Report

New in RegTech:

For UK financial services, evolving regulation to continue impacting firms throughout 2025

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As we embrace 2025, a brief reflection on policy. After a decade-and-a-half of prolific regulation since the global economic crisis, has the swinging pendulum now commenced an era-defining, return movement? Time will tell. But in 2025 we expect financial regulation to soften somewhat in the US, while in Europe to persist at a strong pace despite ambitious aims to mobilize and facilitate investment on a massive scale. Ever mindful of how investment firms should position themselves, we analyzed these developments in our recent **December** and **November** editions (as well as industry conferences we held in Boston, Paris, Milan and London that also addressed technology, risk, analytics, data and operations).

In this edition we turn to the UK. Already in our **June** issue, we previewed the UK government transition, and what that would mean for financial regulation. Let's check in on how things are unfolding.

Commitment to growth

Since its election victory in July, Labour has remained committed to the **Edinburgh** and **Mansion House** reforms – previously launched efforts to make UK financial services more competitive globally. In October the government issued a **Green Paper** on a proposed 10-year "Modern Industrial Strategy", which names financial services among its crucial growth-driving sectors. And in November it proposed a 10-year strategy for that sector: HM Treasury's **Call for Evidence** for a "Financial Services Growth and Competitiveness Strategy".

Both the Green Paper and the Call for Evidence open with these words: *"Growth is the number one mission of this government."*

In an **accompanying speech**, Chancellor Rachel Reeves, describing the financial sector as "*the crown jewel in our economy*", further stated:

"It was right that successive governments made regulatory changes after the Global Financial Crisis. . . These changes have resulted in a system which sought to eliminate risk taking. That has gone too far."

As head of HM Treasury, Reeves also signed a set of **recommendations** to the FCA. (While an independent body, the FCA is accountable to Treasury as well as Parliament.) The recommendations state in part:

- *"[W]e must have proportionate, effective regulation that allows firms of all sizes to compete, innovate and grow, creates a stable, attractive environment which encourages businesses to establish and expand in the UK, and adequately protects consumers."*
- *"It is vital that you continue to fully embed the secondary international competitiveness and growth objective throughout your organisation"*
- *"We need to enable and support more responsible and informed risk taking across the economy. I recognise that there are difficult trade-offs to make, and I commit to the government supporting you in this. Ultimately, we must trust in the systems that we have put in place"*

To **critics**, the Chancellor's support for liberalization and risk-taking could invite **another financial crisis**. The FCA, meanwhile, immediately issued a **response statement**, setting forth its efforts already well underway for economic growth: new UK listing rules, the PISCES trading platform for private companies, streamlining of asset management regulation, a dedicated growth team, and increased support for non-UK firms. The implication being, perhaps, that the FCA needn't significantly shift policy, in reaction to the latest alarm bell rung by a newly-led Treasury. The FCA's response ended curtly with this paragraph:

"When it comes to growth, regulation is one part of the picture. We know there's more to do but we are committed to playing our part."

Regardless of any possible tensions between Westminster and the FCA (which we touched on in our June issue), the FCA's ongoing commitment to economic growth is evident. And soon after the Chancellor's recommendations, the FCA unveiled its **public research competition** for driving UK growth, previewed its new **5-year strategy** (in which growth, innovation, and efficient regulation feature prominently), and launched a **consultation** on a Consumer Composite Investments regime to replace PRIIPs (describing the new framework as "rule changes proposed by the FCA to boost investment").

Meanwhile the government's Financial Services Growth and Competitiveness Strategy, as well as its Modern Industrial Strategy, are scheduled to be finalized in the Spring of 2025. Investment firms subject to UK rules should, of course, stay tuned for those releases, which will help them understand what their compliance and other functions may face in the coming years.

Political uncertainty

It should be acknowledged that political developments could at some point unsettle the government's fixation on growth. After winning one of the largest majorities in British history in July 2024, only six months later the governing Labour party is now **virtually tied** with the populist Reform party in opinion polling. (The Conservatives trail them both, by a few points.) In the latest blow to the party, Treasury minister Tulip Suddiq **has resigned** amidst a corruption investigation. While in theory Prime Minister Keir Starmer's full term runs until 2029 (like Trump in the US, and von der Leyen in the EU), some now question whether he will maintain enough party support to last even through 2025.

Regulatory persistance

Regardless of the government's progress on growth and eventual regulatory relief, in 2025 investment firms will continue to face changing legal frameworks in the UK. As Brexit fades in the rear-view mirror politically, for compliance and reporting purposes it lingers still on the road ahead. Firms will need to keep adjusting, as the FCA's replacement of EU-derived rules carries on:

2025				
UK law derived from EU	**Q1**	**Q2**	**Q3**	**Q4**
AIFMD & UCITS	Review of regulatory reporting aspects			
PRIIPs (now "Consumer Composite Investments")	**Consultation**	Policy Statement		
MiFID/MiFIR: commodity derivatives	Policy Statement (was slated for Q4 2024)			
MiFID/MiFIR: transaction reporting	**Discussion Paper**			
MiFID/MiFIR: organizational requirements	**Consultation**		Policy Statement	
MiFID/MiFIR: consolidated tape framework			Consultation (for equity CT)	
Money Market Funds Regulation	Policy Statement			
Payment Accounts Regulations	Repeal of customer information requirements			
Payment Services Directive 2 / e-Money Directive	Policy Statement			
Prospectus Regulation	Policy Statement			
Securitization Regulation	Consultation			
Short Selling Regulation	Rules to be drafted (Treasury laid **Statutory Instrument** in Nov 2024)			
Insurance Distribution Directive	(Repealed April 2024)			
Long-Term Investment Fund Regulation	(Repealed January 2024)			

Other reporting burdens will also demand the attention of compliance and operations teams, such as **SDR** (Sustainability Disclosure Requirements and investment labels). Already in effect, SDR continues to unfurl with staggered compliance dates, including these in 2025:

- 31 July
    - If a sustainability label is used, product level disclosures are required within 12 months of its first use (and annually thereafter)
- 2 December
    - If a sustainability label is used, product level disclosures are required whenever requested by eligible clients
    - Entity level disclosures, required of firms with more than £50 billion in AUM

For a summary of the various compliance dates, see page 71 of the FCA's **Policy Statement 23/16**. And as always, firms should monitor for additional FCA outputs, such as last month's **proposed corrections** to SDR and other rules. Additionally the UK, having recently **recommended adoption** of global ISSB sustainability reporting standards as a baseline for its own "SRS" standards, plans to launch a **consultation on SRS** in Q1 of 2025. Treasury is also consulting on whether to create **a Green Taxonomy** to compliment sustainability reporting, to close on 6 February 2025.

Bottom line

Like the EU, the UK is faced with a critical need for economic revitalization that will take years to implement. Fortunately, it's free of political, regulatory and market fragmentation on a European scale. In that sense, the regulatory outlook for UK financial services tracks somewhere between the US (a regulatory slowdown) and the EU (an unwieldy bloc struggling with rules convergence).

Despite the UK's designs on growth and investment-friendly policies, in 2025 the ongoing implementation of considerable financial regulation is assured. As those rules continue to evolve, and as tech and data play ever-increasing roles, investment firms will need to be proactive and nimble with their compliance processes. Doing so efficiently will free them to focus their efforts on investment strategies, long-term objectives and core missions.

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