

Being better informed

FS regulatory bulletin

FS regulatory insights

August 2023

In this month's edition:

- Mansion House package accelerates financial services reforms
- FCA intervenes on cash savings as Consumer Duty comes into force
- Basel Committee consults on Core Principles
- BoE reveals results of annual stress test for UK banks



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 sectors.



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The pace of regulatory change showed no sign of slowing down in July, with Chancellor Jeremy Hunt announcing a series of reforms in his Mansion House speech. Alongside the speech, HM Treasury (HMT) published a suite of publications which take forward delivery of the UK's new regulatory framework as enabled by the Financial Services and Markets Act 2023, and advance the December 2022 Edinburgh Reforms. The measures focus on capital markets and pensions reform, digital innovation, and represent the start of the phased repeal of EU-retained law on financial services. Please see this [At a glance](#) briefing for more information.

Meanwhile the FCA continues to advance the Government's Wholesale Markets Review, with a consultation setting out proposals for a UK Consolidated Tape (CT). The regulator outlines a proposed framework for a bond CT and invites feedback on the criteria for how a CT would operate. In addition, the FCA issued updated guidance clarifying the regulatory perimeter for trading venues, and announced the launch of a new pre-application support service for overseas wholesale firms wishing to expand in the UK. Our [At a glance](#) publication provides further details.

In the retail space, the Consumer Duty came into force at the end of July, marking a significant change in regulatory standards and expectations. The FCA marked the date by announcing a suite of actions which aim to improve value in the cash savings market. These include requiring firms offering the lowest savings rates to provide their fair value assessments under the Duty by 31 August 2023, with the FCA saying it will take "robust action" by the end of the year against those which cannot demonstrate fair value. Our [Reflections](#) article looks at this in more detail, as well as the broader steps firms should take to ensure they are embedding the Duty, now the initial implementation deadline has passed.

The FCA also continues to focus on how firms are supporting consumers with the rising cost of living.

It published findings of a review into how general insurance firms are meeting its expectations on this issue, raising a number of concerns. These include how firms identify vulnerable customers, monitor consumer outcomes, and share information between intermediaries and manufacturers. Alongside its review findings, the FCA published final guidance on how insurers should support customers in financial difficulty. Our [At a glance](#) briefing provides further analysis.

Elsewhere, the Basel Committee on Banking Supervision (BCBS) consulted on revisions to its Core Principles for effective supervision. The Principles represent the global minimum standards for the effective prudential regulation and supervision of banks and banking systems. The BCBS is proposing changes to both the structure and contents of the Principles, to reflect regulatory and supervisory developments across the following areas: financial risks; risk management practices; operational resilience; systemic risk and macroprudential aspects of supervision; new risks, such as climate-related financial risks and digitalisation of finance; and non-bank financial intermediation. This [At a glance](#) provides further information.

The Bank of England (BoE) also published the results of the 2022/23 annual cyclical scenario stress test for major UK banks. It concludes that the banks would be resilient to a severe stress scenario that was constructed around higher inflation in advanced economies; increasing global interest rates; deep, simultaneous recessions in the UK and other major economies; and falling asset prices. The BoE adds that the 2022/23 stress scenario was more severe than the 2007-8 global financial crisis, and is more severe than the current macroeconomic outlook.

Elsewhere, asset managers should review the findings of the FCA's multi-firm review into Authorised Fund Managers' liquidity management frameworks, and the associated Dear CEO letter. The review focused on governance, liquidity

stress testing, redemption processes, liquidity management tools and valuation processes. The FCA found that many firms did not give liquidity management enough weight in their frameworks and governance structures, including board and committee-level discussions. For further details, see our [At a glance](#) briefing.

Read on to find out more about these and other developments. You can also visit our PwC [webpage](#) for further regulatory insights, including our [article](#) on how testing can deliver clearer and fairer customer communications in line with the Consumer Duty, and our [report](#) on the key lessons from the market disruption seen earlier this year, and how it will impact banks and the regulatory response.

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Cross sector announcements

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Artificial intelligence

FCA CEO sets out views on AI and Big Tech

Nikhil Rathi, CEO of the FCA, set out the regulator's approach to AI and Big Tech in a [speech](#) on 12 July 2023. He noted the FCA is seeing increased use of AI by financial services firms to inform automated strategies, which may increase market volatility. The FCA is also monitoring the increased use of AI for scams and fraud and sees the need for increased investment in cyber and fraud capabilities in response to the increased sophistication of these risks due to AI.

Rathi noted the FCA's approach to AI regulation will be informed by the Government's approach, as detailed in the March 2023 [white paper](#), and the FCA's new growth and competitiveness objective. The FCA plans to explore AI's opportunities and challenges within the existing framework before determining the need for new rules. It will leverage existing frameworks such as the Consumer Duty and the Senior Managers & Certification Regime to mitigate AI-related risks and challenges, including explainability, bias detection and accountability.

In addition, Rathi announced the publication of the FCA's [feedback statement](#) on the expansion of Big Tech in retail financial services. Based on the responses received to its discussion paper (DP5/22), the FCA is planning to advance three primary actions:

- launching a Call for Input to study Big Tech firms as 'gatekeepers' by the end of 2023
- refining its supervisory approach for better oversight of Big Tech
- partnering with the Government and the Digital Markets Unit to outline implementation strategies for the Digital Markets, Competition, and Consumers Bill.

Conduct

FCA stresses importance of Consumer Duty in consumer survey results

The FCA published the [full findings](#) of its 2022 Financial Lives survey on 26 July 2023, drawing increased attention to the role of the Consumer Duty in enhancing its expectations of firms and their treatment of retail customers. The FCA highlights the following results from its analysis:

- 7.4 million people unsuccessfully attempted to contact their financial services provider in the 12 months to May 2022, with the most vulnerable in society more likely to struggle with this.
- Less than half of UK adults had confidence in the financial services industry and just 36% agreed that most financial services firms are honest and transparent in the way they treat them.
- 4.9 million people who used firm communications to help them make a decision in the 12 months before May 2022 found the communications did not help at all.
- 4.3 million people received information from their provider that they could not understand, was not what was needed, or was not timely.

The FCA draws attention to the amplified impact these findings have on customers with characteristics of vulnerability. For example, these customers are more likely to report that customer support services did not help them at all to achieve their desired outcome. The FCA also reminds firms that customers in vulnerable circumstances are more likely to experience harm - for example, are less likely to have private pension provision, more likely to have high-cost credit and loans, and less likely to take precautions against fraud.

The FCA reminds firms of the enhanced expectations the Consumer Duty sets, particularly

in relation to the ability of firms to provide helpful and responsive customer support, and timely and understandable customer communications.

Consumer Duty enters into force for open products and services

The [Consumer Duty](#) entered into force for new and existing products and services on 31 July 2023, marking a significant change in regulatory standards and expectations for firms serving retail customers. The rules require firms to put customers at the heart of what they do, and to monitor and evidence that they are delivering good outcomes for their customers. The FCA has promised to assertively supervise and take robust action where it identifies outlier firms or areas of consumer harm.

Read our [Reflections](#) article for a detailed analysis of what firms should focus on now the initial deadline has passed, from incorporating strategic solutions in day two plans, to embedding cultural change, the expected areas of early supervisory scrutiny, and embracing the long term opportunities the Duty represents.

FCA confirms Handbook changes

The FCA confirmed changes to its Handbook in [Handbook Notice No 111](#) on 28 July 2023. The changes relate to recent consultations including CP23/1: Insurance: Conduct of Business Sourcebook (Customers in Financial Difficulty) Instrument 2023 (changes effective from 31 July 2023), and CP23/9: Financial Resilience Reporting (No 2) Instrument 2023 (changes effective from 1 January 2024).

Cryptoassets

FCA calls for firms to prepare for new crypto promotion rules

The FCA called for cryptoasset firms marketing to UK consumers to get ready for the financial promotions rules by 8 October 2023, in a [letter](#) issued on 4 July 2023. The UK Government has now legislated to bring qualifying cryptoassets within scope of the financial promotion regime, and the FCA published near-final rules in a [policy statement](#) on 8 June 2023.

The financial promotion rules apply to a broad range of communications, regardless of the technologies used, including websites, apps and online adverts. The FCA anticipates that most cryptoasset firms with UK retail customers will fall in scope of the regulation. Overseas promotions targeting or potentially influencing UK customers will also be subject to the financial promotions regime.

The FCA stresses that there will be four routes for legally communicating financial promotions to UK consumers:

- the promotion is communicated by an authorised person
- the promotion is made by an unauthorised person but approved by an authorised person
- the promotion is communicated by a cryptoasset business registered with the FCA under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs)
- the promotion otherwise complies with the conditions of an exemption in The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Financial Promotion Order).

Promotions that are not made through one of these routes will be in breach of the Financial Services and Markets Act 2000 (FSMA), a criminal offence. The FCA says it will take robust action to combat illegal marketing to UK consumers, which may include listing firms on a warning list, blocking illegal promotions on digital platforms, and taking enforcement action.

FSB lays out recommendations for cryptoassets

The Financial Stability Board (FSB) set out high level recommendations for regulating cryptoasset activities and markets in a [report](#) published on 17 July 2023. The recommendations follow on from the FSB's [consultation](#) published in October 2022.

The recommendations are addressed to financial regulatory, supervisory and oversight authorities at a jurisdictional level. The FSB seeks to promote greater international consistency of regulatory and supervisory approaches to cryptoasset activities and markets, including cryptoasset issuers and service providers.

The recommendations cover a broad range of areas including:

- regulatory powers and tools
- the general regulatory framework
- cross-border cooperation
- governance
- risk management
- data collection and reporting.

The focus is on addressing risks to financial stability, and the recommendations do not comprehensively cover all specific risk categories related to cryptoasset activities. The FSB and relevant standard-setting bodies will take actions to coordinate international regulatory, supervisory and oversight approaches for cryptoassets. They will also conduct a review of the implementation of the recommendations by the end of 2025.

Finance

Regulators propose targeted securitisation reform

The [PRA](#) and [FCA](#) published consultation papers on 27 July and 7 August 2023, respectively, setting out the proposed rules to replace existing provisions in the Securitisation Regulation. The consultation follows a [2021 HMT review](#) into the Securitisation Regulation, which identified specific areas of the regulation where policy change could be considered.

Following the passage of the Financial Services and Markets Act, most of the existing firm-facing provisions of the Securitisation Regime will be replaced with PRA and FCA rules. The regulators confirm that the proposals would largely preserve the current requirements, but would make targeted adjustments to specific requirements that

would bring most significant improvements for UK markets. The proposed changes include:

- adopting a more principles-based approach to due diligence obligations on institutional investors in relation to manufacturer disclosure
- clarifying due diligence requirements between the managing party and the delegating party
- changing the calculation of risk retention requirements in non-performing exposures securitisations to be based on the market value of the portfolio.

The regulators also individually propose a set of clarifications, including the scope of PRA requirements, the timelines for manufacturers making available certain information, and the criteria for homogeneity in Simple Transparent and Standardised securitisations. The papers also include discussion questions on the definitions of public and private securitisations and notes that further consultation on changes to the reporting regime will be issued at a later stage.

Both consultations close on 30 October 2023. Regulators have set a proposed implementation date of Q2 2024.

Market infrastructure

FCA finalises trading venue perimeter guidance

The FCA issued updated [guidance](#) on 5 July 2023, clarifying the regulatory perimeter for trading venues. The guidance provides greater clarity on when firms may be operating a multilateral system and so require authorisation as a trading venue. Specifically, the guidance clarifies the FCA's interpretation of different elements of the definition of a multilateral system and how it applies to different types of arrangements in financial markets. For example, the guidance clarifies the regulatory status of voice brokers, bulletin boards, portfolio managers operating internal matching systems, and primary market activity by crowdfunding platforms.

The updated guidance follows an FCA [consultation paper](#) published in September 2022 that sought to ensure firms have greater certainty about the permissions required to carry out their business. This came in response to a recognition that the evolution of the definition of a multilateral system and technological developments have made it more challenging to distinguish certain types of arrangements and systems as trading venues. The updated guidance has been issued in the FCA's Perimeter Guidance manual (PERG) in its Handbook in the form of Q&As. This supersedes relevant existing guidance in ESMA Q&As on MiFID II and MiFIR market structures. The updated guidance comes into force on 9 October 2023.

Pensions

FCA publishes investment pathways review

The FCA published on 11 July 2023 [a post-implementation review](#) of investment pathways, an initiative introduced in 2021 to address concerns that non-advised pension savers might be losing out on income through poor decisions. The review found that investment pathways are largely working as intended. Also, the FCA found that firms were largely compliant with the requirements and had reasonable governance and processes in place. While the FCA hasn't proposed any changes, it acknowledges that more could be done to support consumer decision making.

The review identified value for money as a key risk, and the FCA says it will incorporate this into its ongoing supervision of firms offering investment pathways. The FCA also notes the impact of other initiatives such as the Consumer Duty and the review it's currently undertaking of the advice/guidance boundary with HM Treasury. It argues that there is more that pension providers should be doing within the existing advice/guidance framework, stressing that firms should not be reluctant to provide support because they are being overly cautious about coming closer to the boundary between regulated advice and guidance.

The review was published on the same day the Department for Work and Pensions published [a response to a Call for Evidence](#) on pension choices, including a consultation on a policy framework for decumulation.

FCA delays deadline for Pensions Dashboard rules

The FCA [revised its rules](#) on pension dashboards for pension providers ([policy statement PS22/12](#)) on 28 July 2023. In particular, the FCA pushed back the connection deadline for occupational scheme trustees from 30 August 2023 until 31 October 2026. This new deadline aligns with the UK Government's [Pensions Dashboards \(Amendment\) Regulations 2023](#) (made on 19 July 2023 and which entered into force on 9 August 2023), which amends the [Pensions Dashboards Regulations 2022](#).

Regulatory framework

Chancellor accelerates FS reforms with Mansion House package

The Chancellor announced a series of reforms in his Mansion House [speech](#) on 10 July 2023, advancing the Government's vision for an open, sustainable, innovative and globally competitive financial services sector. The speech was accompanied by a suite of papers that take forward the delivery of the UK's new regulatory framework as enabled by the Financial Services and Markets Act (FSMA) 2023, and advance the Government's December 2022 [Edinburgh Reforms](#).

The speech set out measures to advance the UK's capital market reform, including accepting all recommendations from the [Investment Research Review](#) and the publication of near-final statutory instruments reforming the [Prospectus regime](#) and [Securitisation Regulation](#). The announcements also focused on digital innovation, including a consultation on the operation of a [Digital Securities Sandbox](#) and the launch of an [independent review](#) into the future of payments. The speech also covered a number of pension reforms, including the 'Mansion House Contract', which commits nine of the UK's largest defined contribution pension providers to allocate 5% of

their default fund assets to unlisted equities by 2030. Other measures included consultation responses on proposals to [reform PRIIPs regulation](#) and the [Consumer Credit Act](#).

The reforms also represent the start of the phased repeal of EU-retained law on financial services. To support this, the Government published its [pipeline](#) of legislative change planned for 2023 and 2024.

See our [At a glance](#) publication for more details.

Government updates on phased repeal of EU law

On 11 July 2023, HM Treasury [published](#) a further update on its plans to commence a phased repeal of retained EU law (REUL) to deliver a 'Smarter Regulatory Framework' in the UK. The publication follows a [policy statement](#) issued in December 2022 as part of the Government's Edinburgh Reforms. The policy statement set out how the Government intends to sequence the repeal of REUL into three 'tranches', to ensure the pace of change is manageable for Government, regulators and industry.

The latest publication explains the Government's plan to deliver 'significant progress' on repealing REUL by the end of 2023. The Government provides an update on current progress by outlining the statutory instruments (SIs) that have been published and those that are expected to be laid in Parliament by the end of 2023. These include SIs that reform Prospectus and Securitisation regulations, and changes to Data Reporting Services Regulations in MiFID.

The publication also provides detail on later 'tranches' of REUL, confirming draft SIs are due to be published by the end of 2023 on a number of areas, including Short Selling Regulation, Money Market Funds Regulation, Insurance Distribution Directive and Packaged Retail and Insurance-based Investment Products Regulation.

The Government states that it will continue to review and identify the areas where policy reform should be prioritised, noting the need to remain proportionate and consider the overall burden on firms when tailoring rules to the UK. As individual

REUL files are reviewed and reformed, the Government expects to seek industry input on policy development and technical implementation of the SI.

FCA updates on perimeter issues

The FCA published an updated version of its annual [report](#) on issues relating to the regulatory perimeter on 20 July 2023. Among other areas, the FCA signals its intention to consult on areas of general insurance to clarify where its remit applies, for example, relating to warranty contracts and what amounts to doing insurance business in the UK. The report also gives a brief update on the Overseas Persons Exclusion, with the FCA noting its view that greater information requirements and visibility would be beneficial.

Supervision

FCA confirms policy on 2023/23 fees and levies

The FCA [published](#) Policy Statement 23/10 on 4 July 2023, confirming its final periodic regulatory fee and levy rates for 2023/24 for FCA-regulated firms. The FCA had previously [published](#) Consultation Paper 23/07, setting out its proposed 2023/24 Annual Funding Requirement and its allocation across fee-blocks, periodic fees, and application fees.

Sustainability

Industry group consults on code of conduct for ESG ratings providers

The ESG Data and Ratings Code of Conduct Working Group (DRWG), supported by the International Regulatory Strategy Group and the International Capital Market Association, [issued a consultation](#) on a voluntary Code of Conduct for ESG data and ratings providers. The Code, published on 5 July 2023, sets out best practice principles on governance, systems and controls, conflicts of interest and transparency. It aims to introduce clear and consistent standards for ESG ratings and data products providers and clarify how such providers can interact with wider market participants. The code is based on International Organization of Securities Commissions

recommendations, and the DRWG says it has engaged with standard-setters in other jurisdictions to ensure international consistency.

In a [statement](#), the FCA said the code will help to raise standards in the intervening period before plans to bring ESG ratings providers into the regulatory perimeter are enacted.

The consultation closes on 5 October 2023, and the DRWG plans to publish the final code at the end of this year.

UK sustainability disclosure committee issues call for evidence

The UK Sustainability Disclosure Technical Advisory Committee (TAC) [launched a call for evidence](#) on 19 July 2023 to inform the proposed endorsement of the IFRS Sustainability Disclosure Standards in the UK as part of the Sustainability Disclosure Requirements (SDR) regime.

The Sustainability Disclosure TAC was set up to provide recommendations to the Secretary of State for the Department for Business and Trade on endorsing the IFRS Sustainability Disclosure Standards for use in the UK as part of SDR. As part of this process, the Sustainability Disclosure TAC will assess the suitability of the IFRS Sustainability Disclosure Standards in the context of the UK, and responses to this call for evidence will inform that decision.

In particular, the call for evidence is designed to identify views on whether the disclosures required by the IFRS Sustainability Disclosure Standards, in the context of the UK:

- will result in disclosures that are understandable, relevant, reliable and comparable for investors
- are technically feasible to prepare
- can be prepared on a timely basis and at the same time as general purpose financial reports
- are expected to generate benefits that are proportionate to the costs that are likely to be incurred.

The TAC has published a [response template](#). Responses must be submitted by 11 October 2023.

FRC highlights importance of ESG data providers

The Financial Reporting Council (FRC Lab) [published a paper](#) on 20 July 2023 related to ESG data use and distribution, exploring how investors obtain and use ESG data on companies. The report found that, though investors often use annual reports for verification and context purposes, there is a dependency on third party providers for ESG data compilation and standardisation. The report highlights the importance of companies using annual reports to clearly communicate their ESG-related risk and opportunities, and ensuring the data and narrative are consistent.

ESG data and ratings providers are subject to growing regulatory scrutiny, with the EU, UK Government, and FCA launching proposals in recent months to require greater transparency by ESG ratings providers.

Government publishes guidance on public sector sustainability reporting

On 20 July 2023, HM Treasury published two guidance documents, setting out expectations for central government bodies on sustainability reporting. The documents - [Sustainability Reporting Guidance 2023-2024](#) and [TCFD-aligned disclosure application guidance](#) - set out the minimum standards for existing requirements, best practice guidance, and underlying principles to be adopted. Though the guidance is targeted at central government, it may also be useful in relation to other public sector sustainability reporting clients.

UK Transition Plan Taskforce updates on next steps

On 27 July 2023, the Transition Plan Taskforce (TPT) published a [Status Update](#). The publication provides an update on the work of the TPT, including next steps and timelines.

The TPT announces that it will publish detailed guidance for seven sectors: Asset Management,

Asset Owners, Banking, Electric Utilities and Power Generators, Food and Agriculture, Metals and Mining, Oil and Gas. The TPT will consult on the sector-specific guidance, which will supplement the final Disclosure Framework, in Q4 2023.

The Update also responds to themes from the consultation feedback on the draft TPT Disclosure Framework and Implementation Guidance, published in late 2022. Overall, respondents strongly endorsed the Framework. They raised implementation challenges such as: preparing a comprehensive plan, prioritising Framework Sub-Elements, data limitations, and potential commercial and liability risks arising from disclosing aspects of their transition strategy. The TPT confirmed that the conceptual building blocks of the Framework will be retained but that adjustments would be made to address implementation challenges and ensure international alignment, for example, aligning with the finalised International Sustainability Standards Board Standards.

The finalised Disclosure Framework and accompanying Technical Annex and draft Implementation Guidance will be published in October 2023. The TPT will consult on high-level sector-specific guidance in Q4 2023 and detailed sector-specific guidance in November 2023, with the intention of finalising both in Q1 2024.

See our [At a glance](#) publication for more information.

European Commission adopts sustainability reporting standards

The European Commission (EC) [formally adopted](#) on 31 July 2023 the first 12 European Sustainability Reporting Standards (ESRS) - which set out the detailed reporting requirements for the Corporate Sustainability Reporting Directive (CSRD). Though the adoption will be followed by a period of scrutiny by the European Council and Parliament, they can no longer make changes to the content. This development therefore indicates that the current version of the standards is what the first wave of firms will need to report against from 1 January 2024.

The adopted standards include most of the changes made by the EC in the drafts published for consultation in June 2023 - including the introduction of materiality assessments for the majority of reporting requirements. They also reinstate a requirement for firms to set out where a number of data points are not material, and therefore not reportable.

For more information on what this means for UK-based organisations, please see our [At a glance](#) briefing.

Wholesale markets

FCA unveils plans for a Consolidated Tape

The FCA set out its [proposals](#) for a UK Consolidated Tape (CT) on 5 July 2023. The consultation outlines a proposed framework for a CT for bonds and invites feedback on the criteria for how a CT would operate and the tender process for appointing a Consolidated Tape Provider (CTP).

The paper sets out the FCA's view on the scope and operation of a bond CT and how data will be consolidated and disseminated. In particular, the FCA proposes to have a single CTP per asset class to be appointed through a tender process, and that the CT should cover the same categories of bonds as in scope of the FCA's transparency regime. The FCA also proposes that CTPs will not be required to pay Trading Venues and Approved Publications Arrangements for the data received and it will not require a bond CT to have a revenue sharing model in place with data providers. In addition, the FCA proposes to apply organisational and prudential requirements to CTPs, including rules relating to outsourcing, conflicts of interest, and operational resilience.

The consultation closes on 15 September 2023. The FCA expects to publish a policy statement in December 2023 and issue a request for tender during 2024 ahead of a bond CT being operationalised in 2025. The FCA also highlights a number of questions in its paper to inform its future consultation on the development of a CT for equities expected during 2024.

For more information, please see our [At a glance](#) publication.

UK begins overhaul of Prospectus Regulation

HM Treasury published a near-final [statutory instrument](#) (SI) on 11 July 2023 that will commence the repeal of retained EU law related to the Prospectus Regime and creates a new UK regulatory framework for public offers and admissions to trading.

The SI will deliver a new public offers architecture and give the FCA powers to be able to specify when a prospectus is required and what it should contain, as well as require the issuance of an 'multilateral trading facility (MTF) admission prospectus' by those admitted to trading on primary MTFs that are open to retail investors. The SI will also establish a different liability threshold for certain categories of forward looking statements in prospectuses or MTF admission procedures.

The SI reflects feedback on the illustrative SI that was published in December 2022 as part of the Government's Edinburgh Reforms package. The near-final version accompanied the Chancellor's Mansion House speech delivered on 10 July 2023, in which the Government set out further measures to reform UK capital markets and boost the competitiveness of the UK's financial sector.

The SI represents the first part of the fundamental overhaul of the UK Prospectus Regime, with the FCA responsible for following up with the detailed rules of the new regime. The FCA has issued a series of [engagement papers](#) that set out its initial considerations on aspects of the new public offer and admission to trading regime. The FCA expects to formally consult on rules for the new regime during 2024.

HMT outlines next steps for Short Selling Regulation reform

HMT published its [consultation response](#) to the review into UK Short Selling Regulation (SSR) on 11 July 2023, setting out the next steps for establishing a tailored regime for short selling in the UK. The publication confirms the Government will give the FCA rule-making powers to deliver

the firm-facing aspects of the new UK SSR, as well as sets out the Government's high level response to issues raised in the consultation.

Regarding the overall regime, HMT notes that feedback was supportive of regulating short selling in the UK, in particular the need to restrict uncovered short selling of shares, to promote market transparency and prevent market abuse. As such, HMT confirms plans to give the FCA the ability to make regulations to prohibit uncovered short selling under the new regime. HMT also recognises the importance of the market maker exemption, noting this could be streamlined to lower administrative burdens for firms.

Regarding position reporting and public disclosure, HMT confirms the Government will increase the disclosure threshold from 0.1% to 0.2% of total issued share capital and will implement a new aggregate net short positions disclosure model. As the FCA develops detailed firm-facing rules, HMT expects the FCA to consider the feedback received, for example in relation to the report submission deadline, the lack of information on total issued capital, and FCA's operational arrangements for position reporting.

The publication follows a [consultation paper](#) issued in December 2022 which sought views on the overall functioning of the SSR and how it could be better tailored to UK markets. No timelines are set on when the FCA will consult on new short selling regime's rules.

Government proposes to reform rules for short selling in sovereign debt markets

HMT issued a [consultation](#) on 11 July 2023 seeking views on reform of specific aspects of the UK's Short Selling Regulation (SSR) that relate to sovereign debt and sovereign credit default swaps (CDS). HMT proposes to entirely remove requirements in the SSR currently placed on investors when taking out short positions in sovereign debt or sovereign CDS, and the related reporting requirements. HMT states that it believes these requirements form an unnecessary part of the regime that does not achieve its policy objective. In particular, HMT notes that the current

reporting threshold for sovereign debt means firms are very unlikely to take out a position big enough to be reportable, despite firms having to implement extensive requirements on how to calculate net short positions in sovereign debt. The consultation also proposes to keep sovereign debt and CDS in scope of the FCA's emergency intervention powers, only to be used in exceptional circumstances.

HMT previously [consulted](#) on reform of the wider SSR in December 2022 as part of the Edinburgh Reforms package and published a [response](#) to that consultation in July 2023. HMT noted they would consult separately on proposals that focus on short selling in sovereign debt markets. The consultation closes on 7 August 2023.

Regulators propose extension to bilateral margining requirements exemption

The FCA and PRA issued a [joint consultation](#) on 18 July 2023 proposing to extend the temporary exemption for single-stock equity options and index options from UK bilateral margining requirements. The consultation also sets out the regulators' proposed approach to pre-approving bilateral initial margin models.

The regulators propose to extend the temporary exemption for a further two years until 4 January 2026 to allow the PRA and FCA to undertake deeper policy development of a permanent UK regime for these products. The consultation is open until 18 October 2023. The regulators will then submit updated technical standards to HM Treasury for approval.

FCA sets out MiFID II transaction reporting issues

The FCA published its [Market Watch 74](#) newsletter on 25 July 2023, which focuses on the FCA's recent supervisory observations regarding transaction reporting under MiFID II's Regulatory Technical Standards (RTS) 22 and RTS 23. RTS 22 is on the reporting of transactions to the competent authorities and RTS 23 is on the data standards and formats for financial instrument reference data. The newsletter is broken down into two key

areas - transaction reporting and instrument reference data. The regulator finds that data quality has improved since 2018 but issues remain.

Under transaction reporting, the FCA comments on: reconciliations and breach notifications, identification of investment and execution decision makers, complex trades, transmission agreements, inconsistent price and quantity notations, transactions executed under the rules of a trading venue, looking through the chain of intermediaries, and reporting instrument details. Regarding instrument reference data, the FCA notes observations on late reporting, spot FX instrument and cancelled instrument reference data.

The FCA may undertake further work in these areas.

Technology

HMT consults on the Digital Securities Sandbox

HM Treasury (HMT) set out its proposed approach to delivering a [Digital Securities Sandbox](#) (DSS) in a consultation published on 11 July 2023. HMT invites feedback from industry on the approach to the DSS and seeks feedback on some further policy and legal issues.

The DSS will enable firms to set up and operate financial market infrastructures using innovative digital asset technology, performing the activities of a central securities depository (specifically notary, settlement and maintenance), and operating a trading venue, under a legislative and regulatory framework that has been temporarily modified to accommodate digital asset technology.

These activities will be performed in relation to existing security classes which could either be digitally native issuances or digital representations of existing securities. Limits will be put in place for participating entities, which can be increased as progress is made. These limits will reflect the ability of a participating entity to meet requirements and manage risks.

The intention is that any digital securities issued, traded, settled and maintained via entities in the DSS will be able to interact with wider financial market activities, where this can be done in compliance with existing legislative and regulatory frameworks.

The consultation closes on 22 August 2023 and will inform HMT's next steps which include laying a statutory instrument before Parliament later this year. In parallel, the Bank of England and FCA will publish further guidance, consult on rule changes, and set out the application process.

Banking and capital markets

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Financial stability

BoE outlines macro-economic risks for international banks

Nathanaël Benjamin, Bank of England Executive Director for Authorisations, Regulatory Technology and International Supervision, made a [speech](#) on 3 July 2023, setting out the risks arising from the changing macro-economic environment for international banks. Benjamin said the breakdown of a consensus on the global macro-economic environment could have significant implications for risks arising from private equity and credit markets, as well as repo matched books and structured equity derivatives.

Payments

HMT seeks input on the Future of Payments Review

HM Treasury published a [call for input](#) to inform the Future of Payments Review 2023 on 11 July 2023. The purpose is to assess how payments are made in the future and the steps needed to successfully deliver world leading retail payments, with a focus on 'consumer needs'.

The output of the review provides recommendations for government, financial services regulators and industry and will answer the following three specific questions:

- What are the most important consumer retail payment journeys both today and in the next five years?
- How does the UK consumer experience for individuals and businesses compare versus other leading countries?
- Considering the initiatives and developments in the payments sector, what is the potential that they will facilitate world leading payment experiences for consumers in the UK?

The call for input closes on 1 September 2023. The Government will receive the report and recommendations in autumn 2023.

Prudential

Basel Committee proposes update to banking supervisory principles

The Basel Committee on Banking Supervision (BCBS) published a [consultation paper](#) on 6 July 2023, setting out revisions to its "Core Principles for effective banking supervision".

The Core Principles represent the global minimum standards for the effective prudential regulation and supervision of banks and banking systems. The BCBS began a review in April 2022, with the objective of updating the Core Principles from the previous review in 2012.

The BCBS is proposing changes to both the structure and contents of the Core Principles, to reflect regulatory and supervisory developments across the following areas: financial risks; risk management practices; operational resilience; systemic risk and macro prudential aspects of supervision; new risks, such as climate-related financial risks and digitalisation of finance; and non-bank financial intermediation. The BCBS has underlined the importance for banks in maintaining a robust risk culture and risk management practices, as well as implementing sustainable business models. Specific adjustments have been proposed around corporate governance, to ensure greater focus on culture and values (including alignment with compensation systems); and to ensure boards have appropriate diversity of skills and experience, as well as supporting more effective independence and renewal. The BCBS also places a stronger emphasis on risk culture and risk appetite frameworks, including stress-testing

requirements, as well as enhancing requirements around transactions with related parties.

The deadline for consultation responses is 6 October 2023. The BCBS will then consider responses and publish the finalised Core Principles.

See our [At a glance](#) publication for more information.

BoE confirms resilience of major UK banks

The Bank of England (BoE) [published](#) the results of the 2022/23 annual cyclical scenario stress test for major UK banks on 12 July 2023. The BoE states that the banks would be resilient to a severe stress scenario that was constructed around higher inflation in advanced economies; increasing global interest rates; deep, simultaneous recessions in the UK and other major economies; and falling asset prices. The BoE also states that the 2022/23 stress scenario was more severe than the 2007-8 global financial crisis, and is more severe than the current macroeconomic outlook.

The results showed that all major participating UK banks and building societies would remain above their Common Equity Tier (CET) 1 and Tier 1 leverage hurdle rates, and no firm would be required to strengthen its capital position. The test also assessed the ring-fenced subgroups (RFBs) of selected in-scope banks on a standalone basis, with the result that all four participating RFBs remained above their CET1 and Tier 1 leverage ratio hurdle rates.

Please see our [At a glance](#) publication for more information

PRA to align G-SII identification with Basel framework

The PRA issued a [consultation paper](#) on 27 July 2023, setting out proposals to update the technical standards for the methodology used to identify and set capital buffers for globally systemically important institutions (G-SIIs). The proposals aim to align with changes made by the Basel Committee to its 2022 framework

for assessing the systemic importance of globally systemically important banks.

The proposed updates would include:

- Adding 'trading volume' as a new indicator under the 'substitutability/financial institution infrastructure' category. The PRA states this would ensure that the risk of disruption to trading is captured in firms' scores.
- Updating indicator weights for the 'substitutability/financial institution infrastructure'. The PRA notes that given the addition of 'trading volume' as a new indicator, scores would be now calculated on a weighted average. The PRA proposes that weighting for the underwriter indicator would be halved, with the new indicator for trading volume making up the other half.
- Adding insurance subsidiaries to data consolidation for several indicators. The PRA states this would better capture the loss given default of banking groups.
- Deleting transitional provisions for initial implementation in 2015 as these are no longer relevant.

The consultation closes on 27 August 2023, following which the PRA will finalise the revised technical standards.

Remuneration

PRA proposes Pillar 3 remuneration disclosure changes

The PRA published consultation paper [CP14/23: Pillar 3 remuneration disclosures](#) on 19 July 2023. It sets out proposals to enhance proportionality of Pillar 3 remuneration disclosure requirements, by reducing the number of remuneration disclosures required for many smaller banks and building societies. Currently, banks and building societies are required to disclose certain qualitative and quantitative information on the remuneration awarded to Material Risk Takers in the previous performance year. The information to be disclosed by a firm currently depends on whether it is classified as a 'large institution', a 'small and non-complex institution' or an 'other institution'.

As part of the creation of a simpler prudential regime for smaller firms, the PRA is proposing to reduce the amount of remuneration information which must be published annually by smaller banks and building societies. For some firms, this would mean no longer having to publicly disclose any remuneration information.

The PRA proposes to retain the categories of 'large institution' and 'other institution', and overlay them with the new definitions of 'simpler regime firm' (for prudential regulation purposes) and 'small CRR firm' (for remuneration purposes), which it proposed in earlier consultation papers and intends to finalise later this year.

The consultation closes on 20 September 2023. The PRA intends to publish final rules in Q4 this year, with implementation planned for early in the second half of 2024. Firms with 31 December year-ends would need to apply the new rules for the first time at the start of 2025 in relation to remuneration awarded in 2024.

Retail products

Government bolsters payment account termination rules

HM Treasury issued a [policy statement](#) on 21 July 2023, setting out the Government's planned reforms to payment account contract termination rules. This follows a [Call for Evidence](#) issued in December 2022, and sets out the response to the issue of account termination and freedom of expression.

The Government reiterates its stance that banks and other payment service providers should not terminate payment accounts on grounds relating to users' exercising of their right to lawful freedom of expression. The statement also notes that, given the current lack of clarity on cases of payment account contract termination, the Government believes changes are needed to strengthen the requirements placed on payment account providers to ensure adequate notice and clear rationale is provided to users in cases of termination.

As a result, the Government intends to make changes to existing regulation to:

- Require providers to produce a clear and tailored explanation of why a payment account contract has been terminated.
- Require providers to give at least 90 days' notice when choosing to terminate, unless of a serious and uncorrected breach. The changes also clarify that clauses in agreements purporting to allow termination for other matters (e.g. brand protection) cannot be used to circumvent this.

The Government hopes the changes will reduce the level of ambiguity about when notice periods apply, and ensure users have more time to communicate with their provider, appeal to the Ombudsman, or seek an alternative account. The Government indicates it expects the measures to apply to contracts concluded from the date the changes are brought into effect. The Government states it will formally respond to the wider Call for Evidence later in 2023.

FCA intervenes in cash savings market

The FCA issued the [findings](#) from its review into the cash savings market on 31 July 2023, and outlined a set of expectations and actions that both the FCA and banks will take to address identified concerns. These actions include:

- banks and building societies providing the lowest rates are required to share their fair value assessments with the FCA by 31 August 2023
- firms should accelerate their fair value assessments of off-sale savings accounts ahead of the July 2024 Consumer Duty deadline
- firms must take action to prompt customers in lower paying savings accounts to consider alternatives, including proactive communications and building regular prompts into customer platforms

- firms are required to closely monitor the effectiveness of customer communications, with larger firms having to provide the FCA with an evaluation of this by the end of 2023.

The FCA has committed to:

- review the timing of firms' savings rate changes each time there is a base rate change
- review the effectiveness of firms' customer engagement by the end of March 2024, and take action where firms have not met expectations
- publish an analysis every six months of firms' easy access savings rates, listing distribution from best to worst
- analyse the difference between on-sale and off-sale products, challenging firms to explain any large differences.

The publication coincides with the introduction of the Consumer Duty rules for open products and services and highlights the enhanced standards the Duty sets on firms and the FCA's assertive approach to supervision. The FCA hopes the actions will ensure firms are passing on interest rate rises to savers appropriately, that their communications are effective, and that customers are offered better savings rate deals.

Supervision

PRA updates approach to banking supervision

The PRA [published](#) its updated approach to banking supervision on 31 July 2023, setting out the framework that guides its supervisory engagement with PRA-regulated banks and investment firms. The PRA originally published its approach document in 2012, and has updated this to reflect developments in the PRA's supervisory approach. These include updates to the PRA's potential impact and risks assessment frameworks, as well as horizontal supervisory assessment of cross-sectoral risks

Sustainability

EBA consults on templates for climate-related data

The European Banking Authority [launched a consultation](#) on 20 July 2023 on draft templates and guidance for collecting climate-related data from EU banks. Data includes climate-related and financial information on credit risk, market and real estate data at both aggregated and counterparty levels. The information is part of the [Fit-for-55 climate risk scenario analysis](#) (the results of which expected by end-2024 or Q1 2025). The consultation closes on 11 October 2023.

Asset management

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Fund Liquidity

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Fund liquidity

FCA finds weaknesses in fund liquidity management

On 6 July 2023, the FCA published findings from a [multi-firm review](#) into Authorised Fund Managers' (AFMs') liquidity management frameworks. It also published a [Dear CEO Letter](#) communicating the review's key findings. The FCA found a wide variation in the depth of firms' liquidity management expertise and the quality of compliance with regulatory standards. Most firms were found to have the potential to perform liquidity management well, but most fell short in some aspects of their liquidity management framework. The review focused on governance, liquidity stress testing (LST), redemption processes, liquidity management tools and valuation processes, with the regulator setting out shortcomings and good practice for each area. The FCA found that many firms did not give liquidity management enough weight in their frameworks and governance structures, including board and committee-level discussions. It also found that some LST approaches were inadequate in assessing the portfolio's actual liquidity.

While the review focused on AFMs, the FCA expects all asset managers and managers of Alternative Investment Funds (AIFs) to consider what the findings mean for their business. The FCA also states that firms should consider their liquidity management practices with the Consumer Duty in mind.

The findings of this review will be included in future supervisory work. The FCA will consider whether to consult on adjusting liquidity management rules and guidance in future (e.g. as set out in [DP 23/2: Updating and improving the UK regime for asset management](#)).

For more information, please see our [At a glance](#) publication.

Insurance

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Conduct

FCA tells insurers to improve support for customers in financial difficulty

The FCA [published](#) findings of its review into how general insurance firms are meeting its expectations on supporting customers in financial difficulty on 3 July 2023. The FCA urges firms to consider its findings in the context of compliance with the Consumer Duty. For example, the FCA shares concerns that several firms were unable to provide sufficient data on the number of vulnerable customers they were supporting. The FCA also finds there is more work for firms to do on identifying vulnerable customers, and to articulate how each firm in a distribution chain has considered its own approach to vulnerability. Further, the FCA finds some firms were unable to show that they had the necessary information to monitor consumer outcomes, and that more work was needed to improve information flows between intermediaries and manufacturers.

The FCA refers to its recent [warning](#) to firms about undervaluing insured items, and confirms it is taking action against firms that it found were offering lower prices than fair market value for motor claims settlements. The FCA also shares some examples of good practice. This includes allowing forbearance before cancelling a policy for non-payment of premiums.

Alongside its review findings, the FCA published [finalised guidance](#) for insurers on how they should support their customers. The guidance is effective from 31 July 2023 and provides further clarity to firms about what they should do if they identify customers who are in financial difficulty. This includes reassessing the risk profile of customers, and signposting customers to available support. The FCA will continue to monitor how firms meet its cost of living support expectations.

See our [At a glance](#) publication for more details

Prudential

PRA opens application window for recalculation of TMTP

The PRA [announced](#) on 17 July 2023 that it will accept applications from firms to recalculate Transitional Measure on Technical Provisions (TMTP) as at 30 June 2023. In the PRA's view, movements in risk free rates during 2023 meet the threshold for a material change in market conditions as set out in SS6/16, potentially leading to a change in risk profile for firms. In their applications, the PRA expects firms to be able to demonstrate that a material change in risk profile has occurred.

Supervision

PRA updates approach to insurance supervision

The PRA [published](#) its updated approach to insurance supervision on 31 July 2023, setting out the framework that guides its supervisory engagement with PRA-regulated insurance firms. The PRA originally published its approach document in 2012 and has updated this to reflect developments in the PRA's supervisory approach.

These include updates to the PRA's potential impact and risks assessment frameworks, as well as horizontal supervisory assessment of cross-sectoral risks.

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