Being better informed

FS regulatory bulletin

FS regulatory insights

April 2025

In this month's edition:

- FCA publishes growth-focused strategy
- PRA proposes increase to leverage ratio threshold
- FCA private market valuation review finds room for improvement
- FCA launches pure protection market study

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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Last month the FCA published its 2025-30 Strategy, and Feedback Statement (FS25/2) to its July 2024 Call for Input on reviewing requirements in light of the Consumer Duty. These documents represent an intention to move towards a more flexible, technology-friendly and outcomes-based regulatory environment. The strategy focuses on four themes: becoming a more efficient and effective regulator, supporting growth, helping consumers navigate their financial lives, and fighting financial crime. The feedback statement sets out an ambitious programme of work to simplify rules and guidance in discrete areas.

This will include: reviewing whether conduct rules should apply to firms serving customers outside the UK; making consistent core definitions such as those for retail customers and SMEs; increasing flexibility in disclosure requirements; and piloting the introduction of specific guidance for smaller firms later this year. Please see our At a glance publication and podcast episode for further analysis.

The strategy followed publication of HM Treasury's (HMT) action plan, setting out the Government's approach to regulation and regulators. The plan is economy-wide, but includes targeted proposals for financial services. These include: reviewing the number of PRA and FCA 'have regards'; examining the role of the Financial Ombudsman Service; and establishing a 'concierge service' to support incoming firms to the UK. Separately, the Government confirmed its intention to consolidate the Payment Systems Regulator and its functions within the FCA.

HMT and the UK Debt Management Office also announced new details of the UK's first Digital Gilt Instrument pilot, leveraging distributed ledger technology (DLT), and launched a call for industry feedback. The pilot aims to explore DLT applications in UK sovereign debt issuance and boost UK-based DLT infrastructure and adoption in financial markets.

The FCA shared findings of a number of multi-firm reviews, including a review of liquidity risk management practices at wholesale brokers and other trading firms. The regulator set out good and poor practice across a number of areas, including identifying liquidity risks, stress testing, and contingency funding plans, as we explore in our At a glance publication. The FCA also published findings of a multi-firm review of private markets valuations by asset managers, which focuses on areas for improvement such as identifying and managing conflicts of interest.

Please refer to our At a glance briefing for more information.

In the insurance sector, the FCA launched its market study to assess whether pure protection insurance products provide fair value to consumers. It has now finalised the Terms of Reference (ToR), following a draft in August 2024. The ToR clarifies the focus areas of the study, which include: barriers to innovation and investment; the protection gap; and access to cover for individuals such as those with pre-existing medical conditions. The FCA intends to publish an interim report with initial findings and proposed next steps by the end of 2025.

Elsewhere, the PRA consulted on proposals to raise the leverage ratio threshold to £70bn retail deposits, representing an increase of £20bn. The PRA is proposing to increase the threshold that is designed to capture major UK banks, building societies and investment firms to ensure that firms subject to the requirement continue to reflect the risk appetite behind the UK leverage ratio framework and to preserve its proportionality. Following a consultation period, implementation is expected on 1 January 2026.

Please read on to find out more about these and other developments. You can also visit our PwC webpage for further regulatory insights, including our recent podcast episode, which explores the evolving operational resilience landscape in response to changing threats, market expectations and transformative technologies such as AI. We have also recently published our Global Crypto Regulation Report 2025, which explores the rapidly evolving regulatory landscape for digital assets, highlighting key policy shifts and emerging trends in over 50 jurisdictions.

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Artificial intelligence

FCA and ICO explore AI adoption and data protection regulation

The FCA and ICO will discuss regulatory challenges around AI adoption and data protection at a roundtable on 9 May 2025 with industry, as announced in a joint letter on 10 March 2025.

Regulatory uncertainty has been identified as a key barrier to AI deployment in financial services, with data protection and the Consumer Duty ranking among the top constraints, according to an FCA and Bank of England survey published on 21 November 2024. To address these concerns, the FCA and ICO will engage with industry to:

- identify broad areas of regulatory uncertainty and challenges in AI adoption and innovation.
- explore how the FCA and ICO can collaborate with industry to provide greater regulatory clarity and support growth.
- determine specific areas of data protection and financial regulation where firms need additional guidance to enhance innovation and AI adoption.

The FCA and ICO indicate that this initiative is aligned with the Government's desire for regulators to help foster economic growth. In their responses to the Prime Minister earlier this year, both regulators highlighted suggestions on how regulatory cooperation can act as a means of achieving this aim.

Conduct

FCA calls for stronger ties between pensions, savings and mortgages

FCA Chief Executive Nikhil Rathi gave a speech on 28 March 2025. He highlighted the challenge of inadequate levels of pension savings, and said the focus must be on how to improve outcomes through better returns, risk alignment and support. He said he wants the FCA's Advice Guidance Boundary Review to trigger an 'advice revolution'. Rathi also spoke about the importance of making stronger connections between pensions, savings, mortgages and housing wealth, in terms of policy, regulation, and products and services. Rathi suggested several areas that the regulator might consider as part of its planned reforms to mortgage regulation. He raised the possibility of integrating positive pension saving behaviour into mortgage and credit affordability assessments, and allowing first-time buyers to leverage their pension savings for a housing deposit.

Rathi also stated that the FCA wants to 'get ahead of the issue' of how and when consumers can access their housing wealth, when it opens its discussion on the mortgage market later this year.

Consumer outcomes

FCA shares good and poor practice on consumer support

The FCA released its review findings on firms' approaches to the consumer support outcome under the Consumer Duty on 7 March 2025. The review highlights good practices and areas for improvement, with a view to helping firms understand expectations and adapt their consumer support strategies.

The regulator identified a range of good practices, including:

- Proactively understanding customers' needs and tailoring support offerings, such as ensuring digital support channels lead to good outcomes.
- Streamlining customer journeys to eliminate barriers and facilitate easy access to support.
- Integrating consumer support into firm culture through changes in remuneration, performance management, and training.
- Monitoring diverse customer support metrics to identify and address risks of poor outcomes.

In terms of areas for improvement, the FCA highlights areas such as:

- Misalignment of support processes with the target market, particularly affecting vulnerable customers.
- Inaccessible and less effective post-sale support compared to pre-sale, evidenced by long wait times.
- Lack of evidence for steps taken by some firms to drive cultural change in line with the Duty.
- Insufficient monitoring of varied outcomes in customer support, with some firms relying solely on metrics such as wait times or customer feedback and/or complaints.

FCA shares findings of vulnerable customers review

The FCA published the findings of its review of firms' treatment of customers in vulnerable circumstances on 7 March 2025. The regulator sought to test how firms are supporting customers in vulnerable circumstances and consider whether its vulnerability guidance remains appropriate in light of the Consumer Duty. The FCA is not revising its guidance or introducing new requirements. Its findings are based on consumer research, a firm survey, multi-firm work on outcomes monitoring, and multi-firm work on power of attorney and bereavement in retail banking.

The FCA shares detailed good and poor practice across the following areas: governance and outcomes monitoring, offering flexible and tailored support, customer communications, staff training, and embedding consumers' needs into product and service design.

The regulator particularly highlights two areas for improvement: outcomes monitoring, and product and service design. Most firms in the FCA's multi-firm work were unable to show how they effectively monitor and take action on outcomes for customers in vulnerable circumstances. Challenges include: inadequate data, not being clear on what good outcomes look like or how they are measured, and unclear escalation processes. Most firms were also unable to show how they had embedded the needs of customers in vulnerable circumstances into their product and service design processes. The regulator says this should be a focus area in firms' Consumer Duty embedding.

The FCA encourages firms to make use of the practical examples shared. It says it will continue to engage with industry to drive further improvements and will take account of outcomes for vulnerable customers across its ongoing Consumer Duty supervisory work.

Financial reporting

FRC updates reflect new corporate reporting thresholds

The Financial Reporting Council (FRC) published updates on 21 March 2025 to reflect UK corporate reporting threshold changes, effective from 6 April 2025. The changes were introduced in the The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024 (SI 2024/1303) and aim to reduce the reporting burden on smaller businesses. Of particular relevance to sustainability reporting are the following updates:

- A summary document outlining the changes and key considerations for stakeholders.
- Revised disclosure scoping tables that set out Companies Act 2006 disclosure requirements for the strategic report, the directors' report and the energy and carbon report.
- An updated FRS 102 Factsheet 8 on climate-related matters.

Supervision

Government issues regulatory action plan

HMT published an Action Plan on 17 March 2025, setting out the Government's approach to regulation and regulators. The Action Plan covers economy-wide regulation and regulators, but includes targeted proposals relevant to the financial services regulatory ecosystem. The Action Plan aligns with the Government's efforts to support innovation and boost economic growth, with regulation identified as an area that 'too often holds back growth and inhibits private sector investment', creates high administration costs, and has become too risk averse. The Action Plan outlines steps the Government and regulators intend to take to address these challenges, including:

- cutting administrative costs for business by 25% by the end of the Parliament.
- reviewing the number of PRA and FCA 'have regards' to identify opportunities to rationalise them.
- examining the role of the Financial Ombudsman Service and whether it is delivering in its role as a simple, impartial dispute resolution services.
- establishing a 'concierge service' to support incoming firms to the UK and measures to support early-stage innovative firms, including issuing 'minded to approve' notices to support fundraising.

FCA sets out growth-focused strategy

The FCA published its 2025-30 Strategy on 25 March 2025, setting out its vision to deepen trust, rebalance risk, support growth and improve lives. Alongside the Strategy, the regulator published a Feedback Statement (FS25/2) to its July 2024 Call for Input on reviewing requirements in light of the Consumer Duty. These documents represent an intention to move towards a more flexible, technology-friendly and outcomes-based regulatory environment. The strategy focuses on four themes: becoming a more efficient and effective regulator, supporting growth, helping consumers navigate their financial lives, and fighting financial crime.

The feedback statement sets out an ambitious programme of work to simplify rules and guidance in discrete areas. This will include: reviewing whether conduct rules should apply to firms serving customers outside the UK (starting with a review of the insurance sector); making consistent core definitions such as those for retail customers and SMEs; increasing flexibility in disclosure requirements for retail banking; and clarifying the application of the Consumer Duty through retail distribution chains. The FCA also plans to pilot the introduction of specific guidance for smaller firms, later this year. It will update on this programme of work in September 2025.

For more information, please see our At a glance publication.

Sustainability

FCA says ESG regulations do not prohibit investing in UK defence

The FCA issued a statement on 11 March 2025, explaining that there is nothing in its rules, including sustainability-related rules, that would prevent investment or finance for defence companies, and that the choice about providing capital for defence companies lies with individual lenders and investors. This follows an announcement on 25 February 2025, where the Prime Minister committed to increase defence spending to 2.5% of GDP from April 2027.

FCA progresses development of ESG ratings regulation with survey

The FCA launched a voluntary survey for ESG ratings providers on 21 March 2025 as part of its ongoing work to develop a regulatory regime for these providers. The results will inform the FCA's:

- Cost benefit analysis.
- Future ESG ratings regulation.
- Approach to amending listed companies' climate-related disclosure requirements to align with ISSB standards and to strengthen expectations for listed companies' transition plan disclosures.

The survey closes 16 May 2025, with responses encouraged by 2 May.

Technology

Government consults on digital gilt pilot

HM Treasury (HMT) and the UK Debt Management Office (DMO) are seeking views on the design and delivery of a Digital Gilt Instrument (DIGIT) pilot, through a Preliminary Market Engagement Notice published on 18 March 2025. The pilot is being jointly managed by HMT and the DMO, with HMT acting as the contracting authority.

DIGIT will be an entirely new, digitally native UK Government debt instrument, distinct from traditional debt issuance. As part of the pilot, it will be a transferable security held on a distributed ledger technology (DLT) platform and issued within the Digital Securities Sandbox (DSS) to allow for necessary regulatory flexibility.

The instrument will be short-dated, with feedback sought on preferred tenors. Unbacked cryptocurrencies and stablecoins will not be permitted for the payment leg of transactions.

A range of services may be required across the DIGIT life cycle. While HMT and the DMO may prefer to appoint a single supplier to coordinate these services, they are open to multi-supplier models, including collaborations involving SMEs. Suppliers are encouraged to align their responses with DIGIT's existing design decisions and delivery preferences.

Firms and potential suppliers are invited to submit responses by 13 April 2025. Responses will inform future procurement planning and will be treated as non-binding and for information purposes only.

Wholesale markets

FCA and PRA propose permanent exemption from margin rules for certain OTC derivatives

The FCA and PRA issued a consultation on 27 March 2025, proposing changes to the UK's bilateral margin requirements for single-stock equity options and index options. The proposed changes would permanently exempt these contracts from the margin rules from 4 January 2026; this follows a period of temporary exemption while the regulators undertook deeper analysis on a permanent treatment for these products. These proposals would bring the UK's regime broadly in line with other jurisdictions' treatment of single-stock equity options and index options.

The regulators also propose additional changes that would apply to wider contracts subject to the margin requirements. These proposals would remove the obligation to exchange initial margin (IM) on outstanding legacy contracts where a firm subsequently falls below the threshold for being in scope of the requirements. Additionally, for firms transacting with overseas counterparties subject to margin requirements, the regulators propose to permit UK firms to use that jurisdiction's threshold assessment calculation periods and entry into scope dates to determine whether those transactions are subject to IM requirements. The consultation closes on 27 June 2025.

Banking and capital markets

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Capital and liquidity

PRA proposes Leverage Ratio threshold increase

The PRA issued a consultation (CP2/25) on 5 March 2025, setting out proposals to raise the leverage ratio threshold to £70bn retail deposits, representing an increase of £20bn.

The PRA is proposing to increase the threshold that is designed to capture major UK banks, building societies and investment firms to ensure that firms subject to the requirement continue to reflect the risk appetite behind the UK leverage ratio framework and to preserve its proportionality. The PRA clarifies that no changes have been proposed to amend the threshold for firms with significant non-UK assets. Responses to the consultation are requested by 5 June 2025, with implementation expected on 1 January 2026.

PRA proposes to expand number of recognised exchanges

The PRA issued a consultation paper (CP3/25) on 19 March 2025, setting out the proposed conditions an investment firm must meet to be a 'recognised exchange' (RE) under UK CRR.

Due to the nature of post-Brexit onshoring and lack of related EU equivalence decision, the list of eligible exchanges is currently limited to UK exchanges. The PRA's proposals seek to address this limitation and expand the number of eligible REs. In particular, the proposed changes are relevant for firms that use or accept assets traded on non-UK exchanges for credit risk mitigation, liquidity risk, and market and counterparty credit risk purposes.

The PRA proposes to introduce a new Recognised Exchanges (CRR) Part, detailing eligibility criteria for exchanges based on two areas: exchange and market structure risk, and asset liquidity risk. The exchange and market structure risk criteria broadly reflects the requirements initially used to construct the list of REs, and the asset liquidity risk criteria mirror requirements under the Liquidity Framework.

The PRA also proposes to amend Basel 3.1 near-final rules by changing the definition of 'higher risk equity exposures' such that an equity exposure would only be classified as such if it is not listed on an exchange that meets the exchange and market structure risk criteria. It notes that this may result in a greater proportion of equity exposures receiving a lower risk weight (250%) compared to the treatment under the near-final rules. Consultation responses are requested by 18 June 2025; the PRA proposes an implementation date of 1 July 2026.

European Commission consults on FRTB delay

The EU Commission launched a consultation on 24 March 2025, seeking views on three potential options relating to the implementation of the Fundamental Review of the Trading Book (FRTB) in the EU. These are: (1) implement the FRTB as planned from 1 January 2025; (2) postpone implementation by one year to 1 January 2027; or (3) introduce temporary and targeted amendments to the market risk framework (for up to three years) in areas other jurisdictions have already deviated - or plan to deviate - in their final FRTB implementation.

The Commission notes that the consultation comes in response to delays to the implementation of Basel 3.1 reforms in the UK and United States, and concerns raised about the competitiveness of internationally active EU banks if EU FRTB implementation goes ahead as planned. Responses are due by 22 April 2025, with the Commission indicating it would adopt a delegated act taking forward the preferred option by the end of June 2025.

Conduct

FCA sets out next steps on mortgage reforms

The FCA published an update and accompanying letter to the Economic Secretary to the Treasury on 7 March 2025, on the steps it will take to improve access to mortgages and home ownership, which it first announced in a letter to the Prime Minister in January. The regulator has published an update on its interest rate 'stress test' rule (MCOB 11.6.18R), to 'remind firms of the flexibility' the rule provides. It says: 'As interest rates fall the current market approach to interest rate stress testing may be unduly restricting access to otherwise affordable mortgages.'

The FCA encourages firms to make use of the practical examples shared. It says it will continue to engage with industry to drive further improvements and will take account of outcomes for vulnerable customers across its ongoing Consumer Duty supervisory work.

Compensation schemes

PRA proposes deposit protection limit increase

The PRA issued a consultation (CP4/25) on 31 March 2025, proposing to increase the Financial Services Compensation Scheme (FSCS) depositor protection limit from £85,000 to £110,000. In addition, the PRA is proposing to adopt a new resolution tool enabling industry funds, provided by the FSCS, to be used to recapitalise a failing firm to support its sale or transfer to a bridge bank, where its use is in the public interest. This follows a HMT consultation in January 2024.

The PRA proposes for the changes to the deposit protection limit to take effect from 1 December 2025. The PRA proposes a six-month transitional period until 31 May 2026 for firms to update their disclosure materials to reflect the changes. The consultation closes on 30 June 2025 for FSCS protection limit changes and on 30 April 2025 for proposals relating to the new resolution tool. The PRA expects to confirm final rules in November 2025.

Asset management

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Capital and liquidity

FCA liquidity risk management review identifies good and poor practices

The FCA published its findings of a multi-firm review of liquidity risk management practices at wholesale brokers and other trading firms on 10 March 2025. The publication sets out the FCA's views on good and poor practices for liquidity risk management, and contains detailed observations on a range of thematic issues.

The FCA's review took place following several market stress events during which the FCA observed that firms experienced liquidity shocks arising from settlement of short positions, large margin calls, and delays between paying margin calls to central counterparties and receiving margin from clients. The FCA also observed that some firms had poor knowledge of clients' business profiles and client concentration risks.

The FCA will prioritise ongoing supervisory work on ensuring the financial resilience of wholesale brokers over the next two-year supervisory cycle, and it is expected to consult on aspects of the prudential rules for investment firms (MiFIDPRU) shortly.

Our At a glance publication contains further information about the FCA's findings and expectations of firms.

Supervision

FCA private market valuation review finds room for improvement

The FCA published the findings from its multi-firm review of private markets valuations on 6 March 2025, setting out a range of good practices and actions for firms to consider across four thematic areas. The findings will inform the FCA's forthcoming review of the UK Alternative Investment Fund Management Directive (AIFMD).

The FCA's publication focuses on areas where the regulator found firms have room for improvement. These are:

- Governance of valuation processes: Firms generally had governance processes in place including having valuation committees responsible for valuation decisions. However, their recordkeeping was not always complete, preventing the FCA from having confidence about the effectiveness of their oversight.
- Identifying and managing conflicts of interest: Firms recognised and managed conflicts related to fees, remuneration, and managing potential volatility in a funds' valuation, but often had not sufficiently considered and documented other valuations-related conflicts.
- Ensuring independence during valuation processes: While some firms were able to clearly demonstrate functional independence in their valuation processes, in others this function performed a more administrative and operational role and investment professionals were more involved in the valuation task and as voting members of valuation committees.
- Frequency of valuations: Valuations were most commonly conducted on a quarterly basis, with a portion of firms conducting more frequent (monthly) valuations. For out-of-cycle valuations, most firms did not have defined thresholds for triggering ad hoc valuations and often waited for valuations to flow through at the next valuation cycle.

Our At a glance summary has further information.

Insurance

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Conduct

FCA launches market study into pure protection

The FCA launched its market study, on 21 March 2025, to assess whether pure protection insurance products provide fair value to consumers. It finalised the terms of reference (ToR), following the publication of the draft in August 2024 and subsequent feedback.

The market study will examine whether the distribution of term assurance, critical illness cover, income protection, and whole of life insurance support fair value, effective competition, and good consumer outcomes.

Key changes from the proposed ToR include clarification that underwritten whole of life insurance (without a savings or investment element) and joint life personal pure protection policies are within scope of the market study. In contrast, group policies, business and key person insurance, funeral plans, accident, sickness and unemployment products, and private medical insurance are excluded due to, among other reasons, their differing distribution models. The FCA also expands its focus to consider the influence of reinsurers, portals, product comparison platforms, and lead generators on consumer outcomes, though these market participants are not the core focus of the market study. Additionally, the updated ToR include new areas of investigation, such as the protection gap and barriers to innovation and investment.

The FCA intends to publish an interim report with initial findings and proposed next steps by the end of 2025. It will also release a series of subject-specific publications throughout the year to share ongoing insights.

Life insurance

IAIS consults on structural shifts in life insurance sector

The IAIS proposed a Draft Issues Paper, analysing structural shifts in the life insurance sector on 19 March 2025. It examines insurers' increasing allocation to alternative assets and the growing use of cross-border asset-intensive reinsurance (AIR) - trends that have persisted despite changing interest rate environments.

The paper provides a framework for understanding the macroprudential and financial stability implications of these developments. It explores the classification, risks and regulatory challenges associated with alternative assets, as well as the factors driving AIR activity, including jurisdictional differences in reserving, capital requirements and investment flexibility. Additionally, it reviews IAIS supervisory material to identify potential areas for enhancement.

The consultation closes on 19 May 2025

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