Linklaters

UK and EU Financial Regulation Outlook 2026 – Wholesale Banking





Introduction

As we assemble the key regulatory developments coming to the financial services space in 2026, we see them falling into three main themes:

I. the changing role and use of regulation in the political landscape,

II. regulation for the management of risk and the control of instability, and

III. the need for regulation to keep pace with rapid technological change.

Political pressures – both domestic and international – drive more varied and sometimes interventionist approaches to regulatory policy, reflecting shifting social and economic priorities. At the same time, the persistent threat of financial crises and market instability has reinforced the need for robust frameworks designed to identify, manage, and mitigate risk across the sector. Finally, unprecedented advances in technology, including artificial intelligence, digital assets, and complex payment systems, are challenging regulators to adapt their rules and supervisory methods to ensure they remain relevant and proportionate but effective. These three themes are distinct but also deeply interconnected, each influencing how financial regulation evolves in the year ahead.

Read on for a birds' eye view of how these themes feature in **wholesale banking regulation** over the course of 2026, and beyond.

And explore our US Financial Regulation Outlook to compare US trends with the UK and EU.

Text in magenta links to further Linklaters content on the development described – click through to understand the subject in more detail.



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Contents

Financial Regulation's 2026 Top 10 – Wholesale Banking

The changing role of regulation

01 | EU and UK wholesale markets reform 06

02 | UK's Smarter Regulatory Framework 09

03 | Sustainable finance 10

Regulation for risk and control

04 | Prudential developments 12

05 | Conduct, culture, intervention and enforcement 13

06 | Retail investor focus 14

07 | Financial crime 15

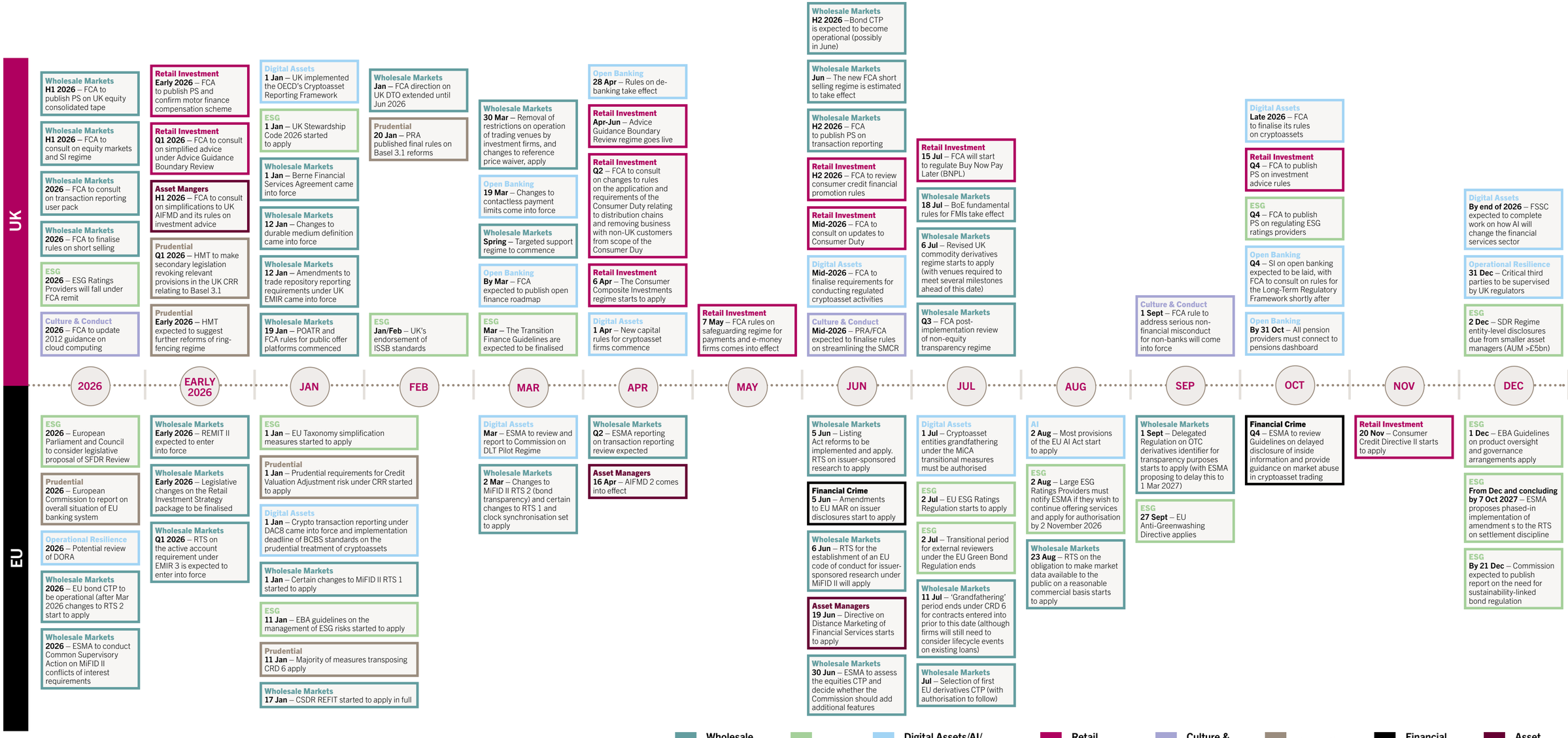
Regulation to keep pace with technology

08 | Digital assets and tokenization 17

09 | AI regulation and operational resilience 18

10 | Open banking and open finance 19

Financial regulation: key upcoming events for 2026



01 | EU and UK wholesale markets reform

1.1 MiFID – EU and UK

The year ahead will see firms implement and embed many of the key changes flowing from the EU MiFID Review and UK Wholesale Markets Review, while reviews of UK and EU transaction reporting regimes are set to conclude. Our AFME & Linklaters joint implementation guide to these reforms has recently been updated. New initiatives (such as the Savings and Investments Union, including its significant Market Integration Package) will be developed. There is a sense of regulators in both the UK and the EU seeking to recalibrate rules to be more efficient and proportionate, as both markets focus on reducing costs and increasing savings and investments to deliver economic benefits.

Key highlights for 2026 include:

Transparency regimes

2026 will see continued implementation and embedding of the new non-equity and equity transparency regimes.

EU

Many changes to equity and bond transparency requirements, and enhanced clock synchronisation requirements, apply from March 2026. ESMA recently submitted its final proposals on the derivatives transparency changes, proposing that these should apply from March 2027.

UK

The new bond and derivatives transparency regime and removal of the non-equity systematic internaliser (SI) regime commenced in December 2025 (although firms have until 27 March 2026 to put in place systems changes to reflect the latter), with a review of the equity SI regime due in H1 2026.

New market infrastructure

Consolidated tape providers will start operating in both markets, as bond CTPs have now been selected in both the UK and EU, with the EU also selecting its first equity CTP. Market participants will consider whether and how to use CTP data feeds and put in place arrangements to connect.

EU

The tender for the derivatives CTP started in early 2026 and is set to complete in July. The bond and equity CTP will be authorised in 2026, with a view to the bond CTP being operational this year.

UK

The FCA will finalise its rules and tender criteria for the UK equity CTP and commence the tender process. The bond CTP is due to be authorised and become operational during June 2026.

PISCES, the new intermittent trading platforms for secondary trading of unlisted shares, will be tested in its regulatory sandbox.

Best execution and order execution policies

EU

We await publication of the new RTS on order execution policies in 2026 which will prompt reviews of execution policies and procedures.

UK & EU

Beyond that, the availability of CTP data in both the UK and EU will require firms to consider whether this new data source should be included in best execution processes.

Investment research

EU

The new joint payment option for research and execution fees and new RTS on issuer-sponsored research apply from June 2026.

UK & EU

As joint payments will then be possible in both the UK and EU, this may prompt managers to review global research payment models, with sellside firms needing to be ready to support this.

Commodity derivatives regimes

EU

The Market Integration Package (which forms part of the Savings and Investments Union) includes proposed changes to commodity derivatives requirements.

UK

2026 will see the overhauled UK commodity derivatives regime commence in July, with firms having to renew exemption applications before then. Changes to the ancillary activities exemption were finalised in December 2025 and will apply from January 2027.

Transaction reporting

Both markets are undertaking comprehensive reviews of transaction reporting regimes (beyond MiFIR).

EU

ESMA will report on its comprehensive review by mid-2026 (with interim proposals due in Q1 2026). Work on legislative changes will follow.

UK

The FCA will finalise its proposed rule changes in H2 2026, will consult on guidance in a user pack and will commence work on more comprehensive streamlining of MiFIR, EMIR and SFTR reporting requirements during the year.

Retail Investment Strategy and Savings and Investments Union

Political agreement was reached on the Retail Investment Strategy package in December 2025, although the legislative changes are to be finalised in early 2026. The recent Commission proposals on the Market Integration Package include many proposals in the wholesale markets space and will be a key focus for firms in 2026. These proposals include a new Pan-European Market Operator (PEMO) licensing regime for trading venues, which would allow operators to set up and operate multiple EU regulated markets, MTFs or OTFs under a single PEMO licence. Other proposals in the package include expanded ESMA supervisory powers (including powers to suspend cross-border passports and to impose significant fines), changes to post-trade transparency requirements, the tick sizes regime and enhancements to the EU equity CTP (including requirements for equity systematic internalisers to submit pre-trade data to the equity CTP).

UK Wholesale Markets Review and EU MiFIR/MiFID II Timeline

January 2026

UK

1 Mar – HM Treasury published consultation response to the Wholesale Markets Review. Read more.

1 Mar – HMT laid SI to reduce requirements for **ancillary activities exemption** from licensing.

3 May – FCA published policy statement on **UK equity transparency requirements and post-trade designated reporting regime**. Read more.

Jun – Financial Services and Markets Act 2023 received Royal assent (and was published on 7 Jul). Read more here and here.

5 Jul – FCA final guidance on the **UK trading venue perimeter**. Read more.

29 Aug – Certain **FSMA 2023** provisions (inc deletion of UK STO and DVC) entered into force, with other provisions applicable once HMT issues commencement regulations.

20 Dec – FCA PS on **UK bond CTP**. Read more.

29 Feb – FCA published final report in **Wholesale Data Market Study**. Read more.

2 Apr – FCA confirmed that **UK CTP providers** will not need to contribute to data providers' connectivity costs.

29 Apr 2024 – UK **designated reporter regime** started to apply for post-trade reporting in all asset classes. Remaining changes to UK **equity transparency requirements** applied.

1 Aug – New option to make joint **payments for investment research** and execution started to apply. Read more.

5 Nov – FCA PS on new **UK transparency regime for bonds and derivatives** and **SI definition**. Read more.

5 Feb – FCA PS on **UK commodity derivatives regime**. Read more.

31 Mar – Deletion of **non-equity pre-trade transparency requirements** for SIs and RFQ/voice trading systems effective.

9 May – New fund manager option to make **joint payments for investment research** and execution started to apply.

10 Jun – PISCES Sandbox commenced and FCA PS on rules for PISCES platforms published. Read more.

30 Jun – Changes to **post-trade risk reduction services** and scope of DTO started to apply. Read more.

30 Jun – FCA CP on **targeted support** inc **advice/guidance boundary**, with draft HMT SI published 15 Jul.

3 Jul – HMT draft legislation and FCA CP on **ancillary activities exemption/test** published (closed 28 Aug). Read more.

4 Jul – FCA CP on removing **non-equity SI obligations** and DP on **equity SI regime** (closed 10 Sep). Read more.

15 Jul – FCA PSs on **POATR** and on rules for **public offer platforms**. Read more here and here.

15 Jul – Mansion House/ Leeds reforms announced. Read more.

Q3 – Selection of first **UK bond CTP** (with authorisation to follow).

23 Oct – Re-write of **MiFID Org Regulation** into FCA Handbook & PRA Rulebooks effective.

19 Nov – FCA CP on **UK equity CTP** (closing 13 Feb 2026). Read more.

21 Nov – FCA CP on UK **transaction reporting** regime (closing 20 Feb 2026). Read more.

28 Nov – FCA PS on **UK non-equity SI regime**.Read more.

1 Dec – New **UK transparency regime for bonds and derivatives**, changes to **SI definition** and deletion of non-equity **SI obligations** started to apply.

8 Dec – FCA CP on **client categorisation** and **conflicts of interest** (closing 2 Feb 2026). Read more.

19 Dec – FCA PS on **ancillary activities test**. Read more.

Jan 2026 – FCA direction on **UK DTO** extended until Jun 2026.

19 Jan 2026 – POATR and FCA rules for **public offer platforms** to commence.

30 Mar 2026 – Removal of restrictions on operation of trading venues by investment firms, and changes to reference price waiver, apply.

Spring 2026 – Targeted support regime to commence.

6 Jul 2026 – Revised **UK commodity derivatives regime** to apply (with venues required to meet several milestones ahead of this date).

H1 2026 – FCA PS on **UK equity CTP**.

H1 2026 – FCA CP on **equity SI regime**.

H2 2026 – FCA PS on **transaction reporting**.

During 2026 – FCA CP on **transaction reporting** user pack.

Ca. Q3 2026 – FCA post-implementation review of new **non-equity transparency regime**.

1 Jan 2027 – Revised ancillary activities exemption/test starts to apply.

2027 – UK equity CTP expected to be operational (FCA may publish aggregated equity market data in interim).

2022	2023	2024	2025	2026/2027

EU

Aug – ESG enhancements to suitability assessments, risk management, organisational rules and conflicts of interest rules started to apply.

23 Sep – ESMA published **final MiFID II suitability guidelines** reflecting ESG enhancements. Read more.

22 Nov – ESG enhancements to **product governance requirements** started to apply.

2 Feb – ESMA published final opinion on the **trading venue perimeter**. Read more.

27 Mar – ESMA published final **MiFID II product governance guidelines** reflecting ESG enhancements. Read more.

16 May – Amendments to MiFIR RTS 1 and 2 published in the OJ. Read more on RTS 1. Read more on RTS 2.

24 May – Commission published **EU Retail Investment Strategy** proposals, with impact well beyond retail. Read more.

24 May – ESMA final opinion with guidance on **market outages**.

11 Jul – ESMA published supervisory briefing on **MiFID II definition of advice**.

3 Oct – Revised ESMA **product governance and suitability guidelines** started to apply.

20 Mar 2024 – European Parliament agreed negotiating positions on **Retail Investment Strategy**. Read more.

Mar 2024 – EU MiFID Review changes to MiFID II/ MiFIR published in the OJ on 8 Mar. Read more. Changes entered into force on 28 Mar. MiFIR amendments directly applicable from 28 Mar, subject to transitional provisions. European Commission and ESMA published clarifications on the application timeline for certain MiFIR amendments on 27 Mar. Read more.

Jun – Council finalised its compromise positions on **EU Retail Investment Strategy**. Read more.

22 Jul – ESMA announced asset class taxonomy and process for **designated publishing entity regime**. Read more.

14 Nov – Listing Act package published in OJ.

3 Feb – Designated publishing entity regime started to apply.

Mar – Trilogues commenced on **EU Retail Investment Strategy**.

Mar/Apr – Commission communication and consultation on **Savings and Investments Union** inc impacts on MiFID requirements and **Retail Investment Strategy** package.

3 Apr – Fourth ESMA CP following **MiFIR amendments** covering **derivatives transparency**, package orders and inputs/outputs for the derivatives CTP. Read more.

9 Apr – Final ESMA advice to Commission on Level 2 **investment research changes**.

10 Apr – ESMA submitted final draft RTS on **order execution policies** (with 18 months transitional period proposed). Read more.

10 Apr – ESMA submitted final draft ITS on SI notifications, RTS 3 (volume cap) and RTS 7a (inc circuit breakers) following **MiFIR amendments**. Read more.

27 Jun – ESMA issued CfE on comprehensive review of **transaction reporting regime** and feedback received on ESMA CPs on RTS 22 (transaction reporting) RTS 23 (reference data) and RTS 24 (order book data). Changes to these RTS are delayed pending the review. Read more.

3 Jul – ESMA selected first EU **bond CTP**.

29 Sept – RTS 3 (volume cap) and RTS 7a (inc circuit breakers) set to apply (see Apr 2025 final report).

29 Sep – Deadline for Member States to implement changes to MiFID II following **EU MiFID Review**.

9 Oct – Move from double to **single volume cap** mechanism.

9/10 Oct – Commission delay of Level 2 acts under **simplification and burden reduction programme**. ESMA clarificatory statement.

10 Oct – Revised ESMA Level 3 guidance manual on **transparency requirements** published.

22 Oct – ESMA final report on **issuer-sponsored research**.

3 Nov – OJ publication of RTS 1 (Read more), RTS 2 & RCB RTS (Read more) and CTP-related & clock synch RTS (Read more) following **MiFID II / MiFIR Review**, with some changes applicable from 23 Nov and others phased in.

25 Nov – Commission approval of delegated act on **post-trade risk reduction services**.

Dec – Selection of first **EU equity CTP** (with authorisation to follow).

3 Dec – Commission legislative proposals in respect of Savings and Investments Union.

4 Dec – Commission CP on **investment research** changes to MiFID II DR. Read more.

15 Dec – ESMA final report on RTS related to **derivatives transparency**. Read more.

17 Dec – Trilogues in **Retail Investment Strategy** concluded (with legal text to be agreed in early 2026). Numerous delegated acts, Level 2 and 3 measures to follow.

1 Jan 2026 – Certain changes to **RTS 1** set to apply.

By Q2 2026 – ESMA report on **transaction reporting** review expected.

2 Mar 2026 – Changes to **RTS 2** (bond transparency), certain changes to **RTS 1** and RTS on **clock synchronisation** set to apply.

5 Jun 2026 – Listing Act reforms (inc joint payment option for investment research) to be implemented and apply (Read more). RTS on issuer-sponsored research to apply.

During 2026 – EU **bond CTP** to be operational (after Mar 2026 changes to RTS 2 start to apply).

During 2026 – ESMA to conduct Common Supervisory Action on MiFID II conflicts of interest requirements.

During 2026 – ESMA CSA on **conflicts of interest**.

Jul 2026 – Selection of first **EU derivatives CTP** (with authorisation to follow).

23 Aug 2026 – RBC RTS set to apply (9 months after OJ publication).

1 Sep 2026 – Delegated Regulation on **OTC derivatives identifier** for transparency purposes due to apply (with ESMA proposing to delay this to 1 Mar 2027).

1 Jan 2027 – Certain changes to **RTS 1** set to apply.

1 Mar 2027 – Derivatives transparency changes proposed to apply.

1.2 EMIR – EU and UK

EU

During 2026, we will see continued implementation of EMIR 3 in the EU, as well as developments on new initiatives focused on market integration.

EMIR 3 – Active account requirement

RTS on the active account requirement are expected to enter into force in Q1 2026. It is hoped that regulators will provide further clarity on aspects of these rules which have been identified by the industry as giving rise to uncertainty.

In a key milestone for the active account requirement, ESMA is mandated to assess its effectiveness in meeting its objective of reducing dependency on certain third country CCPs by 25 June 2026. The Commission will then consider whether further measures are required.

EMIR 3 – Information on clearing activity at third country CCPs

Draft RTS and ITS providing for annual reporting by clearing members and clients of clearing activity conducted at third country CCPs are expected. ESMA has issued guidance indicating that firms will need to prepare for compliance with these requirements from December 2026, with 2025 data to be included in that reporting cycle.

EMIR 3 – Changes to the clearing thresholds

Final draft RTS amending the clearing thresholds were due to be published by ESMA by 25 December 2025, but have been delayed. These are still expected to enter into force during 2026. Entry into force of these technical standards will trigger changes to the calculation methodology for the purposes of the clearing thresholds. It is not yet clear how counterparties will be expected to implement these changes.

EMIR 3 – Margin transparency requirements for cleared derivatives

We also anticipate final draft RTS under EMIR 3 setting out detailed requirements for the initial margin simulation tool and information that CCPs, clearing members and clients providing clearing services will be required to provide to their clients.

EMIR 3 – Initial margin model validation for uncleared derivatives

The EBA is preparing for its role in validating initial margin models under EMIR 3 and will establish a central validation function for initial margin models in 2026. It plans to announce the start of its first ISDA SIMM model validation in Q1 2026. Market participants using ISDA SIMM will have already been required to notify changes to the model to their NCA.

The EBA is also expected to consult on revised RTS on initial margin model validation for certain credit institutions and investment firms with significant positions in non-centrally cleared derivatives.

EMIR 3 – Exemption from clearing for post-trade risk reduction (PTRR) transactions

While EMIR 3 introduced an exemption from clearing for PTRR transactions, use of this exemption is, in practice, dependent on detailed requirements to be set out in RTS. Although mandated for delivery by 25 December 2025, publication of these RTS was postponed by ESMA to 25 June 2026, with ESMA expected to conduct a consultation beforehand.

Market Integration Package

Work on the Commission's Market Integration Package is also expected to begin, with proposals including significant reform of the supervisory regime for EU CCPs under EMIR.

UK

UK Smarter Regulatory Framework

As part of the Mansion House announcements in July, the Bank of England began the UK EMIR "lift and shift" process, consulting on the restatement of CCP-specific aspects of UK EMIR in the Bank's rulebook for FMIs. Final rules are expected to be published during 2026.

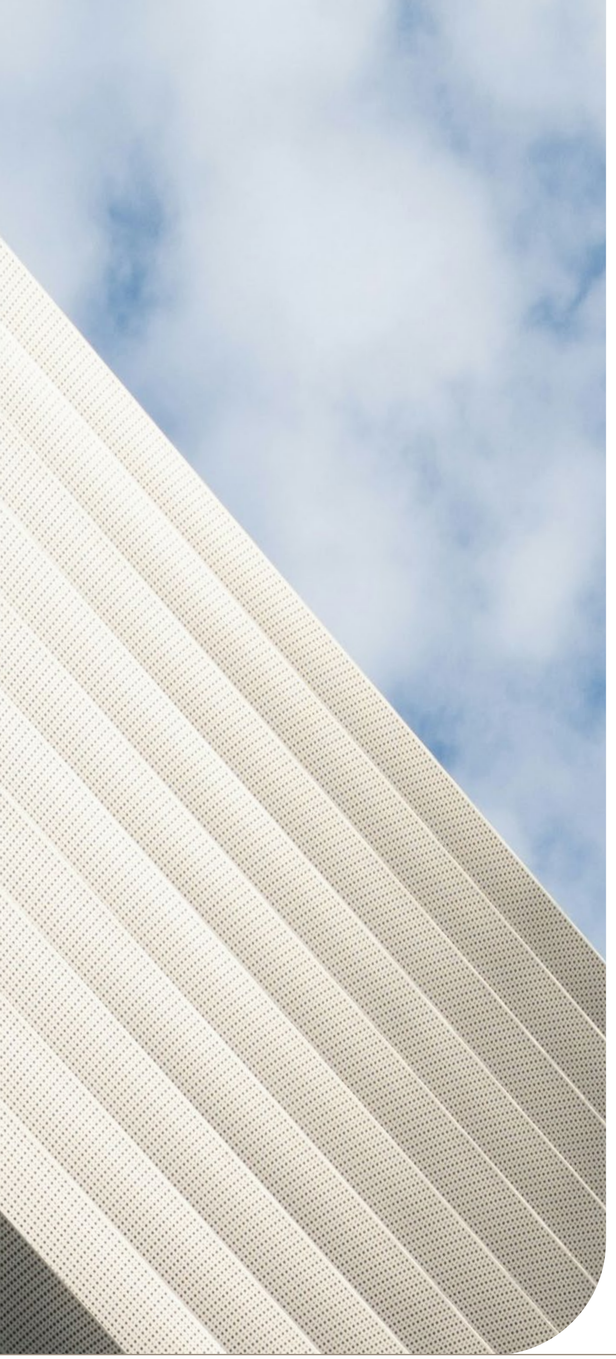
The Government has also announced its intention to prioritise the review of remaining aspects of UK EMIR, and we expect to see the regulators consult on these rules early in 2026.

Changes to the intragroup exemption framework

A new long-term framework for exemptions from clearing and margining for intragroup transactions is to be introduced before the expiry of the existing temporary regime for counterparties in non-equivalent jurisdictions at the end of 2026. These changes are expected to remove the requirement for an equivalence decision to obtain permanent exemption, and to streamline the current exemption process.

Exemption from clearing for PTRR transactions

The Bank of England is currently consulting on proposals for an exemption from clearing for transactions relating to PTRR services. This follows publication by the FCA of final rules exempting PTRR transactions from the derivatives trading obligation in July 2025. The consultation is open until 11 March 2026.



1.3 Clearing and settlement

EU CSDR REFIT

CSDR REFIT, which entered into force in January 2024, made significant changes to the mandatory buy-in (MBI) regime. This will now only apply as a measure of last resort, meaning that the Commission may only introduce MBI in respect of a particular transaction or security type when other measures have failed and settlement fails threaten EU financial stability. Other aspects of the settlement discipline regime, including the cash penalties regime, remain in place but are currently subject to amendment proposals of their own and we may see further developments on this in 2026.

T+1 transition

Under T+1 settlement, securities trades settle one business day after execution, halving the current T+2 cycle. This compresses post-trade processing from roughly 24 hours to as little as 2-4 hours. This creates operational challenges, however it benefits investors through reduced default risk, quicker access to funds, improved liquidity, and lower margin requirements, aiding in the delivery of key objectives of the EU's savings and investments union (SIU).

This risk reduction mechanism is already implemented in the US, Canada, Mexico and Argentina, and will be expected to be brought into effect in the UK, the EU and Switzerland on 11 October 2027.

EU

The current position in the EU is a T+2 settlement cycle for transferable securities under the CSDR.

The Commission's proposal to move from T+2 to T+1 was agreed in the course of 2025 and came into force in November – providing legal certainty on the October 2027 move date.

ESMA has prepared RTS which were published in October 2025 and make significant updates to the operational processes firms will be required to implement in order to comply with T+1. It has also undertaken work on a dedicated governance structure involving the Commission, the ECB and industry participants to support the transition to T+1 (known as the T+1 roadmap).

UK

In February 2025, the UK Government committed to legislation to bring T+1 into effect. From 11 October 2027, all transferrable securities traded on a UK trading venue and settled on a UK central securities depository (unless exempted) will be required to settle on a T+1 basis. The list of exempted transaction types will be expanded (as in the EU) to include securities financing transactions.

In November, the Government published its draft statutory instrument illustrating how it will deliver this commitment, alongside a policy note which explains the approach taken. The Government is consulting on the draft SI until 27 February 2026, and notes that it "intends to lay the final SI in advance of 11 October 2027, allowing ample time for appropriate legislative processes and Parliamentary scrutiny to take place beforehand and to provide early certainty for the sector."

The FCA expects all impacted firms to be able to explain in detail how they are preparing to support the transition to T+1 settlement. It notes 2026 as the year to start making changes to systems and processes in line with the recommendations made by the UK Accelerated Settlement Taskforce.

02 | UK Smarter Regulatory Framework

Steady progress on re-working former EU regulations

The Financial Services and Markets Act 2023 hands extensive powers to the Government to reshape UK financial regulation. FSMA 23 sets up the repeal of EU-derived legislation (known as assimilated law) for financial services so that it can be replaced by regulator-made rules. Several laws have already been through this process, including the UK MiFID Organisational Regulation which now exists in the FCA's Handbook and PRA Rulebook.

The pace of the repeal and replacement of assimilated law slowed in 2025 relative to previous years. HM Treasury has already reformed over half the assimilated law for which it is responsible. Working through the remainder will take longer as it includes more complex and interconnected regulatory regimes.

Areas to watch in 2026 include:

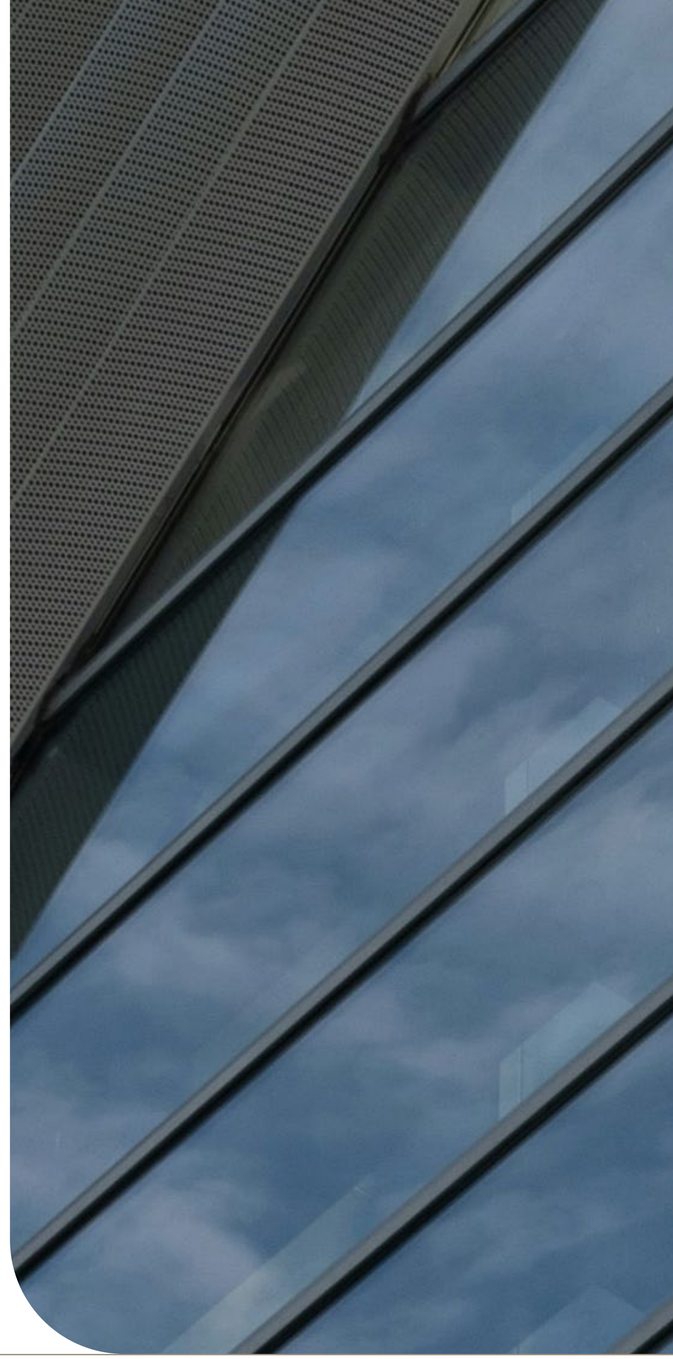
- **Short selling:** The UK Short Selling Regulation will be repealed in June 2026. A new legislative regime will take its place but some aspects will fall away, such as the rules for UK sovereign shares and credit default swaps. The FCA will finalise its replacement rules in April and introduce them in June, with transitional provisions in place to accommodate operational changes.
- **PRIIPs:** A new regime for consumer composite investments will replace the UK PRIIPs Regulation. The FCA has finalised its approach following two consultations on the CCI framework. Its policy statement (PS25/20) explains that manufacturers may opt into the CCI regime from 6 April 2026, otherwise the new rules come into effect on 8 June 2027.
- **Basel 3.1:** On 20 January 2026, the PRA published its final rules for its implementation of the remaining Basel 3.1 standards. The main deadline for switching to the new rules is 1 January 2027. The PRA has consulted on delaying the implementation of the internal model approach for market risk by an additional year.
- **AIFMD:** HMT has consulted on simplifying the regulatory framework for alternative investment fund managers. This will ultimately lead to the repeal and replacement of the UK implementation of the AIFMD. HMT will consult on draft legislation in early 2026. Meanwhile, the FCA will respond to its 2025 call for input on the future regulation of AIFMs.
- **Payment services:** The Government has committed to commencing the revocation of the strong customer authentication regulations to allow the FCA to replace it with a more outcomes-based regime. A Payments Forward Plan will shortly set out steps for this and wider reforms to payment services rules.
- **EMIR:** HMT and the Bank of England began the "lift and shift" of UK EMIR with consultations on the restatement of CCP-specific aspects of these rules. Final rules are expected to be published during 2026. The Government has also announced its intention to prioritise the review of remaining aspects of UK EMIR, and we expect to see the regulators consult on these rules early in 2026.
- **Benchmarks:** HMT plans to reform the Benchmarks Regulation to reduce the regulatory burden on UK firms. It has started the process with a consultation paper. The consultation proposes limiting the future regime to benchmarks that pose systemic risk. It would also reform market access for overseas benchmarks. Current transitional provisions expire in 2030. The EU has already simplified its benchmarks regime.
- **A new Bill?** Several initiatives from the 2025 Leeds Reforms require primary legislation. A Financial Services Bill could, therefore, be included in the next King's Speech. This could introduce reforms to, for example, SMCR, the ring-fencing regime and the Financial Ombudsman Service.

More tinkering and tailoring

As more parts of the UK regulatory framework exist in the FCA's rulebook rather than the statute books, firms will need to keep a close eye on the impact of edits to those rules. Handbook notices and quarterly consultations, which have historically made relatively technical tweaks, are making more substantive policy changes.

We provide tools to help our clients manage post-Brexit regulatory changes. Get in touch with us to hear about:

- our FSMA 23 tracking services, and
- Linklaters Law Compare, a tool which provides a comparison of UK and EU regimes for MiFID, MAR and EMIR.



03 | Sustainable Finance

Streamlined corporate disclosure requirements

EU

In February, the first Omnibus package shook up corporate sustainability reporting under CSRD and CSDDD.

Omnibus makes substantive changes to both directives, including a significant reduction to the number of in-scope companies and removal of the transition plan disclosure from CSDDD. Follow the developments in this tracker.

In the Omnibus trilogues, political agreement was reached in December 2025. Key elements of the deal are explained here.

In respect of CSRD, key elements include:

> EU companies and non-EU listed issuers will be in scope, if they have more than 1000 employees during the financial year and a net turnover of EUR 450 million on their balance sheet dates – on a solo basis;

> EU companies and non-EU listed issuers that are parent companies in scope as above, but the tests apply on a consolidated basis to the group;

> Article 40a ultimate non-EU parent company scoping thresholds - a non-EU ultimate parent company will be in scope if (i) the group overall derives more than EUR 450m turnover from the EU for each of the last 2 consecutive years; and (ii) its largest EU subsidiary, or an EU branch, exceeds a net turnover of EUR 200 m in the preceding financial year;

> Financial holding undertaking exemption has been introduced for "financial holding undertakings" whose sole object is to acquire holdings in other undertakings and to manage such holdings and turn them to profit, without involving themselves directly or indirectly in the management of those undertakings (without prejudice to their rights as shareholders) if their subsidiaries have business models and operations that are independent from one another. The Recitals make clear the intention was for this exemption to be narrowly interpreted, and transposition of this exemption into Member State laws will need to be carefully monitored.

For CSDDD, key elements include:

> EU companies will be in scope if they have more than 5000 employees and a net worldwide turnover of more than EUR 1.5 billion in the last financial year;

> Ultimate EU parent companies will be in scope if they have more than 5000 employees on average and a net worldwide turnover of more than EUR 1.5 billion in the last financial year across the group on a consolidated basis;

> Non-EU companies will be in scope if they generate a net turnover from the EU of more than EUR 1.5 billion in the financial year preceding the last financial year;

> Ultimate non-EU parent companies will be in scope if they generate a net turnover from the EU of more than EUR 1.5 billion in the financial year preceding the last financial year, across the group on a consolidated basis;

> Mandatory transition plan obligation has been deleted but the CSRD transition plan disclosure obligations will still apply to firms that remain in scope of CSRD;

> CSDDD start date has been deferred to 26 July 2029.

UK

The move from TCFD- to ISSB-aligned corporate reporting for listed issuers (UK SRS) is progressing.

The FCA's consultation on changes to the UK Listing Rules for UK SRS was finally published on 30 January 2026. The FCA intends to finalise its rules in 2026 (subject to the outcome and timing of the Government's final UK SRS endorsement decision), with a view to them coming into force on 1 January 2027 and applying to accounting periods beginning on or after that date.

The Government's consultation papers on UK SRS, on building an assurance framework and on what to do about transition plan disclosure closed in September with publication of finalised versions of UK SRS S1 and UK SRS S2 expected in early 2026.

All change for product level disclosure

EU

The proposed SFDR amendments, published in November, signal significant changes including a new product categorisation framework (replacing articles 8 and 9), very strict limitations on ESG marketing and disclosures for uncategorised products, the removal of portfolio management and investment advice from scope of the entity level requirements for PAI reporting.

There's long way still to go – SFDR 2.0 is unlikely to be finalised until mid-2027 and applicable from around mid to late 2028.

UK

Extension of FCA's SDR labels to portfolio management services and OFR funds is paused, although work on SDR is expected to recommence in 2026.

First SDR entity reports were due by the end of 2025. FCA continues to apply high standards for SDR labels but its approach has relaxed since the regime's inception – as the FCA's understanding of products and the market has evolved.

Data transparency: regulation imminent for UK and EU ratings providers

EU

The EU's ESG Ratings Regulation applies from 2 July 2026.

ESMA is working on RTS to provide detail on authorisation and compliance, although these RTS are on the Commission's list of de-prioritised Level 2 measures meaning they will not be adopted until October 2027.

UK

The Government and the FCA have prepared the UK's legislative and regulatory regime regulatory regime for this space, with law laid in November 2025. The FCA's proposed rules have been published

in December, with more detail on the authorisation process and the conduct obligations – including in relation to transparency obligations and conflicts management – that will apply to ESG ratings providers.

The UK statutory instrument includes helpful exemptions from the regime, including amendments to the existing overseas persons exemption and a new exemption for firms providing ESG ratings in the course of other regulated activities. This provides clarity on scope e.g. to investment firms that produce ESG ratings as part of their investment research and is more clear-cut that the EU's equivalent that includes complex territorial aspects and retains a disclosure obligation even if availing of the exemption.

The UK regime will go live by 29 June 2028. FCA authorisation can be sought from June 2027.

Identifying and managing climate and environment risk

EU

The ECB is tightening oversight of climate and environmental (C&E) risks. In 2025, 28 banks were censured, one fined, and two warned over shortcomings.

In 2026, ECB thematic reviews and stress tests will move towards the inclusion of climate risk in risk management and Pillar 2 processes. In the Aggregated Results of the 2025 SREP, the ECB confirmed its 2026 focus on financial institutions embedding these risks meaningfully into decision-making frameworks, including promoting sustainable finance.

The EBA's ESG risk management guidelines apply from 11 Jan 2026, with CRD VI scenario analysis guidelines following on 1 Jan 2027 to allow time for alignment.

UK

The PRA has replaced Supervisory Statement 3/19 with the new SS 4/25 – Enhancing banks' and insurers' approaches to managed climate-related risks. This SS contains a lot of detail in relation to the expected governance and risk management framework. PRA regulated firms are given until early June to assess the uplift needed to meet the new expectations and make a plan for implementation, which must be "credible and ambitious".

Transition plans

The role and status of transition plans remains uncertain, with clarity hoped for in 2026.

EU

Transition plans and associated disclosure requirements feature in CSRD, CSDDD and CRD VI.

CSRD requires entities to disclose their transition plan or explain its absence; Omnibus leaves this intact.

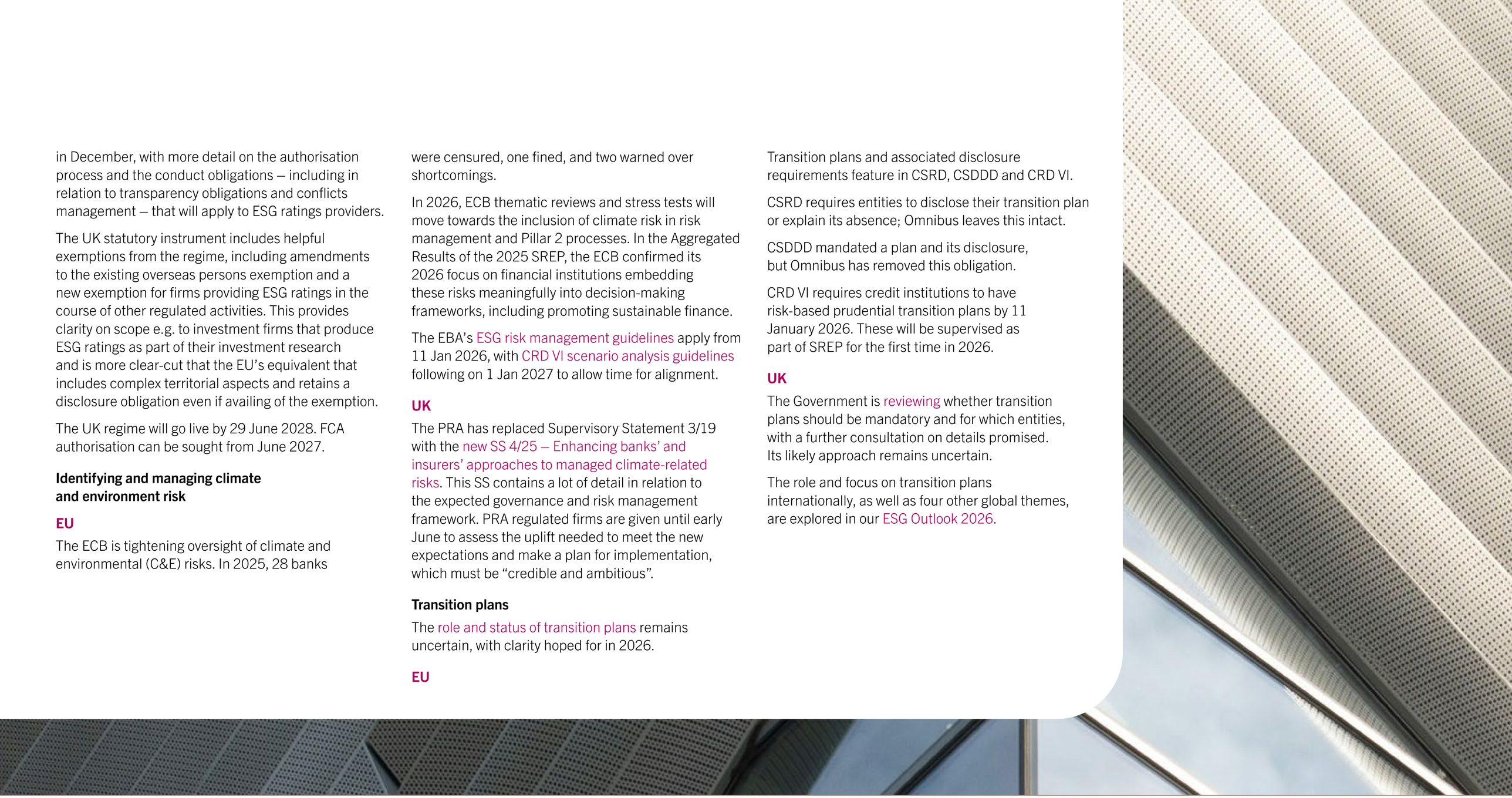
CSDDD mandated a plan and its disclosure, but Omnibus has removed this obligation.

CRD VI requires credit institutions to have risk-based prudential transition plans by 11 January 2026. These will be supervised as part of SREP for the first time in 2026.

UK

The Government is reviewing whether transition plans should be mandatory and for which entities, with a further consultation on details promised. Its likely approach remains uncertain.

The role and focus on transition plans internationally, as well as four other global themes, are explored in our ESG Outlook 2026.



04 | Prudential developments

EU

Capital Requirements Directive VI updates

The new CRD VI Article 21c restricts non-EU entities from providing cross-border core banking services into the EU and requires branches to be established in each EU jurisdiction where they provide those services. There are some narrow exemptions for certain services (including services provided to EU banks, intragroup services, reverse solicitation and services which are ancillary to MiFID investment services) and 'grandfathered' contracts to protect clients' "acquired rights" in contracts entered before 10 July 2026. Compliance is required from 11 January 2027. Member states must have implemented CRD VI into national law by 10 January 2026.

Further details are available in our publication here, including approaches to compliance. An explanation of the challenges this poses to direct lending funds is here.

CRD VI also introduces new liquidity and capital endowment requirements for EU branches of non-EU banks/firms which are intended to apply from 11 January 2027.

Implementation of FRTB standards

Although CRR III implemented the bulk of Basel 3.1 in the EU on 1 January 2025, the remaining standards on the fundamental review of the trading book (FRTB) will take effect from 1 January 2027. The overhaul of the standardised approach and the models-based approach are designed to increase risk sensitivity through sensitivities calculations and expected shortfall metrics, respectively.

Resolution funding access for small and medium-sized banks

Proposals to revise the crisis management and deposit insurance (CMDI) framework for EU banks mainly aim to bolster resolution processes for small and medium-sized banks by improving their access to resolution funding (similar to the amendments introduced to the UK resolution regime by the Bank Resolution (Recapitalisation) Act 2025). The EU Council and the European Parliament recently reached a political agreement to implement these reforms, with formalisation into law to come. A timeline for implementation is yet to be confirmed.

Targeted improvements to the EU Securitisation Framework

The EU Commission's proposed amendments to the EU Securitisation Regulation, the EU Capital Requirements Regulation and the EU LCR Delegated Regulation target improvements to the existing securitisation framework rather than a radical overhaul, and include slimmed down disclosure requirements for originators and sponsors, a less onerous due diligence regime for investors and a more beneficial prudential capital and liquidity treatment of senior securitisation positions for EU banks. Further details are available in our publication here.

It is unclear when the amendments become effective, but they are under review with a proposed timeline of 18-24 months for finalisation.

UK

Progress on the implementation of Basel 3.1 Reforms

The final rules for Basel 3.1 were published on 20 January 2026, ahead of the implementation of the bulk of the regime on 1 January 2027. There were no substantive changes to the near-final rules previously published by the PRA. Preparing for the new regime will no doubt be an area of significant focus for affected firms in 2026. Further details on the near-final rules are available in our publication here.

Revised MREL requirements

The Bank of England revised its statement of policy on its approach to settling a minimum requirement for own funds and eligible liabilities (MREL), which took effect on 1 January 2026. Now, firms with total assets between £25-40bn (increased from £15bn-25bn) may be subject to transfer or bail-in (depending on other factors, such as technical feasibility), and firms with total assets over £40bn will be subject to bail-in (other than in exceptional circumstances). Bail-in firms will be required to meet end-state MREL of twice their minimum capital requirements (MCR) (or the international TLAC standard minima, if greater), whereas transfer firms will have MREL set at the level of their MCR. Transitional periods apply for meeting such MREL requirements. Further details of these amendments and other changes, including the eligibility of MREL instruments, are available in our publication here.

Leeds Reforms introduce review of Ring-fencing Regime

The Chancellor confirmed in the Leeds Reforms announced in July 2025 (our summary here) the Government's plans to modernise the UK financial services sector, including by reforming the ring-fencing regime. A report reviewing the regime is due in early 2026.

Increased Leverage Ratio Limits

The retail deposit threshold which determines whether a firm is subject to the leverage ratio requirements increased from £50 billion to £75 billion on 1 January 2026.

05 | Conduct and culture, interventions and enforcement

Conduct and culture

FCA is extending non-financial misconduct (NFM) rules to non-banks and has published additional handbook guidance on the application of COCON and FIT where NFM is alleged. The guidance has been broadly welcomed, however, assessing the consequences of NFM remains highly fact-sensitive. Demonstrating how difficult it remains for the FCA to enforce in this space, Crispin Odey is challenging the FCA's decision to fine and ban him for his actions in response to NFM allegations against him (the referral will be heard in March 2026). Rather than enforce on the basis of the alleged NFM itself, the FCA is enforcing more straightforwardly on the basis of a lack of integrity (Odey having allegedly deliberately attempted to frustrate a disciplinary process regarding his alleged NFM).

July saw the FCA, PRA and HMT issue consultations beginning a phased reform of the SMCR. The FCA and PRA are considering minor changes as part of 'Phase One' with more significant revisions following in 'Phase Two' once HMT has made changes to the legislation underpinning the regime. Firms have welcomed some of the initial changes – particularly proposals to liberalise the 12 week rule – however concerns remain about the potential compliance cost of phased changes. We should see confirmation of the Phase One changes in 2026. The challenge for regulators in Phase Two will be to construct an administratively balanced, risk-based regime that delivers an appropriate level of accountability. Little meaningful progress is likely to be made here until HMT agrees and delivers on the necessary changes to FSMA.

Interventions and enforcement

Regulators are honing their caseloads, per governmental pressure to prioritise economic growth. The FCA is conducting selective and swift enforcement and assertive supervisory action, prioritising financial crime and fraud; its caseload has steeply declined. The PRA is enforcing largely reactively and prioritising speed (touting its Early Account Scheme as a useful tool).

Yet as the regulators' caseloads shrink, their perimeters grow. The PRA has already exercised (against Vocalink) its new powers against FMIs; and a cryptoasset regulatory regime will commence in 2027.

Financial crime. A key focus: preventing serious organised crime using financial services firms and laundering money through capital markets. AML enforcement continues apace with recent fines against Barclays, Monzo and Nationwide. FCA Supervision is executing its Modular Assessment Proactive Programme (MAPP) (and SMAPP on sanctions, expected next to report in early 2026).

Market conduct. Recent personal account dealing enforcement against Wizz Air's CEO demonstrates the important to regularly refresh PDMR training. Meanwhile the Upper Tribunal upheld action against three traders for bond futures spoofing; the decision illustrates the importance of making contemporaneous records of trading intentions.

Other focus areas:

- Transaction reporting remains a concern. 2025 saw the FCA's first enforcement action for MiFIR reporting failures.
- The PRA action against George Hambro (Wyelands Bank former NED) shows how NEDs' SMCR obligations flex with the nature of their involvement in the firm's dealings.
- The FCA is concerned about non-compliance with firms' policies governing use of off-channel communications. The risk here was illustrated by the CMA's fines of four banks for exchanging pricing and trading information about UK government bonds.
- Following the Supreme Court's decision, the FCA will shortly establish an industry-wide motor finance redress scheme. Firms in scope have expressed significant concerns about the scope and methodology the FCA has proposed.

Common themes in recent enforcement actions

Inadequate resourcing.

Lack of clarity re roles and responsibilities.

Ineffective risk management frameworks.

Failure to escalate concerns.

Inadequate policies/procedures.

Poor governance/oversight by SMFs, committees and boards.

Failure to remediate effectively.



06 | Retail investor focus

UK Consumer Duty

The FCA's streamlining project – which seeks to identify rules that can be replaced with reliance on the Consumer Duty – was supercharged in 2025 following HM Treasury's request in July that it report on the impact of the Duty on wholesale activity. The flexibility inherent in the Duty, lack of real guidance on application in the wholesale space and absence of definitions of terms like 'distribution chain' and 'material influence' have generated considerable uncertainty. HMT has been receptive to complaints that this is generating compliance drag and hindering growth.

The resulting letter identifies a range of proposals which will now be wrapped into its broader streamlining workstream. These include work on the rules and guidance governing application across the distribution chain and extraterritorially, plus changes to make it clearer where the Duty does not apply. The FCA will publish a significant consultation on the Duty in H1/H2 2026, and has already published a supervisory statement to assist firms in understanding its approach to co-manufacturing.

We saw the first output from the streamlining project in October when the FCA confirmed its relaxation of the AoV reporting process for fund managers. The FCA, FOS and HMT also issued consultations in July on reforms aimed at reestablishing consistency in FOS determinations, reducing uncertainty and cementing the FCA's role as the sole arbiter of its rules and guidance. Reforms to the mortgage rules and Consumer Credit Act are underway. FCA work to streamline the investment disclosure regime concluded in December, when the FCA published its final rules on a new, more flexible regime for 'consumer composite investments'.

FCA supervisory work on the Duty continues. 2025 saw a focus on complaints handling, the treatment of vulnerable customers and customer support. It has also undertaken specific studies into the pricing of international payments and CFD providers' provision of price and value. The FCA expects firms to consider whether lessons from reviews of other sectors also apply to their operations. Headline points: the FCA wants firms to focus on getting governance right (including effective monitoring), evidencing where they have taken action (and demonstrating that this had delivered results) and considering value holistically.

Client Categorisation

Firms are concerned that the current rules on client categorisation are no longer fit for purpose and may prevent some sophisticated retail customers from accessing investments that might benefit them. The FCA has published a CP outlining proposed changes to the regime. These include a new purely wealth-based assessment, the removal of the current 'quantitative test' and a more 'outcomes focused' enhanced qualitative assessment. To protect consumers, the FCA proposes to no longer allow customers to self-assess their knowledge and experience. The FCA expects firms to reassess the categorisation of existing clients within one year of the new rules going live.

In the EU, as part of the Retail Investment Strategy (RIS) package, changes to client categorisation requirements (including opt-up criteria for elective professional clients) have been agreed in trilogues.

Any change in client categorisation requirements will likely require significant implementation work, as numerous systems and controls will be impacted. Firms with a pan-European footprint will also need to assess divergence once the rule changes in both markets have been finalised.

Targeted Support

Around seven million UK adults with £10,000+ in cash savings may be missing out on the benefits of investing. The FCA and Treasury's joint Advice Guidance Boundary review aims to plug this gap. The FCA has now published near final rules and guidance for the delivery of targeted support to retail consumers. The new rules will take effect on 6 April 2026 once targeted support becomes a new regulated activity.

Retail Investment Strategy & Savings and Investments Union

On 17 December 2025, the EU co-legislators reached political agreement on the Retail Investment Strategy following negotiation of their differing RIS positions (although the legal text is still to be finalised in early 2026). The RIS package was impacted by the Commission's Savings and Investments Union (including the impactful Market Integration Package) and the desire for simplification and burden reduction. Alongside the agreed changes to client categorisation requirements (see above), the political agreement on the RIS package includes enhancements to inducement requirements (without the ability for Member States to goldplate these, while allowing Member States to impose partial or complete inducement bans).

On value for money (VFM), the EU has agreed a different approach to that mandated under the UK Consumer Duty, with the RIS introducing different VFM requirements under MiFID (which envisages peer group comparison) and IDD (which envisages EU supervisory benchmarks and the availability of national benchmarks for a period). With respect to PRIIPs KID requirements, the RIS will result in the introduction of a new "product at a glance" section, alongside the introduction of a personalisation tool and, potentially in the future, a comparison tool (although we will have to await the legal text on all of these).

Once the Level 1 changes are finalised, work will commence on the more detailed Level 2 requirements. These reforms will require significant implementation work by firms, with firms operating across EU and UK markets having to assess how to bridge divergences to build systems and processes in compliance with both regimes.

07 | Financial Crime

Financial crime

Financial crime remains a leading FCA priority area, with the use of regulated firms as a vehicle for financial crime a key focus. Regulators expect firms to manage financial crime risks holistically, emphasising the importance of broadening risk management to consider UX design of internal controls, integrating AML data firm-wide, and enhancing inter-firm collaboration.

The FCA has upscaled its data-led detection capability, driven in part by its Modular Assessment Proactive Programme, which reviews specific risks across several firms simultaneously. Future topics for review include KYC/onboarding controls, correspondent banking and cash deposits. Its sanctions-specific programme – specifically testing the robustness of sanctions systems and controls – focused first on branches of foreign headquartered firms before continuing through different sectors, with its next guidance publication expected in early 2026.

Tailoring is crucial – a multi-firm review found that few firms are adapting their business-wide risk assessments to their specific organisations, whether in relation to staff training or surveillance systems. Off-the-shelf solutions will rarely be sufficient here.

In January, the FCA concluded that firms were underestimating the risk of money laundering through the markets. It found firms considering customer activity in isolation, rather than assessing this in the context of broader money laundering risks, other KYC data and red flag alerts. The regulator sees firms over-relying on others in the transaction chain to conduct appropriate due diligence.

AML enforcement remains a key priority. Barclays was fined £42m and required to pay £6.3m in redress for deficiencies in client onboarding and ongoing monitoring. Nationwide was fined £44m after the FCA concluded it has ineffective risk assessments and CDD refresh policies, as well as inadequate transaction monitoring.Growing firms must ensure their controls scale appropriately with business expansion. Monzo was the latest rapidly expanding firm whose processes, systems and controls failed to keep pace with growth, resulting in a £21m fine.

To protect customers against online scams and fraud, the FCA is undertaking a cross-industry multi-firm project on fund flows/APP fraud. It has also done significant work to address financial promotions (including on social media), encouraging firms to prioritise risk assessment, prevention, customer education and victim support.

The Government has published draft legislation amending the Money Laundering Regulations, including changes to cryptoasset regulation, customer due diligence and trust registration. In Europe, a new pan-EU AML supervisory body (AMLA) is now operational. From 1 January 2028, it will directly supervise 40 large, high-risk EU financial institutions. A new AML Regulation will also take effect from 1 July 2027, replacing the previous AML Directive and establishing a single rulebook to harmonise national provisions and close regulatory gaps.

Market conduct

The FCA's plan for tackling market misconduct and abuse centres upon predictability, proportionality and purpose. High on the priority list: trading with "obfuscated overseas aggregated accounts", where the identities of the ultimate beneficial owners are unknown. Other areas of supervisory focus include actions by firms to prevent organised crime using spread-betting and CFDs and to mitigate flying and printing risks.

The FCA is streamlining UK transaction reporting obligations, with EMIR changes made in 2025 and MiFID changes expected in 2026. Recent Market watch publications have encouraged firms to consider their governance around market abuse surveillance and data, improve data governance and control frameworks and ensure prompt remediation of issues. Sigma Broking was fined £1.09m in August for failing to submit accurate transaction reports. Transaction monitoring systems and alerts could also be better tailored to capital markets activity.

The Upper Tribunal upheld the FCA's decision to fine and ban three ex-Mizuho traders for spoofing Italian bond futures. The decision has implications for compliance efforts by all market participants, including how individual traders maintain records of their trading strategies.

The FCA is concerned that it often sees information about mergers and acquisitions in the press before the news reaches Regulatory Information Services, creating an uneven playing field for investors. Demonstrating its commitment, the FCA fined former Wizz Air executive András Sebők £123k after traded in Wizz Air shares without internal clearance or notifying the FCA. This was the first FCA fine for breaching the ban on PDMRs dealing in a closed period.

Market soundings require careful handling. The FCA used a recent Market Watch publication to remind firms to mitigate the risk of sharing market sounding information with individuals at the Market Sounding Recipient that the gatekeeper has not wall-crossed.

IOSCO's final report on pre-hedging, published in November 2025, contains high-level recommendations and guidance which (although not binding unless implemented locally by regulators) firms may wish to consider when reviewing their pre-hedging processes.

Market conduct in the EU's wholesale energy markets

EU REMIT II, which amends the original text of the EU Regulation on Wholesale Energy Market Integrity and Transparency (REMIT), was published in the Official Journal of the EU on 17 April 2024 and entered into force on 7 May 2024. However, the EU authorities have decided to adopt a phased implementation, which began in earnest during 2024 but slowed down in 2025.

2026 looks like it will be a more newsworthy year for EU REMIT. In particular, the revised REMIT Implementing Regulation on data reporting is expected to be adopted in Q1 2026. Following implementation, market participants will be expected to carry out periodic reporting of gas storage contracts with duration of more than 12 months and of hydrogen transactions.

Q1 2026 should also bring with it the adoption of the REMIT Delegation Regulation on Inside Information Platforms ("IIPs") and Registered Reporting Mechanisms ("RRMs"), which will set out a framework for authorisation, organisational requirements and supervision of IIPs and RRMs.

ACER also considers publication of the REMIT Delegation Regulation on thresholds for inside information to be a key 2026 priority. We understand ACER and the Commission are currently considering their approach to a number of areas in this context, including whether there should be a different inside information threshold for natural gas vs. electricity, and also whether there should be one pan-European threshold per commodity, or if there are arguments for regional / national level thresholds. It also remains to be seen whether these thresholds will be set out in absolute, relative or descriptive terms.



08 | Digital assets and tokenisation

Cryptoasset activities will attract more regulation

EU

As transitional measures end, more parts of the EU's Markets in Crypto-Assets Regulation will start to apply. Providers of crypto-asset services have until either 31 December 2025 or 1 July 2026 to seek a MiCA licence, depending on where in the EU they are based. Banks and other firms authorised under other EU financial frameworks must notify their regulators before they start to provide cryptoasset services.

MiCA's rules on issuers already apply. Banks are permitted to make public offers of cryptoassets and seek their admission to trading on EU trading platforms but when doing so must meet MiCA's requirements, such as on the content and form of white papers.

As at the end of November 2025 there were no MiCA-authorised asset-referenced tokens, around 30 e-money tokens, over 500 other cryptoassets and around 100 licensed cryptoasset service providers.

Things to look out for in 2026 include:

- the interaction between MiCA's stablecoin rules and payment services regulation,
- the regulatory approach to multi-issuer stablecoins, and
- the progress of the Commission's proposals under the Market Integration Package to centralise the supervision of cryptoasset service providers by ESMA..

UK

The Government has brought forward the legislation which will regulate cryptoasset activities which develops the previous draft. As well as setting key definitions and regulated activities, the law determines the regime's territorial scope.

The FCA will finalise the rules that apply to cryptoassets. Its crypto roadmap suggests that it will publish all its policy statements in 2026. This means that concluding several consultations on a diverse range of topics, including a crypto market abuse regime, trading platform requirements, how the FCA Handbook will apply to cryptoasset activities and the application of the Consumer Duty to cryptoasset activities , including consulting on proposed specific guidance.

The new cryptoasset regulatory regime will start to apply on 25 October 2027. Even though the final rules are still to be set, the FCA is encouraging firms to start preparing for the regime now. It will open its gateway for firms to submit licence applications or variations of permission on 30 September 2026 giving firms a five-month window, until 28 February 2027, to apply. Firms can still apply after this date but will not benefit from the advantages of the application period.

Get in touch with us for access to our January 2025 webinar on the UK's cryptoasset regulatory regime. The prohibition on banks issuing stablecoins to retail users remains in place for now, unless done through a separate insolvency-remote entity with distinct branding.

The Bank of England will consult further on its regime for systemic stablecoins. This follows its current consultation which closes on 10 February 2026. The Bank has proposed setting holding limits, prohibiting interest and setting requirements for backing assets.

The BCBS has proposed standards which would apply a conservative capital treatment for banks' cryptoasset exposures (although preferential treatment is potentially available for cryptoassets that meet certain conditions). The PRA will consult on its approach in Q4 2026.

Regulators encourage tokenisation experiments

EU

The EU's DLT Pilot Regime provides a controlled environment for testing distributed ledger technology in the trading and settlement of financial instruments. Two years into the regime, only three DLT market infrastructures had been authorised. This has prompted calls for changes, including enabling continuity of operations beyond the pilot regime, which the Market Integration Package seeks to address.

UK

The UK's Digital Securities Sandbox allows for experimentation with novel market infrastructure models within a live, regulated environment. More flexible than the EU's DLT pilot regime, the DSS Regulations give the regulators broad powers to make, amend and waive rules for sandbox entrants.

One example of an asset using the Sandbox is the Digital Gilt Instrument. DIGIT, as it is known, will be a digitally native debt instrument issued by the UK Government and transferable on a DLT platform.

The FCA will finalise its policy on fund tokenisation in H1 2026. This will include guidance for operating a tokenised fund and a new direct to fund regime.

Work on digital currencies continues

EU

The ECB has completed the investigation and preparation phases for the digital euro. It will now build and test technical systems. EU legislators will debate the regulation which would make the digital euro legal tender. If this legislation is made in 2026, the ECB expects a pilot exercise to start in 2027 and, potentially, the first issuance of the digital euro in 2029.

UK

The Bank of England and HMT are developing a blueprint for the design of a potential digital pound. They will decide on next steps for the project in 2026.

Separately, the Bank has been exploring various avenues to support wholesale settlement in central bank money for a wider range of asset markets and transaction types. The Bank plans to develop "synchronisation capability" under its renewed Real Time Gross Settlement (RTGS) system to support this. As part of that initiative, the Bank plans to launch a Synchronisation Lab in 2026 to allow prospective synchronisation operators to experiment with synchronisation solutions.

09 | AI regulation and operational resilience

Regulating AI using new and existing rules

EU

The EU AI Act's regime for providers and deployers of high-risk AI systems was going to start applying in 2026. Instead, the Commission's proposed AI Omnibus suggests delaying the high-risk rules to 2 December 2027. It also suggests removing the AI literacy requirement in its current form.

A wider Digital Omnibus complements the AI Omnibus. It includes changes to the GDPR to address the legal basis for training AI systems on internet content.

As the Omnibuses work their way through the legislative process, financial services firms should continue to balance implementing other aspects of the AI Act (e.g. on transparency and prohibited use cases) with ongoing financial regulation compliance.

UK

The UK's light-touch approach to AI regulation looks set to continue in 2026. The Government has suggested that it would regulate companies developing the most powerful AI models. This will not be a UK version of the EU's AI Act. Any UK Bill will likely focus on transparency of safety standards and should not directly impact financial services.

The Bank of England may put forward rules seeking to mitigate systemic risks arising from AI adoption. Its Financial Policy Committee has previously warned of AI increasing correlations or procyclical decision-making in financial markets.

A Parliamentary committee has tasked the FCA with providing AI guidance for firms. In its report on AI in financial services, the Treasury Committee says that the FCA should publish comprehensive, practical guidance for firms on the application of consumer protection and individual accountability rules to their use of AI.

In the meantime, the FCA will continue to encourage testing of AI through its AI Lab. It has previously confirmed that its outcomes-based rulebook is broad enough to oversee AI risks in the financial sector. Its supervision will focus on the operational resilience and senior manager oversight of AI, as well as monitoring the use of AI agents. In January 2026, the FCA launched a review and a call for input seeking feedback on how AI could evolve by 2030. The review will report to the FCA Board in the summer with recommendations on how the FCA can help shape AI-enabled financial services.

Catch up on our 2025 AI in financial services webinar series:

- Defining your AI system
- What you need to do to prepare for high-risk AI rules
- Applying operational resilience rules to AI
- What to do when AI goes wrong

Putting operational resilience into practice

EU

Implementation of the Digital Operational Resilience Act is complete, apart from some ongoing contractual talks between EU financial entities and their ICT service providers.

Now that the rulebook is finalised, attention turns to how different regulators are supervising and enforcing the regime. The initial focus is on reviewing contracts with third parties, improving the quality of DORA registers and scrutinising reports of ICT- and payments-related incidents to regulators.

Next on the horizon is the outcome of the EBA's consultation on guidelines for third party arrangements. This could trigger a two-year process of updating contracts with non-ICT suppliers, including financial service providers.

The European Supervisory Authorities have designated the first 19 critical ICT service providers. Supervision of these firms will ramp up in 2026. More firms could be designated in autumn 2026.

Meanwhile, firms are tracking the transposition of the NIS2 Directive and looking ahead to the Cyber Resilience Act to cover off any cyber rules which could impose obligations in addition to DORA.

Firms are also waiting to see what changes the EBA makes to its outsourcing guidelines. In a 2025 consultation the EBA proposed extending their scope to cover all non-ICT third party arrangements. This could trigger a repapering exercise and a DORA-style register regime.

UK

The new operational incident and third party reporting regimes will start to apply in 2026. Firms will need to build systems and processes to provide more information to the regulators about incidents and their arrangements with third party service providers.

HM Treasury will start to designate critical third parties in 2026. Among other things, designated CTPs will need to have a playbook for recovering from operational incidents. Get in touch to access our guide to the UK's critical third party regime.

The Cyber Security and Resilience Bill will make its way through Parliament seeking to tighten the UK NIS regime. The Home Office looks set to move forward with its policy on ransomware, imposing new reporting requirements and, in some cases, prohibiting ransom payments. Explore our cybersecurity handbook.



10 | Open banking and open finance

Setting up the long-term future for Open Banking

EU

The third iteration of the EU Payment Services Directive will become law in 2026. Most current obligations on payment service providers will move into a regulation and apply directly to firms in Member States rather than via national laws.

PSD3 introduces several reforms to payments regulation. These include requiring banks to:

- stop certain practices that discriminate against Open Banking service providers,
- build online dashboards so that customers can manage data access permissions, and
- reimburse customers in cases of fraud, including impersonation scams.

Meanwhile, banks based outside the euro area need to prepare for receiving and sending instant payments. The next deadline is 9 January 2027.

UK

A Committee bringing together HM Treasury and the regulators will seek to deliver the Government's National Payments Vision. The Committee has already shared its strategy for the future retail payments infrastructure. Its Payments Forward Plan will sequence next steps.

The Plan will include updating Open Banking so that it is a smart data scheme under the Data (Use and Access) Act. A priority is for the FCA to develop a framework that allows for a more sustainable economic model. This could unlock more investment in innovative functionality. The Government has already pinpointed the potential for using Open Banking to grow the use of account-to-account payments at point of sale. HMT will lay a statutory instrument before the end of 2026 and the FCA will then consult on new rules for the long-term regulatory framework for Open Banking.

Work continues on the consolidation of the Payment Systems Regulator into the FCA. In the meantime, the PSR will consider the effectiveness of its policy on authorised push payment fraud following an independent review. The Government will update its counter-fraud strategy. It is not expected to try to hold tech firms liable for scams, despite calls from the financial services industry to do so.

Banks have until 28 April 2026 to prepare for new rules on de-banking. The changes to contactless payment limits will come into force on 19 March 2026. The FCA will also consult on introducing a more outcomes-based approach to strong customer authentication rules.

A critical year for Open Finance

EU

After several twists and turns, the EU will settle its open finance policy. FIDA, as the proposed regulation for financial data access is known, had come under pressure from the Commission's simplification agenda.

The final version risks pleasing no one. Despite attempts to narrow its scope, the regulation is drafted to cover several types of financial product for both retail and wholesale use cases. The overall timetable is likely to be extended but, following its experience of implementing Open Banking, the industry may still question whether this is enough time to agree the necessary data-sharing standards across a wider range of products.

UK

HMT and the FCA will release a roadmap for rolling out Open Finance in Q1 2026. The roadmap will envisage the FCA using its new powers under the Data (Use and Access) Act to set up smart data schemes.

One of the first schemes off the ramp will focus on lending to small and medium-sized enterprises. The rules for sharing data relating to SME lending could be ready by 2027.



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