment of PISCES as a new trading venue for private company shares. This is part of the general drive to make the UK's public markets more attractive to investors.
- The UK government is hoping to unlock capital flow in the retail sector through measures such as the repeal of UK PRIIPs with a new framework for CCIIs, as well as new rulemaking as part of the Advice Guidance Boundary Review.

Timeline





ESG

The trend toward greater regulation and disclosure in the UK will continue into 2025 as the UK expands the scope of the FCA's Sustainability Disclosure Regime (SDR), ESG ratings and products providers are brought within the regulatory perimeter, and the prospect of a UK Green Taxonomy gains momentum. Anti-greenwashing efforts will also remain on the UK agenda for the coming year: we expect to see firms subject to the FCA's anti-greenwashing rule continue to undergo a process of consolidation in terms of their internal compliance policies and procedures required for the rule, given its wide remit. Toward the end of 2024 we saw a flurry of activity from the European Supervisory Authorities (ESAs), the European Commission and the Platform on Sustainable Finance. We expect developments on the EU's Sustainable Finance Disclosure Regulation (SFDR) to pick up pace over the course of 2025, following the Commission's publication of its review.

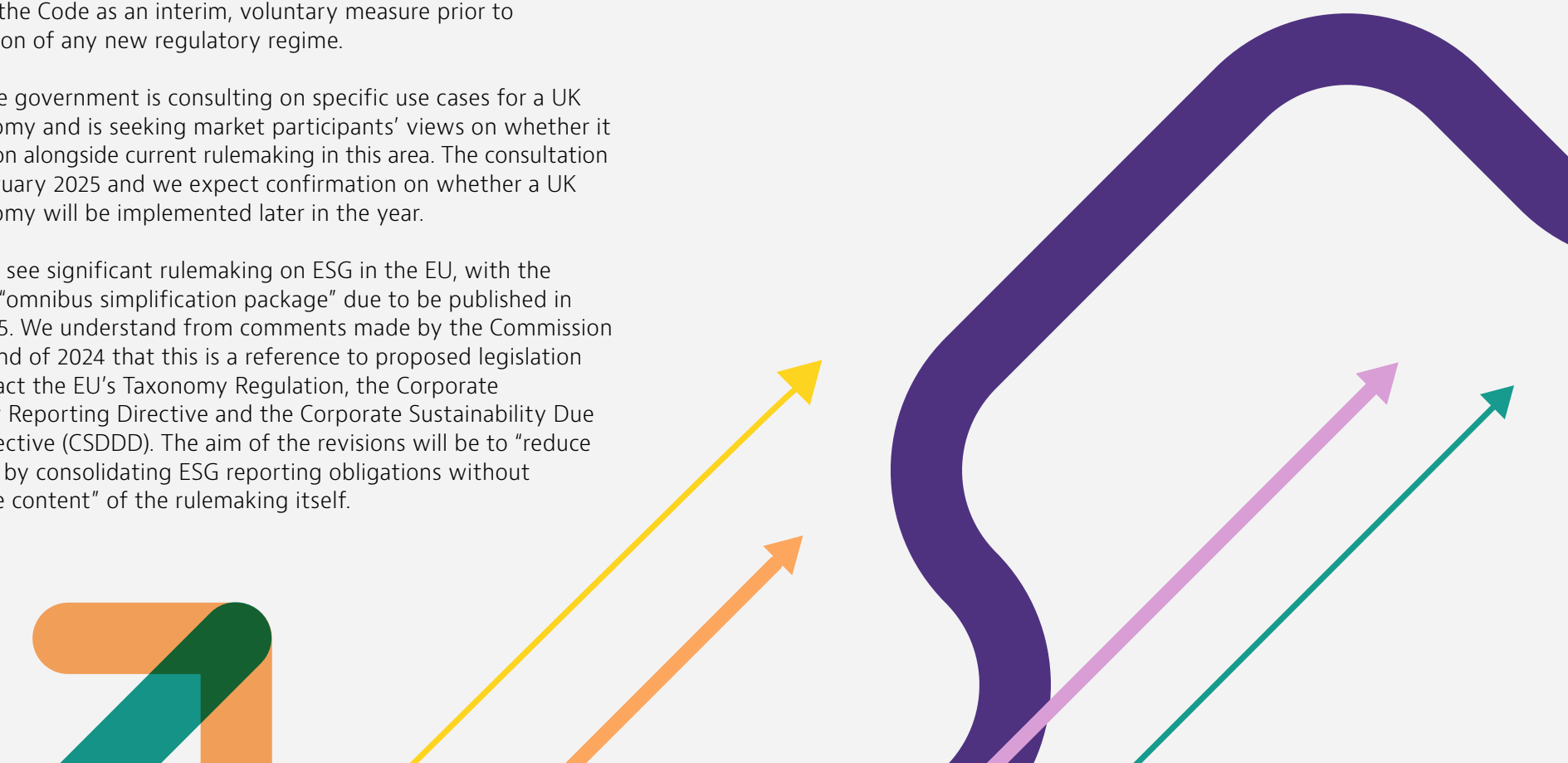
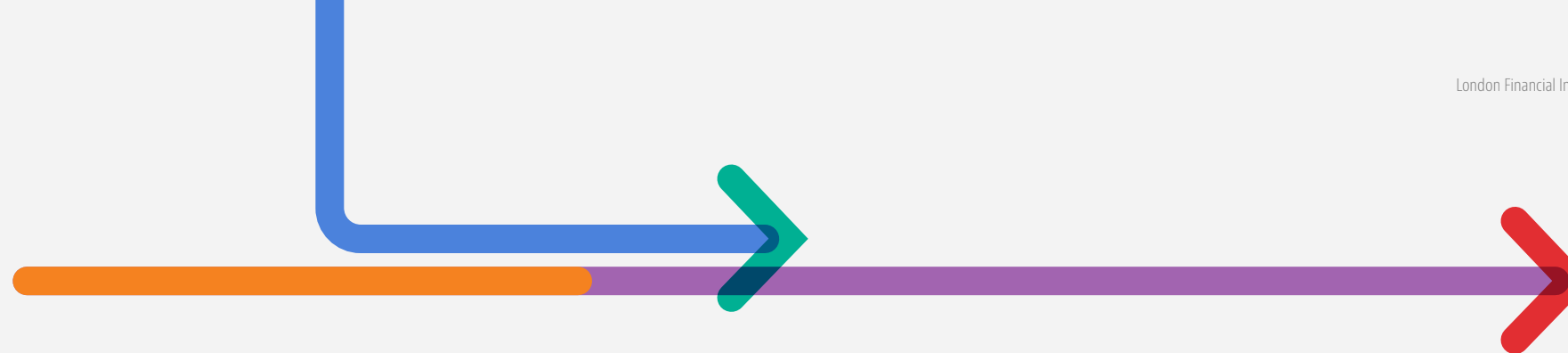
In the UK, a phased approach is being taken with regard to the implementation of the SDR, which applies initially only to UK managers of UK funds and – very narrowly – to those distributing overseas funds in the UK. The extensive entity-level disclosures will begin to apply to large UK asset managers with AUM over GBP50 billion from December 2025. The FCA is also expected to issue final rules extending the SDR to portfolio managers in Q2 2025. Firms seeking to rely on the flexibility offered for compliance with the naming and marketing and disclosure rules under the SDR will need to prepare for the end of this period of flexibility on 2 April 2025, and should bear in mind that the FCA expects firms to comply as soon as possible in advance of the deadline.

It is now also clear that UK ESG ratings providers will be brought within the regulatory perimeter, which means that these firms will need to become FCA-authorized and comply with any relevant rules. It remains to be seen what level of market access overseas ratings providers will enjoy. The Treasury has invited technical comments on a draft statutory instrument during the course of 2025, although we expect that full implementation of the new regime will take a number of years. Meanwhile, the government and the FCA are still encouraging ESG ratings and data product providers to sign up to the voluntary Code of Conduct for ESG Ratings and Data Product Providers. Finalised in December 2023, the Code already has a list of over 20 signatories and we expect to see this list grow, especially as the FCA appears to be approaching the Code as an interim, voluntary measure prior to implementation of any new regulatory regime.

In parallel, the government is consulting on specific use cases for a UK Green Taxonomy and is seeking market participants' views on whether it would function alongside current rulemaking in this area. The consultation closes in February 2025 and we expect confirmation on whether a UK Green Taxonomy will be implemented later in the year.

2025 will also see significant rulemaking on ESG in the EU, with the forthcoming "omnibus simplification package" due to be published in February 2025. We understand from comments made by the Commission toward the end of 2024 that this is a reference to proposed legislation that will impact the EU's Taxonomy Regulation, the Corporate Sustainability Reporting Directive and the Corporate Sustainability Due Diligence Directive (CSDDD). The aim of the revisions will be to "reduce bureaucracy" by consolidating ESG reporting obligations without "changing the content" of the rulemaking itself.

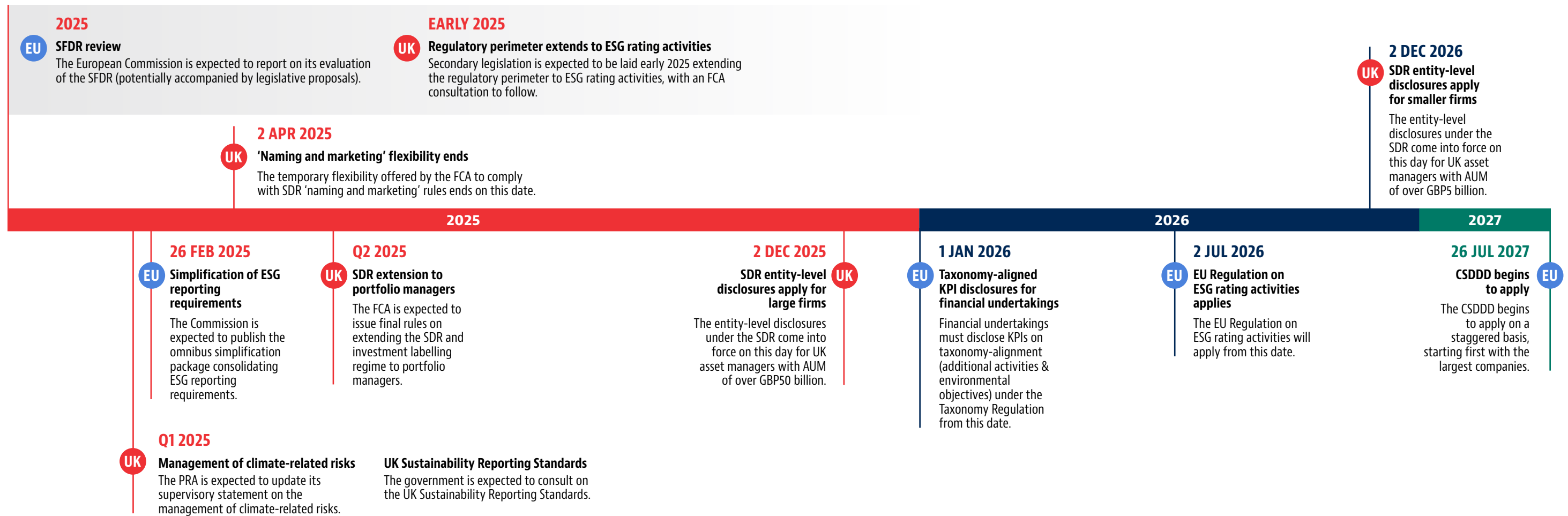
Other developments to watch across the EU include the progression of proposals recently published by the EU Platform on Sustainable Finance for new product categorisations under the SFDR, potentially aligning the regime more closely with the SDR in the UK. The EU is also preparing for implementation of a new regulation on ESG ratings activities, which requires, among other things, that ESG ratings providers obtain authorisation. Whilst the regulation is due to apply from 2 July 2026, ESG ratings providers will need to consider and engage with the requirements of the regulation over the course of 2025.



KEY TRENDS AND ISSUES:

- 1 The UK government's clear aim is for the UK to become a "world-leading sustainable finance framework". It remains to be seen to what extent the UK seeks to challenge the EU's dominance in this space, particularly in relation to the development of a UK Green Taxonomy.
- 2 Anti-greenwashing continues to be a focal point across regulators – particularly given the extension of the UK regulatory perimeter to ESG ratings and data product providers and the exploration of a UK Green Taxonomy.
- 3 Firms should carefully assess whether they are impacted by the extension of the SDR regime and, if so, put in place procedures and controls to comply with the full scope of SDR rules including on naming and in relation to product and entity-level disclosures.

Timeline





Risk Management, Governance and Oversight

Risk management, governance and oversight are key areas that continue to be shaped by the FCA's efforts to refine its supervisory approach to, in particular, operational risks and internal governance and firm culture – and these areas should remain on the radar for firms in 2025.

An important priority area, as highlighted in the FCA's latest Perimeter Report, is operational risk arising from reliance on outsourcing arrangements and third party service providers, and regulatory oversight gaps over the same. This year will be key for firms meeting their operational resilience compliance obligations: 31 March 2025 is the deadline by which firms and financial market infrastructures need to complete the mapping and scenario testing of important business services, and demonstrate that they remain within their impact tolerances for each important business service. As noted by the FCA, the high-profile third-party outage that occurred in July 2024 drew attention to firms' increasing dependence on unregulated third parties to deliver important business services and highlighted the importance of being adequately prepared to withstand disruptions and address incidents within firms' systems and infrastructure. We expect that firms are already in advanced stages of scenario testing ahead of the March 2025 deadline, and should continue to refine their testing and processes in line with the rules on operational resilience.

As we note further in **Tech, Innovation and Data/AI**, the PRA and FCA are also introducing a new oversight regime for providers servicing the financial sector designated as critical third parties (CTPs) to enable the regulators to monitor and manage the risks that these arrangements present to financial stability. The final rules took effect on 1 January 2025 and will apply to CTPs once designated by the Treasury. We anticipate further movement on CTP designation in 2025.

Similarly, operational resilience remains a key concern at the EU level. Firms should keep in mind that DORA began to apply in Member States from 17 January 2025. By now, in-scope firms should have in place the required internal governance and control frameworks to manage ICT risks and carry out appropriate digital operational resilience testing in line with various technical standards, bearing in mind that the ESAs have indicated they will take a risk-based approach to supervision.

We also expect the regulators to take further steps in 2025 to refine governance expectations. The FCA will continue to work to promote healthy cultures across the industry as it identifies firms' cultures as a major root cause of conduct failures. In particular, DEI is regarded as a key regulatory issue which also supports the Consumer Duty. We can expect to see policy statements from the PRA and FCA on their DEI proposals, which are anticipated to cover minimum standards on firms, reporting of employee data, and supervisory expectations with respect to non-financial misconduct assessed against the FCA's Conduct Rules and Fitness and Propriety assessments. The FCA has demonstrated a continued willingness to take enforcement action against non-financial misconduct and has recently proposed taking action against the founder of an investment fund who has been accused of sexual misconduct; we expect to see the FCA continue its robust enforcement approach in this space.

There are also significant proposed reforms in the pipeline that will result in key changes to the UK's governance and accountability frameworks. In particular, the FCA will continue to work with the Treasury to extend the SMCR to recognised investment exchanges and credit ratings agencies, in accordance with the Financial Services and Markets Act 2023. The FCA is also exploring the option of extending the SMCR to payments, e-money and crypto firms, though this is likely to depend on the outcome of the ongoing review by the government on the SMCR's effectiveness, scope and proportionality. It is anticipated that we will see the long-awaited

outcomes from the SMCR review in 2025 alongside consultations on proposed changes to the SMCR framework, which as the FCA indicated in late 2024 are likely to include the abolition of the Certification Regime that applies to staff below the senior management level in favour of a "more proportionate" approach. Firms with EU footprints will also need to prepare during 2025 for the application of the new fit and proper requirements under recent reforms to the Capital Requirements Directive framework, which will take effect in early 2026. Finally, on remuneration, the PRA is exploring further reform to its remuneration rules following the removal of the bankers' bonus cap.



KEY TRENDS AND ISSUES:

- 1 Firms should be well on their way to meet the 31 March 2025 deadline by which they must complete their mapping and testing under the UK operational resilience requirements. In refining their approach, firms should consider the key lessons and takeaways identified by the FCA in relation to third-party outages.
- 2 The FCA considers DEI issues as integral to good governance and firm culture, and is set to publish policy statements (alongside the PRA) on their proposals relating to DEI in financial services in 2025. Firms should watch out for these developments as the relevant changes may require a compliance uplift with respect to existing policies, procedures and internal governance frameworks, and additional resourcing.
- 3 The government is slated to publish the outcomes of the SMCR review in 2025, which are likely to include proposals to remove the Certification Regime requirements. Further clarity is also expected on the extension of the SMCR regime to a wider range of firms.

Timeline





Tech, Innovation and Data/AI

The technology sector remains of key importance to financial services regulators in the UK and EU. The primary focus continues to be on increasing the regulatory oversight of third-party ICT providers that are critical to the provision of financial services as well as the growing use of AI, in addition to the increasingly significant role of “Big Tech” in the financial services sector.

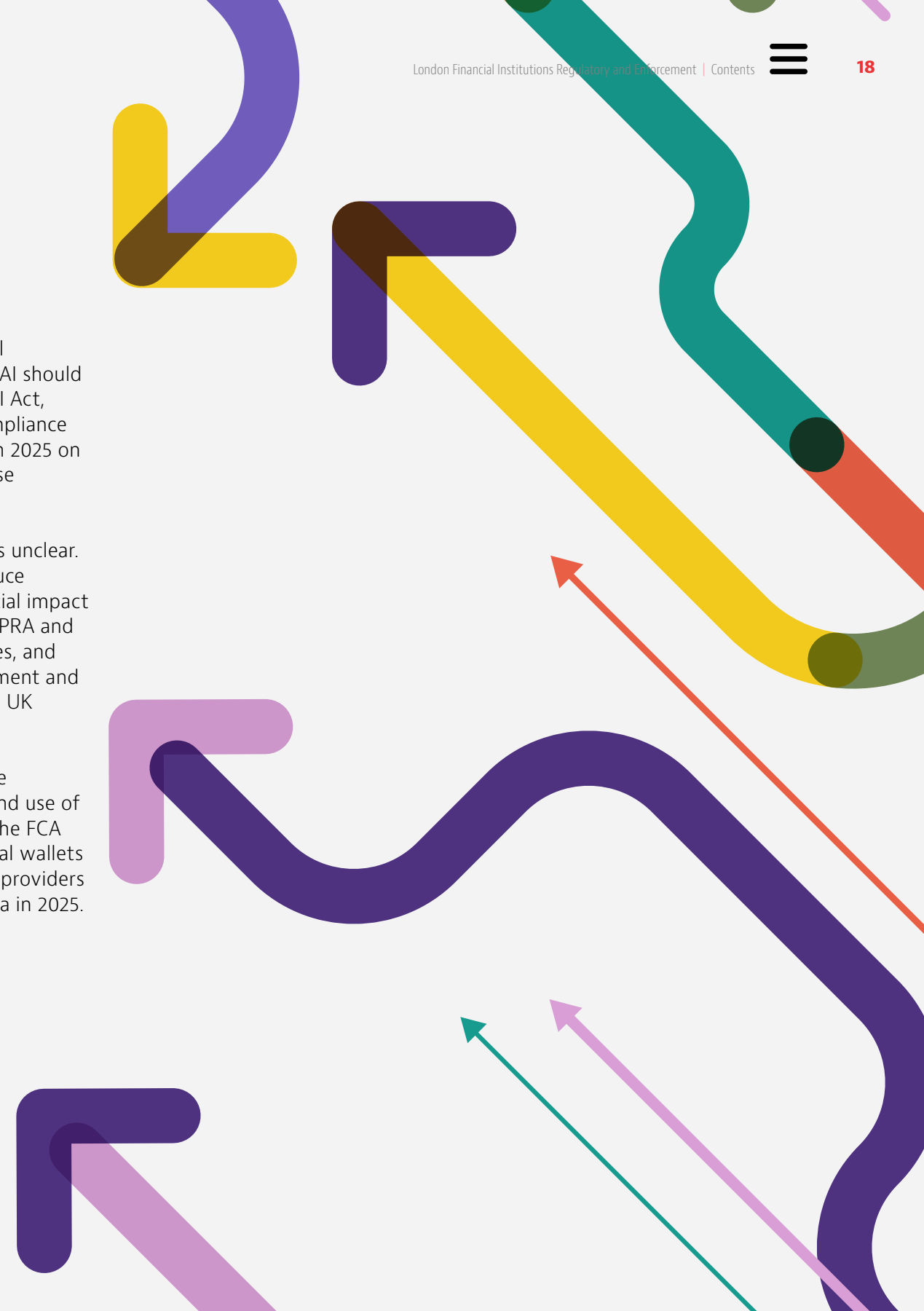
Turning first to the regulation of third party service providers, the FCA, the PRA and the Bank of England recently published their final requirements and expectations for CTPs to the UK financial sector. These rules set out the obligations which will apply to third parties designated by the Treasury as critical under its new designation powers. While the rules came into force on 1 January 2025, the requirements will not apply until a CTP has been designated by the Treasury. At present, it is not yet clear when the Treasury intends to start designating firms as CTPs. As a recent Memorandum of Understanding between the Treasury and the regulators was published regarding the designation process, it is possible that these designations will begin in 2025.

At EU level, various secondary legislation has been published under DORA, which came into force on 17 January 2025 (as we note in **Risk Management, Governance and Oversight**). Financial institutions not already in compliance will need to act without delay to ensure that their contracts for ICT services comply with the required DORA wording, and that they have the appropriate policies and procedures in place to satisfy operational resilience requirements. Additionally, significant third-party ICT service providers should be prepared to engage in the designation process for critical third-party providers.

In respect of AI, the EU’s AI Act came into force in 2024, and will generally be effective from 2026. Financial institutions utilising AI should be working to ensure that they understand the impact of the AI Act, including regarding their nexus to the EU, and whether any compliance uplift may be required. We expect to see further consultation in 2025 on secondary legislation under the AI Act and firms should pay close attention to these developments.

In the UK, the position regarding future regulation of AI remains unclear. While the new government has signalled an intention to introduce legislation regarding the development and use of AI, the potential impact on financial institutions is not yet clear. For the time being, the PRA and FCA approach continues to be that AI is covered by existing rules, and they expect firms using AI to be able to explain their AI deployment and associated risks. We expect to see further developments on the UK approach to AI in 2025, with industry engagement to continue.

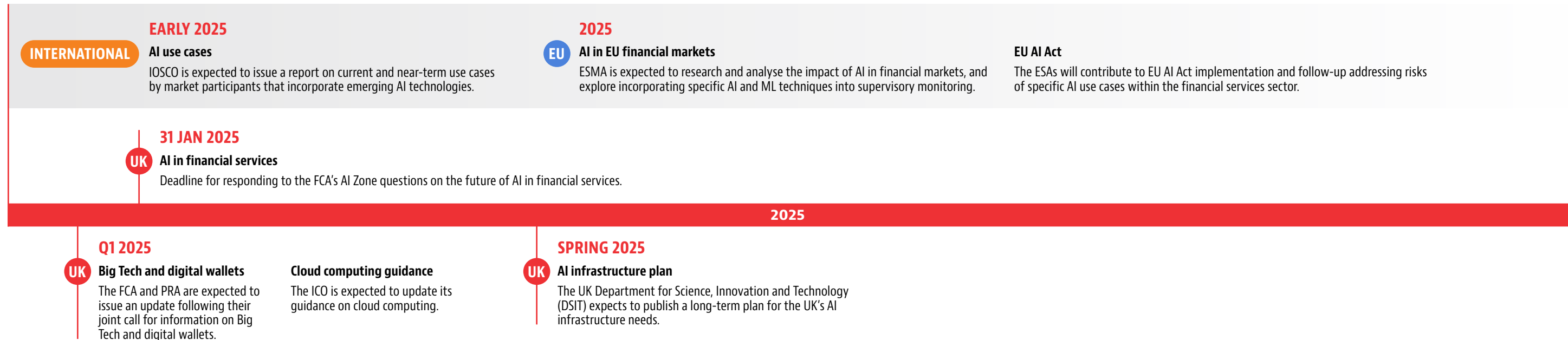
Finally, 2024 saw a focus on Big Tech from both the FCA and the Payment Systems Regulator (PSR) – looking at access to data and use of digital wallets respectively. We expect to see a response from the FCA and PSR on their joint call for information on Big Tech and digital wallets in Q1 2025, and it is likely that the focus on the role of Big Tech providers in financial services will continue to be on the regulatory agenda in 2025.



KEY TRENDS AND ISSUES:

- 1 In 2025 we expect to see the first designation of critical third party services providers under both the UK and EU regimes. This will mark a significant change in regulatory supervision for these firms, many of whom will come in-scope of regulatory requirements for the first time.
- 2 AI continues to dominate headlines and is expected to be a key topic for 2025. Firms will need to ensure they understand the impact of the EU AI Act on their business, and should look out for further developments at both a legislative and regulatory level in the UK.
- 3 Big Tech and its role in financial services will be further explored in 2025, with the response from the FCA and PSR to their joint call for information on Big Tech and digital wallets expected in Q1 2025.

Timeline





Crypto

→ As was the case in 2024, 2025 promises to be a pivotal year for crypto firms, as significant changes to the regulatory status of crypto in both the UK and EU continue to progress.

The new UK government has confirmed that it will implement the majority of the previous government's proposals on the regulation of cryptoassets. However, instead of implementing these proposals in two phases as previously intended, the Treasury intends to proceed with a single-phase timetable for regulation. Setting the tone for the new year, in December 2024 the FCA released a discussion paper on its approach to regulating cryptoasset admissions, disclosures and market abuse, with feedback requested by 14 March 2025. A series of focused consultations on detailed regulatory rules will follow throughout 2025, aiming to address gaps in the current regulatory regime and cover the entire lifecycle of crypto-trading – pre-trade, trade, post-trade, and cross-lifecycle activities. Final rules are expected in 2026, with a transitional period expected to be in place before the new regulatory gateway and regime go live. Firms should diligently track and engage with these consultations throughout 2025 to ensure they are well-prepared for the impending regulatory changes and can provide informed feedback that may influence the final rules.

In parallel, the UK government is also seeking to clarify the legal characterisation of digital assets. The Property (Digital Assets etc) Bill, introduced in September 2024, will establish a third category of personal property – i.e. a thing (including a thing that is digital or electronic in nature) that is neither a thing in possession nor in action. While it remains to be seen if the Bill will progress to royal assent, the legislation would continue in line with the trajectory of, and codify, the common law position that digital assets could be treated as personal property and be afforded legal protections in this regard.

In the EU, MiCAR will continue to take centre stage in 2025. The remaining provisions of MiCAR, including the authorisation regimes for CASPs, began to apply on 30 December 2024. Crypto firms relying on the MiCAR transitional regime and providing services in more than one Member State should continue to keep track of the different transitional periods that apply and ensure that they are compliant at all times with the relevant rules. The EU Commission is also set to publish an interim report on the application of MiCAR by mid-2025, which may give an indication of the perceived gaps in current regulation and where legislative proposals might follow. CASPs and crypto issuers must stay updated on the release of MiCAR guidelines and delegated regulations throughout 2025 and take note of the effective dates of the same.

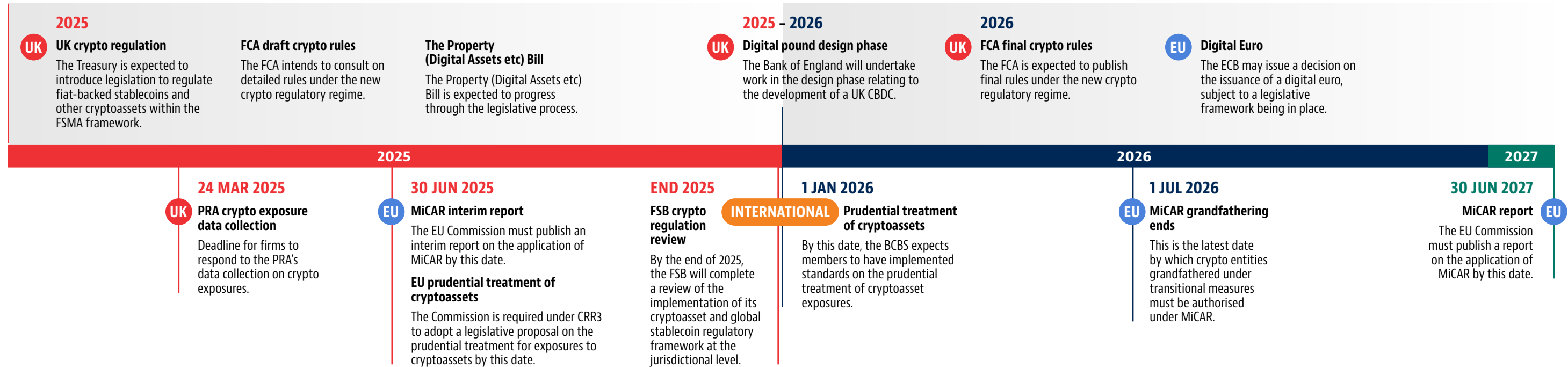
On a global scale, developments on the prudential treatment of cryptoassets are underway. The Basel Committee on Banking Supervision (BCBS) expects member jurisdictions to implement standards on the prudential treatment of cryptoasset exposures by 1 January 2026. In the UK, the PRA has requested authorised firms to provide certain information on cryptoasset exposures by 24 March 2025 in order to inform its policymaking. Similar movements are taking place in the EU, with the Commission required under the third Capital Requirements Regulation (CRR3) to adopt a legislative proposal on the prudential treatment for cryptoasset exposures by 30 June 2025. Firms should assess their current cryptoasset exposures and prepare to adjust their capital and risk management strategies to comply with new prudential standards.



KEY TRENDS AND ISSUES:

- 1** With the remaining provisions of MiCAR (including the new CASP authorisation regime) applying since 30 December 2024, crypto regulation will continue to be a focal point in the EU throughout 2025. In-scope crypto firms will face the significant challenge of staying abreast of the numerous guidelines and delegated regulations that will be released and take effect over the course of 2025 and beyond. This will require diligent monitoring and timely adaptation to ensure compliance with the evolving regulatory landscape. Firms must allocate sufficient resources to track these developments and integrate the new requirements into their operational and compliance strategies.
- 2** The UK is pushing forward with the development of its own comprehensive regulatory regime for cryptoassets, widening the gap with the EU on the regulation of financial services post-Brexit as the UK develops an entirely new regime to sit within the overarching FSMA model while the EU maintains its file-by-file approach. With final rules anticipated as early as 2026, firms operating in both the UK and the EU will need to stay informed about these developments and prepare for potential divergence in regulatory requirements, which could impact their cross-border operations and compliance obligations.
- 3** The Property (Digital Assets etc) Bill is an instrumental step toward the modernisation of the scope of personal property rights in the UK and will be helpful in reducing uncertainty surrounding the legal treatment and ownership of digital assets. If it progresses, the legislation could lead to increased litigation as individuals and entities gain greater confidence and clarity on the legal protections afforded to proprietary rights associated with digital assets.

Timeline





Consumer Protection

→ Putting consumers' needs first was a principal commitment of the FCA's 2024/2025 business plan and we expect this to continue to be a key priority throughout 2025.

The Consumer Duty has been a core focus for the FCA and will remain key to supervisory activities in 2025 as the regulator continues to enforce and refine its implementation by firms. The FCA has already carried out several multi-firm reviews to assess how financial services firms are supporting consumers under their Consumer Duty implementation, and we expect to see further findings from the FCA in early 2025. We are yet to see any enforcement action for Consumer Duty breaches but expect to see this form part of the FCA's enforcement priorities in years to come, and so early focus on acting on FCA feedback will be key for firms.

In connection with the ongoing implementation of the Consumer Duty, in 2025 the FCA plans to publish findings following its review into firms' treatment of customers in vulnerable circumstances and will provide feedback on its call for input on a review of its retail conduct requirements following the introduction of the Consumer Duty. Firms should look out for these papers and be ready to act on any FCA findings and next steps. In welcome news, the FCA plans to reduce the regulatory burden for firms and remove the need for a Consumer Duty Board Champion now that the Duty is in effect. Future consultations on consumer protection issues will also ask if the Consumer Duty is sufficient to achieve the aims in question rather than the introduction of new rules.

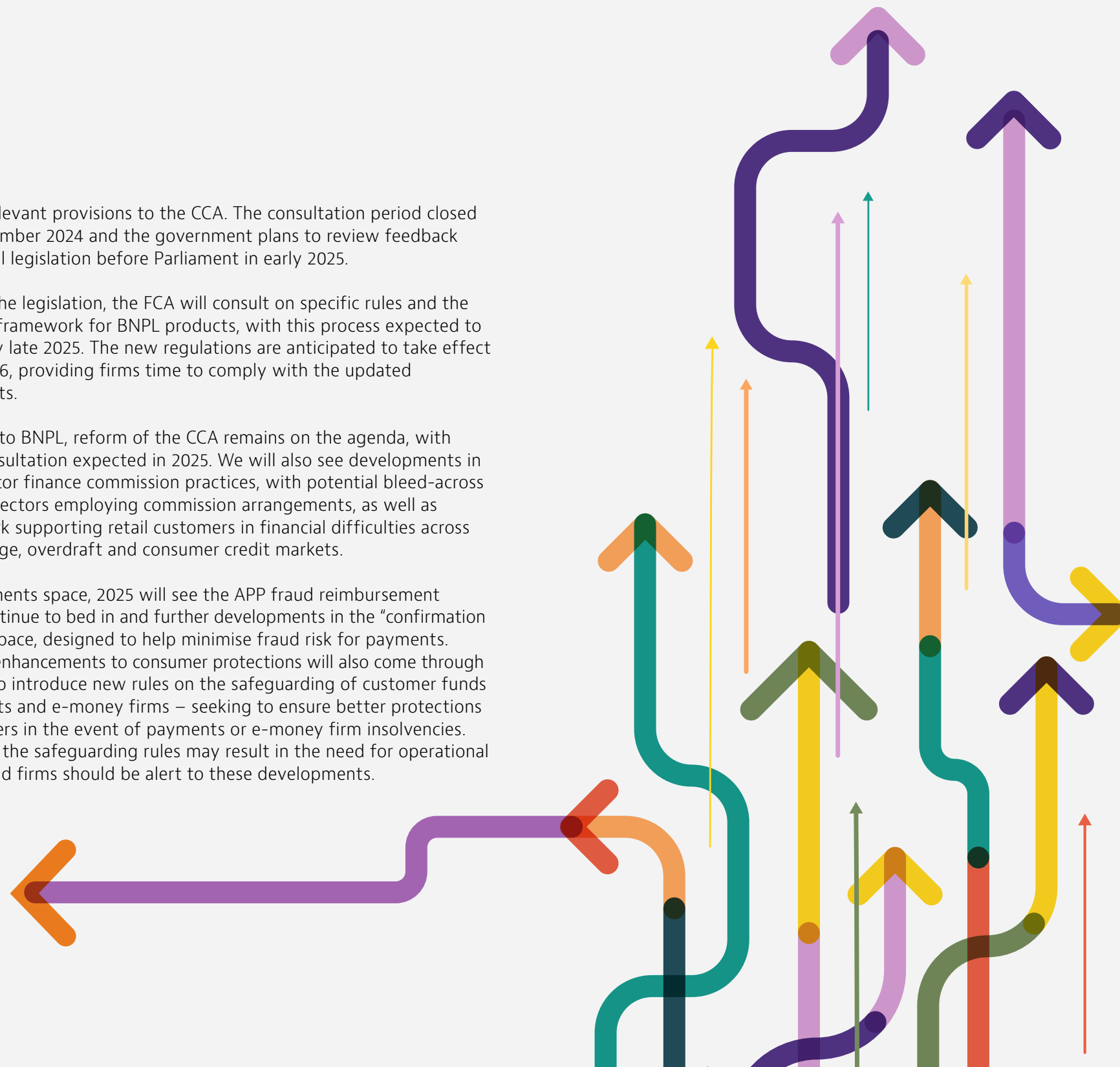
Consumer credit is back on the agenda for 2025. After significant delays, the UK government is advancing plans to regulate BNPL services to enhance consumer protection and ensure responsible lending practices. In October 2024, the Treasury initiated a consultation on draft legislation aimed at bringing BNPL products under the supervision of the FCA and

applying relevant provisions to the CCA. The consultation period closed on 29 November 2024 and the government plans to review feedback and lay final legislation before Parliament in early 2025.

Following the legislation, the FCA will consult on specific rules and the regulatory framework for BNPL products, with this process expected to conclude by late 2025. The new regulations are anticipated to take effect in early 2026, providing firms time to comply with the updated requirements.

In addition to BNPL, reform of the CCA remains on the agenda, with further consultation expected in 2025. We will also see developments in 2025 in motor finance commission practices, with potential bleed-across into other sectors employing commission arrangements, as well as further work supporting retail customers in financial difficulties across the mortgage, overdraft and consumer credit markets.

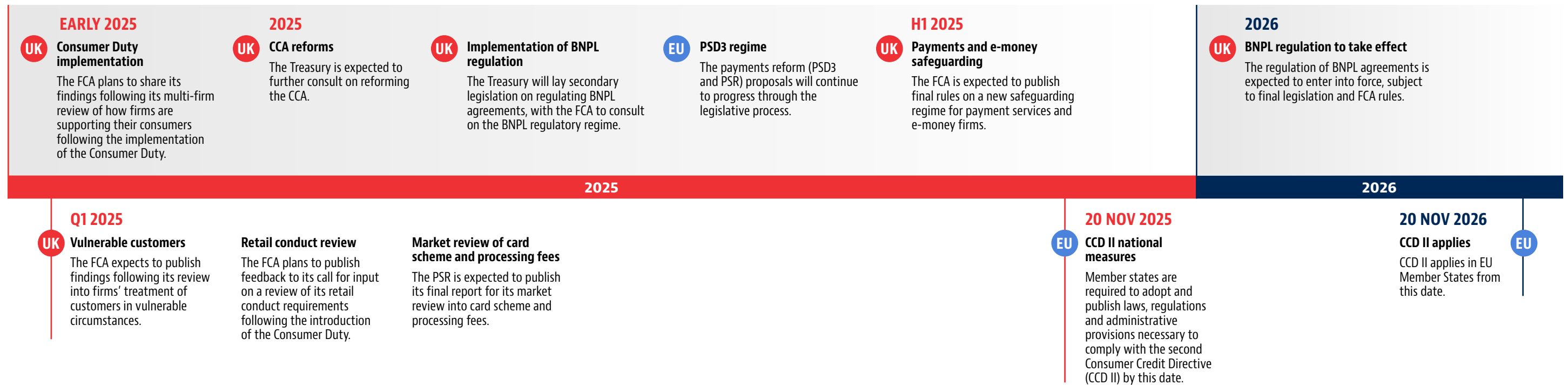
In the payments space, 2025 will see the APP fraud reimbursement scheme continue to bed in and further developments in the "confirmation of payee" space, designed to help minimise fraud risk for payments. Additional enhancements to consumer protections will also come through proposals to introduce new rules on the safeguarding of customer funds by payments and e-money firms – seeking to ensure better protections for customers in the event of payments or e-money firm insolvencies. Changes to the safeguarding rules may result in the need for operational changes, and firms should be alert to these developments.



KEY TRENDS AND ISSUES:

- 1 Review of firms' implementation of the Consumer Duty will continue in 2025 and will be supplemented by FCA feedback on the treatment of vulnerable customers and its call for input on a review of the retail conduct rules following the implementation of the Duty. Firms will need to be ready to act on FCA findings and should look out for the opportunity to feed into further work on retail conduct rules.
- 2 In 2025, the UK's consumer credit landscape is set for significant regulatory transformation aimed at enhancing consumer protection and fostering a more transparent financial environment. Key developments include the regulation of BNPL services, reform of the CCA, enhanced consumer protection measures, and addressing motor finance commission practices.
- 3 The FCA plans to publish final rules on the interim position on payments and e-money safeguarding measures within the first six months of 2025. Firms should follow these developments carefully and be ready to make changes to their safeguarding procedures once the FCA position is settled.

Timeline





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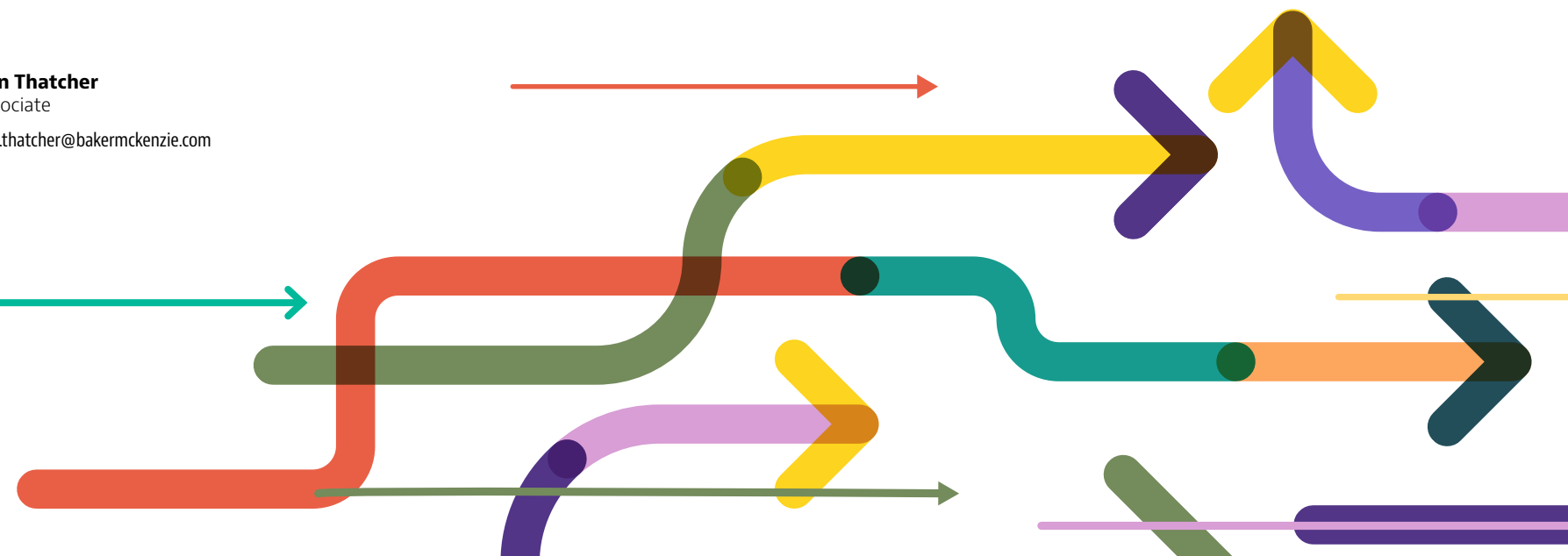
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