SLAUGHTER AND MAY/

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FINANCIAL REGULATION WEEKLY BULLETIN

Major UK and European regulatory developments of interest to banks insurers and reinsurers, asset managers and other market participants

QUICK LINKS

If you have any comments or questions, please contact: Selmin Hakki.

Slaughter and May also produces a periodical Insurance Newsletter. If you would like to go on the distribution list, please contact: Beth Dobson.

SELECTED HEADLINES //

Enforcement

GENERAL //

1 HM TREASURY

1.1 **FCA chief executive - HM Treasury reappoints Nikhil Rathi** – *10 April 2025* – HM Treasury has published a press release announcing the reappointment of Nikhil Rathi as chief executive of the FCA for a second five-year term until September 2030.

Reappointment letter: Chancellor to Nikhil Rathi

Reappointment letter: Nikhil Rathi to Chancellor

Press release

2 BANK OF ENGLAND

2.1 **Financial stability - Bank of England publishes record of FPC meeting and outlines approach to monitoring risks from AI** – *9 April 2025* – The Bank of England (the Bank) has published the record of the meetings of its Financial Policy Committee (FPC) on 4 and 8 April 2025. Against the backdrop of a deteriorating global risk environment, the FPC has confirmed that it is maintaining the UK countercyclical capital buffer rate at 2%, observing that the UK banking sector is well capitalised. The FPC also noted its support for international efforts to manage the risks posed by unbacked cryptoassets and stablecoins and agreed that its approach to monitoring artificial intelligence (AI) risks needs to be flexible, forward looking and targeted.

Alongside this record, the FPC has published a Financial Stability in Focus document which sets out its view of the potential financial stability implications of AI and its planned approach to monitoring and mitigating AI-related risks. The FPC is currently focused on the increased use of AI in banks’ and insurers’ core financial decision-making functions and in financial markets, as well as operational risks in relation to AI service providers and the changing external cyber threat environment.

FPC: Financial policy summary and record - April 2025

FPC Financial Stability in Focus: AI in the financial system

3 PRUDENTIAL REGULATION AUTHORITY

3.1 **Business plan 2025/26 - published by PRA** – *10 April 2025* – The PRA has published its business plan for 2025/26, setting out how it intends to deliver on its strategic priorities for the coming year. These are to:

- maintain and ensure the safety and soundness of the banking and insurance sectors and ensure continued resilience;
- be at the forefront of identifying new and emerging risks, and developing international policy;

- support competitive, dynamic and innovative markets, alongside facilitating international competitiveness and growth, in the sectors that it regulates; and
- run an inclusive, efficient and responsive regulator within the central bank.

Initiatives that form part of the PRA's upcoming workplan include, among others: (i) finalisation and implementation of the 'strong and simple' framework for small domestic deposit takers, where the PRA intends to publish a policy statement in Q4 2025; (ii) finalisation of the PRA's approach to international bank branches in H1 2025 (where the PRA expects the vast majority of branch businesses to be unaffected by changes); and (iii) finalising changes to the UK framework for insurance special purpose vehicles (ISPVs), with a view to contributing to the UK's international competitiveness and growth by making it more desirable to establish UK ISPVs.

PRA: Business plan 2025/26

4 FINANCIAL CONDUCT AUTHORITY

4.1 Annual work programme 2025/26 - published by FCA – *8 April 2025* – The FCA has published its annual work programme for 2025/26, detailing how it intends to deliver on its four strategic priorities for the year ahead. The FCA's priorities, which were trailed in its recently published five-year strategy, are: (i) being a smarter regulator that is more efficient and effective; (ii) supporting growth; (iii) helping consumers navigate their financial lives; and (iv) fighting financial crime, as previously reported in this Bulletin.

For each of these priorities, the FCA sets out details of new and ongoing work initiatives for 2025/26. These include: (i) accelerating a review of capital requirements for specialised trading firms; (ii) using the powers expected under the Data (Use and Access) Bill to develop the regulatory framework for open finance; (iii) developing a roadmap for digital assets, starting with the asset management industry; (iv) making the Senior Managers & Certification Regime more efficient and outcomes-focused; and (v) working to bring deferred payment credit into the regulatory regime. The FCA's pre-application support service, which provides extra support for firms seeking regulatory approval, is also now extended to all wholesale, payments and cryptoasset firms.

FCA: Annual work programme 2025/26

Press release

BANKING AND FINANCE //

5 EUROPEAN BANKING AUTHORITY

5.1 Deposit guarantee schemes - EBA publishes report on performance of stress tests – *7 April 2025* – The European Banking Authority (EBA) has published a report on its latest peer review of the performance of stress tests by deposit guarantee schemes (DGSs) across the EU. The review assessed how stress tests are performed by seven national DGSs against five benchmarks deriving from the Deposit Guarantee Schemes Directive (2014/49/EU) and the EBA's revised guidelines on DGS stress testing (EBA/GL/2021/10).

The review found that all seven DGSs have effectively developed their stress testing programmes in line with the guidelines, with only minor shortcomings. The EBA intends to conduct a peer review in two years on the implementation of the follow-up measures addressed to all EU DGSs which are included in the report.

EBA report: Peer review on the performance of stress tests by DGSs (EBA/REP/2025/14)

Press release

6 BANK OF ENGLAND

6.1 **Reviewing access to RTGS accounts for settlement - Bank of England publishes response to discussion paper** – *8 April 2025* – The Bank of England (the Bank) has published its response to its February 2024 discussion paper on reviewing access to Real-Time Gross Settlement (RTGS) accounts for settlement. The Bank explains that it has taken several concrete actions to facilitate greater direct access to RTGS in response to the feedback it received. This includes publishing a revised RTGS access policy and introducing stage gates to enable applicants seeking access to RTGS to build internal capacity and confidence before launching their services externally.

The Bank concludes by summarising its future policy outlook, including: (i) exploring whether, and on what terms, it could offer non-bank payment service providers (NBPSPs) settlement accounts with safeguarding facilities; (ii) supporting reforms to the broader NBPSP regulatory regime to support enhanced access to RTGS; and (iii) engaging with industry on the CHAPS direct participation threshold review.

Bank of England: Response to the discussion paper on reviewing access to RTGS accounts for settlement

7 PRUDENTIAL REGULATION AUTHORITY

7.1 **Significant risk transfer - PRA publishes Dear CFO letter setting out expectations** – *9 April 2025* – The PRA has published a Dear CFO letter setting out its prudential expectations in relation to significant risk transfer financing activities. The letter highlights practices that the PRA has observed in relation to illiquid and structured financing portfolios across regulated firms. The PRA expects firms to consider the application of the feedback contained in the letter to all relevant financing portfolios.

The PRA is concerned that, in certain areas, not all banks are demonstrating a sufficiently thorough assessment of collateral eligibility, particularly around the application of Article 299(2)(c) of the UK Capital Requirements Regulation (575/2013/EU) (UK CRR), which governs collateral eligibility for securities financing transactions (SFTs) in the trading book. The PRA expects the risks it describes to be appropriately capitalised under Pillar 1 of the UK capital framework and reminds firms that they should use Pillar 2A to capitalise risks that are not addressed or only partially addressed under Pillar 1.

Relevant firms will be contacted and expected to provide a written response by 11 June 2025 outlining: (i) the policies and procedures in place to ensure compliance with Article 299(2)(c) of the UK CRR; (ii) any proposed enhancements to these policies; and (iii) the current regulatory capital approach to SFTs for specific collateral types. Based on these responses, the PRA will consider the need for further engagement on a bilateral or cross-firm basis.

Letter

SECURITIES AND MARKETS //

8 EUROPEAN SECURITIES AND MARKETS AUTHORITY

8.1 **MiFID II - ESMA publishes letter on qualification of fractional shares** - *9 April 2025* – The European Securities and Markets Authority (ESMA) has published a letter addressed to the Commissioner for Financial Services and the Savings and Investments Union on the inconsistent regulation of fractional shares across the EU.

In the letter, ESMA highlights that as neither the Markets in Financial Markets Directive (2014/65/EU) (MiFID II) nor the Markets in Financial Instruments Regulation (600/2014/EU) (MiFIR) define shares or fractional shares, these instruments are defined and governed by national or case law. Consequently, an instrument might be classified as a derivative in one member state and as a share in another. ESMA stresses that this approach undermines regulatory consistency and investor confidence. Accordingly, ESMA believes that it would be helpful to clarify that fractional shares replicating the key characteristics and trading environment of shares should remain subject to the rules applicable to shares under MiFIR. It calls on the European Commission to consider how best to provide clarity on the matter.

Letter

9 FINANCIAL CONDUCT AUTHORITY

9.1 **PISCES - FCA provides update and details of pre-application support** – *10 April 2025* – The FCA has published a statement providing an update on the Private Intermittent Securities and Capital Exchange System (PISCES), which follows the December 2024 consultation (CP24/29) on the sandbox arrangements for PISCES (which closed for comments on February 2025). The FCA explains that it is providing an early update to give firms sight of its thinking as they are working up their plans, while noting that final rules for PISCES remain subject to the FCA Board's agreement.

The FCA notes that the majority of respondents to CP24/29 supported a 'private plus' approach that will allow a variety of PISCES models to be tested. As a result, it does not intend to make material changes to its proposals, nor mandate a 'sweeper' model for additional company disclosures. However, it intends to propose various technical changes (set out further in a table) which address feedback that the FCA should more fully align PISCES with private market practice. The FCA also confirms that it expects the final rules for PISCES to be published in June 2025.

In addition, the FCA now welcomes requests from prospective PISCES operators for them to provide preliminary feedback on proposed operating models and draft rulebooks. The FCA notes that this engagement can happen from now onwards, and that those interested in operating a PISCES do not need to wait for the final rules to be published.

For further information on the key features and benefits of PISCES, see our briefing **here**.

FCA statement: Update on PISCES and pre-application support

ASSET MANAGEMENT //

10 HM TREASURY AND FINANCIAL CONDUCT AUTHORITY

10.1 Future regulation of AIFMs - HM Treasury publishes consultation and FCA issues call for input – *7 April 2025* – HM Treasury has launched a consultation on proposals to simplify regulation for alternative investment fund managers (AIFMs), seeking to make it easier for firms to enter the market, grow, compete and innovate, which is accompanied by an FCA call for input. These goals would primarily be achieved by dispensing with the legislative threshold that determines when a firm is subject to the full UK regulatory regime for AIFMs (derived from the EU's Alternative Investment Fund Managers Directive (2011/61/EU) regime). This would allow the FCA to determine proportionate rules for AIFMs of all sizes, having regard to their investment activities and investor base. It is proposed that only the largest firms, with a net asset value in excess of £5 billion, are subject to the full scope of requirements, with the majority of firms subject to much less prescriptive rules.

A suite of smaller but significant improvements to the UK regulatory regime for AIFMs are further suggested, including reforming notification rules whereby full-scope UK AFIMs and above-threshold overseas AIFMs must submit information to the FCA regarding any AIFs they manage which acquire control of non-listed companies and issuers. In its call for input, the FCA further signals that it is considering the potential benefits of creating a bespoke regime for venture capital and growth capital funds, and that the following areas are open for review: AIFM remuneration, reporting, conduct and prudential requirements and the AIFM business restrictions.

The deadline for comments on the consultation and call for input is 9 June 2025. The FCA plans to consult on detailed rules in H1 2026, subject to feedback and decisions made by HM Treasury on the future regime.

For further information, see our fuller briefing **here**.

HM Treasury consultation paper: Regulations for AIFMs

FCA call for input: Future regulation of AIFMs

INSURANCE //

11 EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

11.1 **Regulatory simplification and burden reduction - EIOPA publishes note on its approach** – *8 April 2025* – The European Insurance and Occupational Pensions Authority (EIOPA) has published a note on its approach to supporting the objectives of regulatory simplification and burden reduction for enhanced European competitiveness. EIOPA calls for more harmonised regulation alongside more effective supervision at the EU level, believing that it is essential to prioritise a European perspective and ensure that collective interests take precedence over national priorities.

EIOPA details areas of work where it has been advancing regulatory simplification, including shortening Solvency II guidelines, introducing proportionality principles where possible and streamlining requirements related to product disclosures, product design and sales processes. Finally, EIOPA advocates for greater involvement during Level 1 negotiations, especially for horizontal legislation, to help with this simplification process by ensuring solid technical input is provided to co-legislators.

EIOPA note: Views for better regulation and supervision (EIOPA-BoS-25/118)

Press release

12 PRUDENTIAL REGULATION AUTHORITY

12.1 **Solvency II regime - PRA consults on new matching adjustment investor accelerator framework** – *8 April 2025* – The PRA has published a consultation paper (CP7/25) on proposals to reform the matching adjustment (MA) application process by introducing a new matching adjustment investment accelerator (MAIA) permission and operational framework under the UK Solvency II regime.

Under the proposed framework, insurance firms who hold a MA permission will be able to apply for a MAIA permission. Firms granted MAIA permission would be able to include a limited quantity of self-assessed MA eligible assets in a MA portfolio without requiring advance PRA approval. The MA benefit on these ‘MAIA assets’, which in effect increases a firm’s capital resources, could be claimed immediately. Firms would then have 24 months to submit an MA application to regularise MAIA assets. In the meantime, they would continue to benefit from the MA capital treatment.

Comments are welcomed by 4 June 2025. The PRA expects that the implementation of the proposals could be in Q4 2025, except for the proposed changes to MA asset and liability information return reporting, which would start operating from 31 December 2026.

For further information, see our fuller briefing here.

PRA consultation paper: Matching adjustment investment accelerator (CP7/25)

Press release

ENFORCEMENT //

13 EUROPEAN SECURITIES AND MARKETS AUTHORITY

13.1 **CRA Regulation - ESMA issues Public Notice and fines firm for breach** – *7 April 2025* – The European Securities and Markets Authority (ESMA) has issued a Public Notice and fined Modefinance S.r.l. €420,000 for a breach of the Credit Ratings Agencies Regulation (1060/2009/EC) (CRA Regulation). ESMA found that between September 2018 and October 2021, the firm had published several statements on its websites that incorrectly referred to ESMA as having 'certified' or 'validated' a model used by the firm in its scoring and credit rating activities.

This resulted in a breach of the prohibition in the CRA Regulation on using ESMA's name in such a way that would indicate or suggest endorsement or approval by ESMA of the credit ratings or any credit rating activities of the firm. The breach was found to have resulted from negligence on the part of the firm.

Public Notice

Press release

14 COMPETITION AND MARKETS AUTHORITY

14.1 **Retail Banking Market Investigation Order 2017 - CMA publishes letter to bank regarding breach of Part 5** – *8 April 2025* – The Competition and Markets Authority (CMA) has published a letter addressed to Lloyds Banking Group (Lloyds) concerning a breach of Part 5 of the Retail Banking Market Investigation Order 2017 (the Order). Part 5 of the Order requires banks to send payment transaction histories to any personal current account (PCA) customer who closes their PCA (unless an exemption applies).

The CMA found that between April 2018 and October 2024, Lloyds failed to provide around 360,000 former account holders with letters explaining how to access their payment transaction histories. Lloyds self-reported the issue and has taken proactive steps to put things right and prevent a recurrence. Given the action that has been, and is being, taken by Lloyds, the CMA does not intend to take further formal enforcement action in relation to the breach at this stage. It will, however, monitor Lloyds' future compliance closely.

Letter

This Bulletin is prepared by the Financial Regulation Group of Slaughter and May in London. The Group comprises a team of lawyers with expertise and experience across all sectors in which financial institutions operate.

We advise on regulatory issues affecting firms across the financial services sector, including banks, investment firms, insurers and reinsurers, brokers, asset managers and funds, non-bank lenders, payment service providers, e-money issuers, exchanges and clearing systems. We also advise non-regulated businesses involved in financial regulatory matters. In addition, our leading financial regulatory investigations practice is regularly instructed by financial institutions requiring specialist knowledge of financial services regulation together with experience in high profile and complex investigations and contentious regulatory matters.

Most of the projects that we advise on have an extensive international or cross-border element. We work in seamless integrated teams with leading independent law firms which offer many of the most highly regarded financial institutions lawyers in Europe, the US and Asia, as well as strong and constructive relationships with local regulators.

Our Financial Regulation Group also produces occasional briefing papers and other client publications. The five most recent issues of this Bulletin and our most recent briefing papers and client publications appear on the Slaughter and May website **here**.

If you would like to find out more about our Financial Regulation Group or require advice on a financial regulation matter, please contact one of the following or your usual Slaughter and May contact:

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