

# Government announces sweeping Edinburgh Reforms

## AT A GLANCE

December 2022

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### What's new?

- The Chancellor set out a [substantial package](#) of regulatory and tax reforms on 9 December 2022, advancing a set of 30 policy initiatives designed to support the Government's vision for an open, sustainable, technologically advanced financial services sector that is globally competitive.
- Referred to as the 'Edinburgh Reforms', the announcements bring together new and existing regulatory initiatives in a suite of policy papers, consultations and responses, and commitments for future work.
- The package builds on the reform measures introduced through the Financial Services and Markets Bill (FSMB), as well as makes further statements regarding UK's regulatory architecture, in particular the remit and objectives of the regulators.

### What does this mean?

- To be introduced through the FSMB, the Future Regulatory Framework fundamentally changes the UK's regulatory architecture, transferring rule making powers to the regulators while conferring on them new objectives for growth and international competitiveness.
- In order to manage the transition of EU retained law into the regulator's rule book, the Edinburgh reforms provide a [summary](#) of the Government's approach to 'tranching', setting out the sequencing of the highest priority reforms over the course of 2023. In tandem, to strengthen the accountability of regulators, the Government also issued new remit letters to the [FCA](#) and [PRA](#), detailing targeted recommendations for how regulators should have regard to government policy.
- The Edinburgh Reforms introduce substantive policy developments across the financial services sector, focusing on areas industry have identified as particularly burdensome or where innovation and competition can be supported.

### Ring-fencing

- Following the Skeoch review recommendations, the Government

announced its [plans](#) to consult in 2023 on removing banks without major investment banking activities from the regime and reviewing the deposit threshold for being in scope of the requirements. The Government will also assess the practicalities of aligning the ring-fencing and resolution regimes, as well as other reforms of the ring-fencing regime.

### Senior Managers and Certification Regime

- There will be a review of the Senior Managers & Certification Regime in Q1 2023, assessing areas where the regime could be reformed.

### Wholesale Markets

- In addition to existing Wholesale Markets Review measures, there will be reviews of [short selling](#), [securitisation](#) and [prospectus](#) regulations, and the removal of certain [MiFID reporting rule requirements](#). An [Accelerated Settlement Taskforce](#) aimed at exploring how trades can be settled faster, will be established as well as a new class of wholesale market venue that will operate on an intermittent trading basis. The Government has also committed to introducing a UK consolidated tape regime by 2024.

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- The wider package also brings forward a [consultation](#) outlining plans to revoke Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation and replace with a tailored UK disclosure regime, as well as a [consultation](#) proposing to remove unnecessary customer information requirements related to bank accounts.
- The Government also [announced](#) its intention to legislate to amend building societies' funding model and corporate governance requirements, providing building societies with greater flexibility to raise wholesale capital.

## Pensions and Tax

- The package addresses structural pension reforms, seeking to increase the consolidation in DC pension schemes, committing to consult in early 2023 on new guidance on Local Government Pension Scheme asset pooling, and removing 'well-designed' performance fees from the pensions regulatory charge cap.
- From a tax perspective, the Government set out its [consultation](#) on reforms to the VAT treatment of fund management, and plans to improve tax rules for REITs from April 2023.

## Sustainability

- Sustainability continues to be a focus for the Government as the Reforms set a commitment to publish an updated Green Finance Strategy in early 2023, as well as a consultation in Q1 2023 on proposals to bring ESG rating providers into the regulatory perimeter.

## Technology and innovation

- Similarly, future-proofing regulation to embrace technology and innovation was a driver behind a

number of announcements. To enable this, the Government [confirmed](#) its intention to expand the Investment Manager Exemption to include cryptoassets as well as set up a Financial Market Infrastructure Sandbox in 2023. The Government also confirmed the imminence of its consultation on a UK retail CBDC, however did not provide an update on its planned broader consultation on a UK crypto regime.

## Consumers

- Finally the announcements brought forward measures aimed at supporting and protecting consumers. In particular, the Government published its trailed [consultation paper](#) on reforms to modernise the Consumer Credit Act, and confirmed its commitment to work with the FCA in considering the boundaries between financial 'advice' and 'guidance for the investment advice sector.

## What do firms need to do?

- The Edinburgh Reforms represent one of the most substantial packages of financial services regulatory change in recent years and firms should take time to digest the detail of many of the announcements.
- While reforms to advance the competitiveness of the UK are welcome, firms should be mindful of the volume and pace of regulatory change that will be introduced in the upcoming years and ensure they are sufficiently prepared to manage this evolution.
- Firms should consider the strategic and operational challenges this regulatory change will bring, particularly for those firms operating in both the EU and UK.

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## Next steps

Many of the Edinburgh reform announcements represent the beginning of the legislative and regulatory change process. Further consultations, policy statements, and responses will be expected from HMT and regulators over the course of 2023-2024.

[www.pwc.co.uk/regdevelopments](http://www.pwc.co.uk/regdevelopments)

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