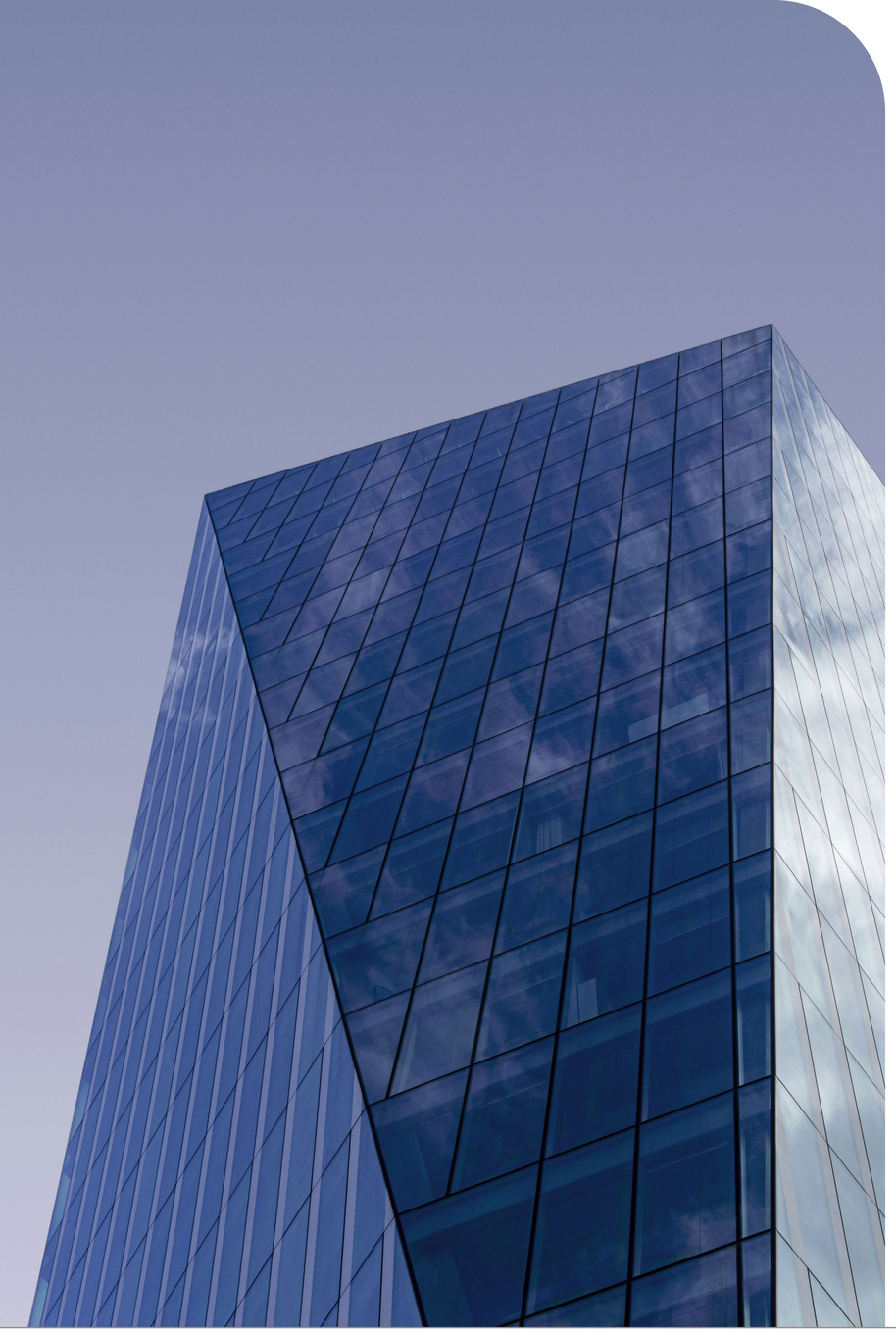
Linklaters

UK and EU Financial Regulation Outlook 2026 – Asset Management





Introduction

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

- regulation for the management of risk and the control of instability, and
- the changing role and use of regulation in the political landscape, and
- 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 **asset management 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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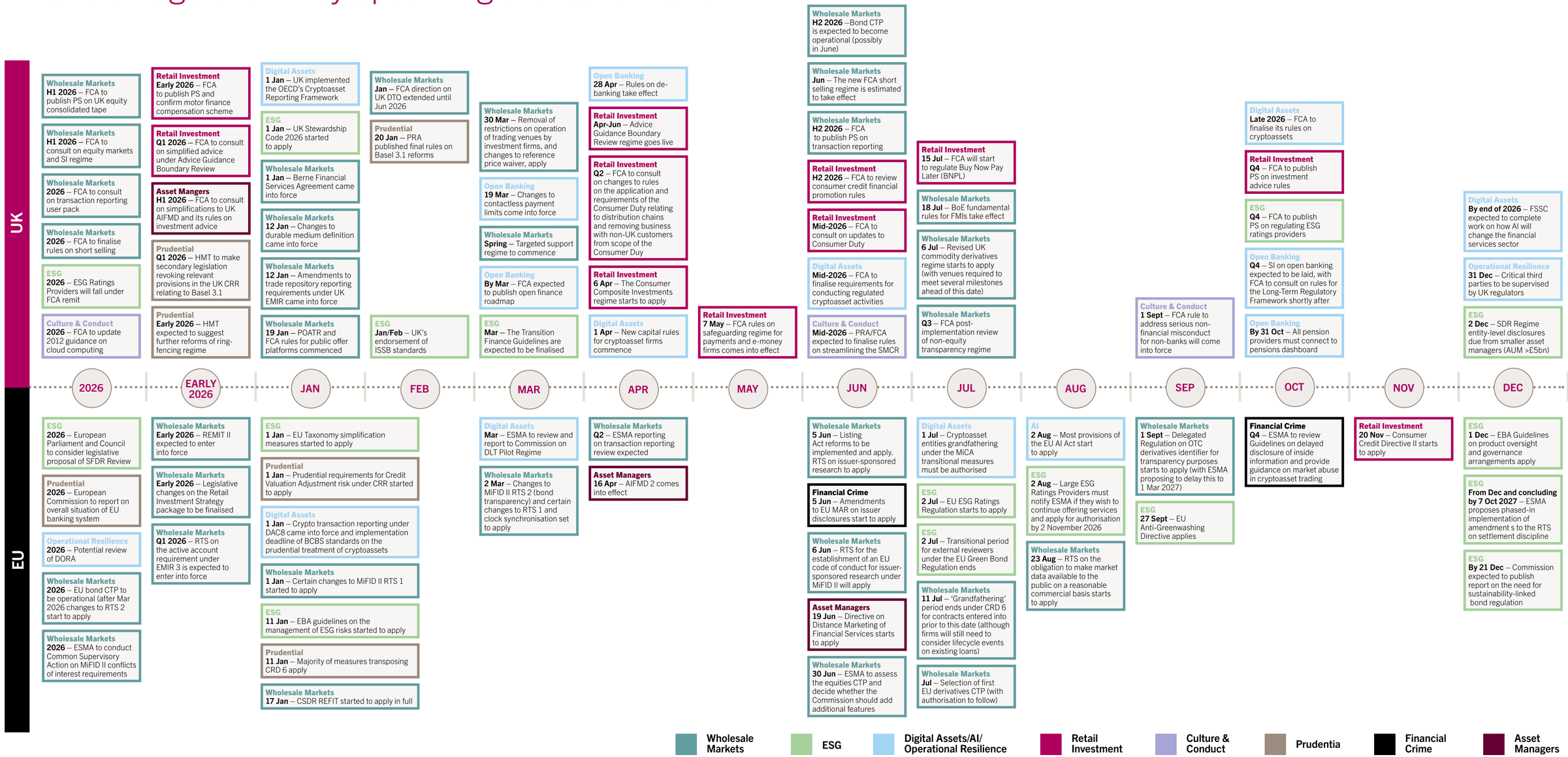
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Financial regulation: key upcoming events for 2026



01 | Reforms to EU and UK funds and funds marketing regulations

1.1 EU Market Integration Package – Implications for AIFMs and UCITS ManCos

On 4 December 2025, the EU Commission published a sweeping Market Integration Package of reforms to a number of existing EU regimes, including AIFMD and the UCITS Directive. The key areas of proposed reform, which are explored in this alert, form a central part of the EU's Savings and Investment Union strategy.

For asset managers, the proposals give ESMA greater oversight of the largest asset management groups and increase ESMA's powers in respect of the cross-border operations of EU asset managers, as well as proposing other amendments to AIFMD and UCITS directive.

1.2 AIFMD and UCITS – EU and UK

AIFMD

EU

2025 has been a year for fund managers to work, behind the scenes, on their AIFMD II implementation projects. Until recently, there had been relatively little news on the publication by the Commission of the key regulatory technical standards (RTS) that managers will need to ensure they comply with the regulators' expectations for AIFMD II. That said, in recent months there have been some developments, which we have summarised below. It is clear that several core components to the AIFMD II regulatory regime remain outstanding, and managers will need to keep an eye on this and be ready to move fast if they are to be ready to comply with rules coming into force in April 2026.

Liquidity management

EU AIFMs of open-ended AIFs to select at least two liquidity management tools (LMTs) (as described in a new Annex V to AIFMD, choosing from points (2) to (8) of that list) that are suitable for the AIF's investment strategy, liquidity profile and redemption policy.

The Commission published its final RTS on the use of LMTs in November 2025. The RTS applies to both AIFs and UCITS funds. On the surface, the RTS includes a one year transition period for funds that were constituted before 16 April 2026 – which would be very welcome, given the RTS took a long time to be published. However, it appears that transition period only applies to the LMT RTS and not the Level 1 obligation to select two LMTs, which would be quite an unhelpful position given fund managers will be looking for guidance on how to ensure their LMTs comply with the regulators' expectations. We understand managers and trade associations are seeking further clarity on how to comply with the more high-level LMT obligations in the Level 1 text.

Loan origination

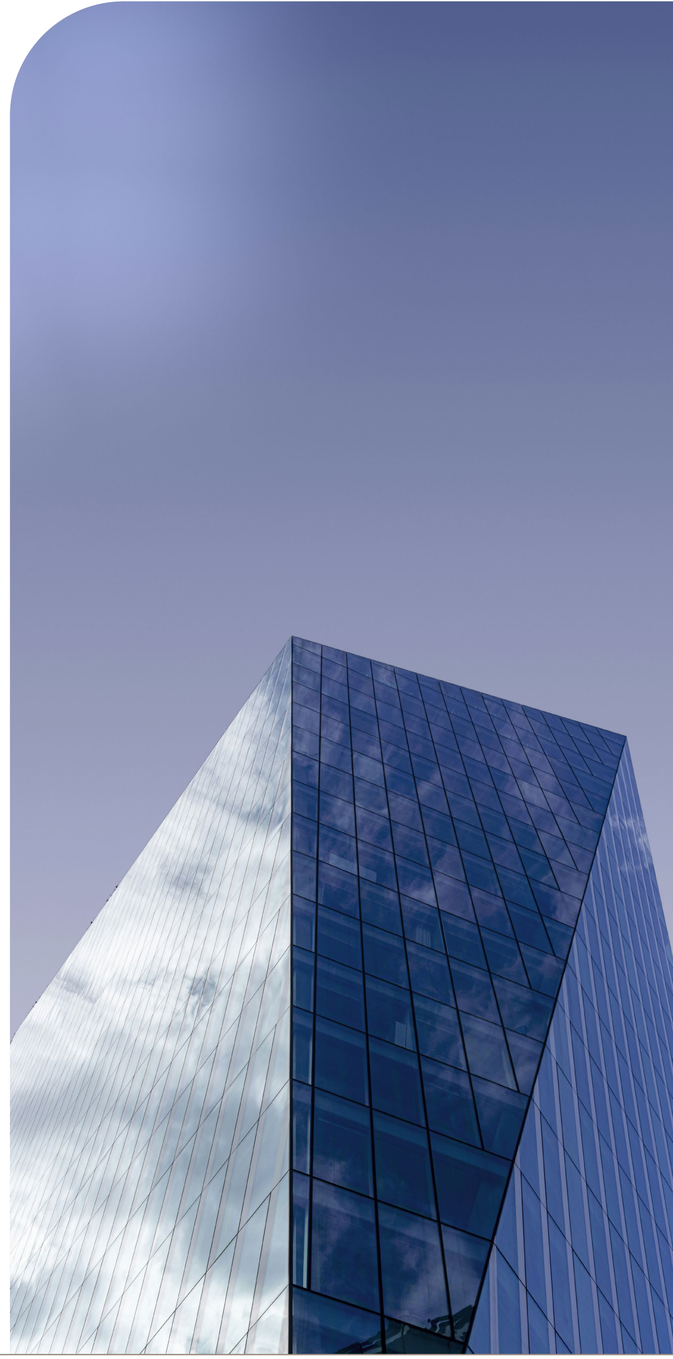
Although AIFMD was not conceived as a product regulating directive, it has nevertheless always regulated a limited number of activities (such as asset stripping and use of leverage) at a product level. The creation of a new loan origination framework can be seen in this light, particularly given the increasing prevalence of direct lending by AIFs. The Level 1 rules applicable to loan originating AIFs are set out in Article 15 (risk management) and Article 16 (liquidity management) of EU AIFMD, as amended by AIFMD II. However, the substantive expectations will need to be laid out by the Commission in RTS.

ESMA has consulted on RTS that will set out the conditions for loan-originating AIFs to operate as open-ended funds, including rules on liquidity management, liquid asset buffers, stress testing and redemption policies. ESMA had indicated that its final report and submission to the European Commission would be delivered in the second half of 2025. However, in October 2025, the European Commission included this RTS among a list "deprioritised" Level 2 measures which would not be adopted before 1 October 2027, at the earliest.

It is currently unclear whether individual Member States will introduce their own requirements for open-ended loan-originating funds in the interim. EU AIFMs managing such funds should therefore monitor legislative and regulatory developments closely at both EU and national level.

Timing

AIFMD II is due to come into force across EU Member States on 16 April 2026. Given AIFMD II is a Directive, individual Member States must update their national laws and regulatory frameworks to incorporate the various aspects of the AIFMD II regime. Some jurisdictions appear to be ahead of the curve in this regard (eg, Ireland), whilst others, at least right now, will be hard pressed to meet the implementation deadline of 16 April 2026.



EU

UCITS Eligible Assets review

On 26 June 2025, ESMA published its long-awaited technical advice to the European Commission on the review of the UCITS Eligible Assets Directive (EAD). The advice follows ESMA's Call for Evidence published in May 2024.

The EAD is an implementing directive providing clarification on the assets a UCITS can invest in. However, since the EAD's introduction in 2007, the rapid expansion in the variety of financial instruments traded on financial markets has led to divergent views on the eligibility of certain asset classes. ESMA has therefore made a number of proposals to address this divergence. Key proposals include:

- **Application of a look-through approach**: ESMA proposes to apply a mandatory "look-through" approach to determine asset eligibility (applicable to at least 90% of the UCITS portfolio) meaning asset classes should not be backed by / linked to the performance of other assets which differ from those referred to in Article 50(1) of the UCITS Directive. The look-through approach does not affect investments in traditional shares or bonds but rather aims to limit the use of instruments (eg, certain delta-one instruments, ETNs, ETCs, AIFs etc.) that provide exposures to alternative assets.
- **Indirect exposure to alternative assets within a 10% limit**: ESMA proposes to permit up to 10% of a UCITS portfolio (ie, "the trash bucket") to be exempted from the look-through approach and provide indirect exposures to alternative assets (such as commodities, catastrophe bonds and crypto-assets). However, all the other conditions and criteria set out in the UCITS EAD for the eligibility of the asset class (eg, on risks, liquidity or valuation) would continue to apply.
- **Definitional alignment with MiFID II**: In order to improve supervisory convergence and clarity going forward, ESMA wants to align the transferable securities concepts used in the UCITS framework and MIFID II.
- **Ancillary liquid assets**: ESMA has also provided (non-exhaustive) guidance on permitted "ancillary liquid assets". ESMA does not intend to impose a limit on the level of ancillary liquid assets that a UCITS fund can hold, noting however that any such assets should correspond to identified liquidity needs.

The Commission is expected to consider ESMA's recommendations in due course. Whilst there no clear timeframe for the Commission to propose its amendments to the EAD (and indeed any changes would need to be implemented by individual Member States), it may be prudent for EU UCITS ManCos to start by thinking about whether their existing portfolios and/or procedures would need to be updated if ESMA's recommendations are adopted.

UK

The UK's regime for alternative investment funds is based on the EU AIFMD. Since Brexit, UK AIFMD has remained broadly unchanged, while the EU has continued to develop its framework, most recently through AIFMD II, as discussed above.

The UK does not intend to overhaul UK AIFMD, but there is a general consensus within HM Treasury and the FCA that it would be beneficial to simplify the regime so that it works more effectively for AIFMs operating and marketing in the UK. They recognise that some requirements are not proportionate for different segments of the market or for smaller firms.

Consistent with the broader approach to EU-derived financial services law, the proposals would move more of UK AIFMD into the FCA Handbook.

The current proposals are high level, reflecting the FCA's intention to gather initial views through a call for input rather than a full consultation at this stage. The main proposal is to recategorise UK AIFMs into three tiers, which would replace the current framework of full-Scope AIFM, small authorised AIFM and small registered AIFM categories. Instead, all UK AIFMs would be subject to different categories of FCA authorisation which aim to be "proportionate and appropriate". Thresholds for categorisation would be determined based on NAV, with large firms (over £5bn NAV) subject to a regime similar to the current rules applicable to full-scope AIFMs today, whilst mid-tier (between £100m and £5bn NAV) and small firms (under £100m NAV) would be subject to proportionately more comprehensive regimes. Firms would not need to apply for a variation of permission as they change size category, but the FCA could require firms to notify it of their size category, including whether they choose to opt-up to a higher category.

The FCA are also considering (among other things):

- **Leverage:** The FCA plans to evaluate the adequacy and effectiveness of current UK AIFMD provisions in addressing risks from leverage.
- **UK AIFM marketing notifications:** Because AIFs are marketed predominantly to professional investors, the government sees no need for AIFMs to notify the FCA 20 working days prior to marketing.
- **Private equity (control) notifications:** The government is considering whether to remove the requirement for firms to submit these types of notifications to the FCA, or whether this information should be notified elsewhere, given that in practice this activity is not wholly relevant to the FCA's statutory objectives.
- **AIFM business restriction:** Some firms have raised concerns that restrictions which prevent AIFMs from conducting non-AIFM activities from within the same legal entity add unnecessary costs and inefficiencies. The government and the FCA will consider this.

The proposals closed for comment on 9 June 2025, and the current expectation is that draft rules implementing the proposals will be published for consultation in H1 2026.

EU Distance Marketing reforms

In 2026 new rules brought in by the EU Directive on financial services contracts concluded at a distance (the 2023 Directive) will come into force. These will impose further obligations when entering into distance contracts with consumers for the supply of financial services.

The 2023 Directive repeals the current directive governing distance marketing of consumer financial services (Directive 2002/65/EC) and amends the EU Consumer Rights Directive (Directive 2011/83/EU), which did not previously apply to financial services, such that certain additional consumer protection obligations now also apply in the financial services context.

The purpose of the amendments effected by the 2023 Directive is to consolidate and streamline the existing legislation, whilst also updating the legislative framework to better align with market developments (in particular, rapid technological developments and digitalisation of financial services contracts).

Key changes

The 2023 Directive extends certain obligations in the EU Consumer Rights Directive to FS distance contracts, including pre-contractual information requirements for contracts concluded on online marketplaces and prohibitions on fees for the use of certain means of payment.

The 2023 Directive also introduces new obligations for traders entering into FS distance contracts, including:

- Requirements to provide pre-contractual information, including relating to the trader, the main characteristics of the service and the price.
- Requirements to provide 'adequate explanations' concerning the contract to enable the consumer to assess whether the contract is adapted to the consumer's needs and financial situation.
- Rights of withdrawal, including a default 14-day cooling off period and a much lengthier (and in certain circumstances indefinite) withdrawal period where the consumer does not receive relevant information on the contract or their rights under it.

However, where sector-specific EU law applies to FS distance contracts and contains rules relating to pre-contractual information, adequate explanations and rights of withdrawal, only the obligations imposed under that sector-specific law in relation to those matters, and not the relevant 2023 Directive obligations, will apply.

Timing and key considerations

The deadline for transposing the 2023 EU Directive on financial services contracts concluded at a distance passed on 19 December 2025. The obligations will come into force on 19 June 2026.

In the meantime, firms should consider the extent to which Member States have gold plated any requirements when implementing the 2023 Directive. Firms should also review their existing standard contractual terms to assess what uplifts are required to meet the information requirements imposed by the 2023 Directive.

Changes to the EU Securitisation Regulation

On 17 June 2025, the European Commission published proposed changes to rules around treatment of securitisations, including some proposed amendments to the EU Securitisation Regulation (Regulation (EU) 2017/2402). These changes will have some indirect impacts for asset managers.

The amendments to the EU Securitisation Regulation comprise targeted improvements to the existing framework, rather than a radical overhaul. Most relevantly for asset managers investing in securitisations:

- The Commission has proposed changes to the due diligence regime to make it more principles-focused, including that there will be no requirement for investors: (i) to verify compliance with risk retention or reporting where the originator, sponsor and SSPE are all in the EU; nor (ii) to check if an STS securitisation meets the STS criteria.
- The Commission has proposed expanding the definition of "public securitisation" to include deals marketed: (i) with notes admitted to trading on an MTF or OTF in the EU; or (ii) to investors where the terms and conditions are not negotiable among the parties.
- The Commission has proposed some changes to the disclosure regime, including mandating a review of the current disclosure template (with the aim of reducing the number of mandatory fields) and providing that private securitisations will need to start reporting to securitisation repositories.

However, certain changes that may have been welcomed by investors have not been proposed, for example there are no proposals to change the requirement for EU investors to receive reporting for non-EU and bespoke private deals strictly in the form of the Article 7 template.

Trilogues are ongoing and the current expectation is that they will not complete until 2027. The new regime would then likely come into force in 2028.

1.3 Retail investor disclosure: UK CCIs and EU PRIIPs

EU

2025 was a fallow year for the EU PRIIPs review, which forms part of the wider EU Retail Investment Strategy. With the EU legislators having reached political agreement in December 2025, the legal text remains to be agreed in early 2026. We await the final text for confirmation of the position reached on the key negotiating positions including:

- Scoping, particularly in the context of nuances proposed by the Council.
- Contents of the new sections of the PRIIPs KID, including the new "Product at a glance" section (which has been agreed). There are some indications that the previously proposed new sustainability section may not go ahead at this stage, although a recital may make reference to SFDR 2.0 in this respect.
- Page limit, with some indication that this may remain at three pages (despite the introduction of the new "Product at a glance" section).
- The level of prescription in respect of multi option products, with the Council having previously proposed a comparison tool for the different investment options (with some indication that the final text may include a review clause to introduce a comparison tool in the future). Separately, the political agreement appears to include provisions for a personalisation tool (although we await the legal text for any detail on this).
- In terms of timing of PRIIPs changes, most of these will apply 18 months from the date the delegated act has been published in the Official Journal (although indications are that certain changes may be introduced on a different timeline).

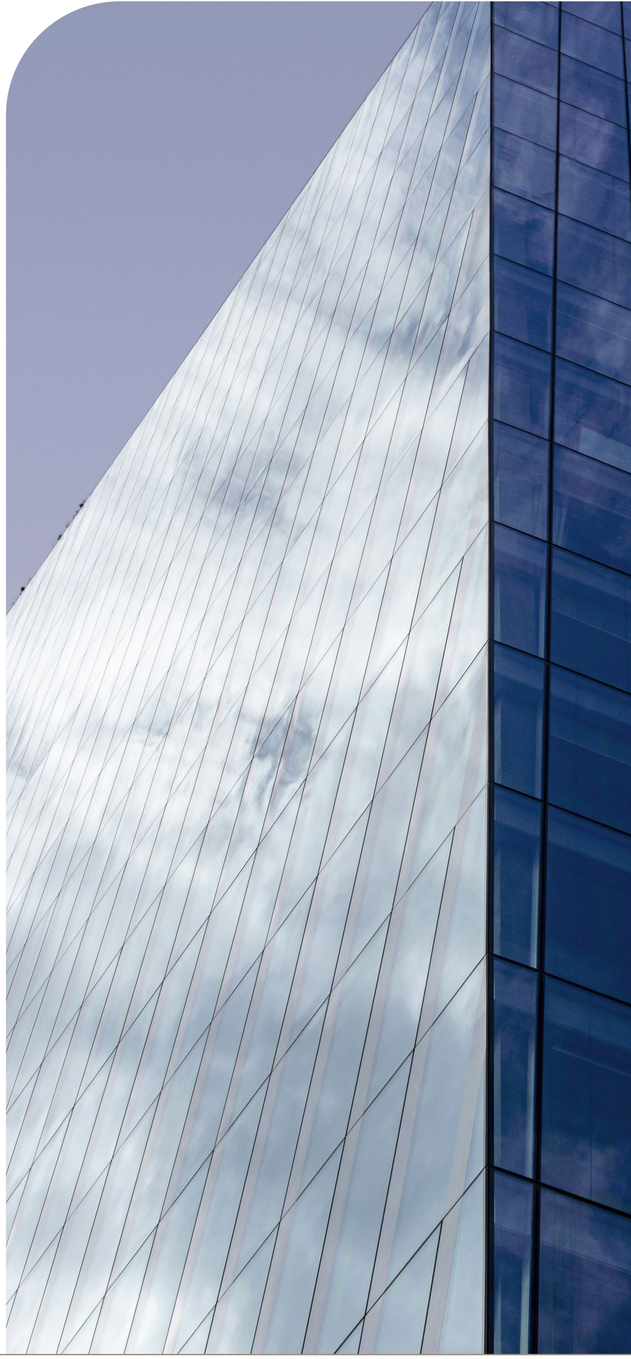
UK

The FCA has published its final rules for a Consumer Composite Investment (CCI) framework to replace PRIIPs with a "simpler and more flexible system which is tailored to the UK" and underpinned by the FCA's Consumer Duty. PRIIPs KID, UCITS KIID and NURS-KII will be replaced by a "product summary", with no strict format/template requirements.

Key changes from the FCA's earlier consultations on its draft rules include:

- Manufacturers will have sole responsibility for preparing and maintaining product summaries. The FCA has dropped an earlier proposal to allow distributors to amend product summaries following feedback from industry.
- The scope of the new regime has been refined: "plain vanilla" listed bonds are expressly out of scope; products clearly marked "not for retail" and with a non-retail distribution strategy fall outside the rules; closed ended investment funds are confirmed to be in scope.
- The envisaged "risk score" has been replaced with a "risk and return" metric based on 10 years of standard deviation data, supplemented by a short narrative.
- Past performance disclosures must now use monthly (rather than quarterly) data points.
- Cost and charges disclosures have been reshaped around a single "ongoing costs figure". One off and explicit transaction costs will be disclosed separately.

The FCA has set an 18-month implementation period for all products. The new regime applies from 6 April 2026, from which point manufacturers can either use the new CCI product summaries or retain their current (i.e. UK PRIIPS/UCITS) disclosures. The use of CCI-compliant product summaries becomes mandatory from 8 June 2027. Read and watch more on our take on the final rules here.



1.4 UK focus and market review

Private market valuations

In light of the continuous growth of private markets in recent years, we expect the FCA to continue to focus on private market valuations in 2026.

In March 2025, the FCA published its detailed findings from its multi-firm review of valuation processes for private market assets. In summary, the FCA found examples of good practice and noted its expectations on firms to address areas for improvement and consider whether any improvements need to be made to, amongst other things:

- **Governance:** Overall, the FCA identified many examples of good practice in firms' valuation processes – in areas such as investor reporting, documentation of valuations, the use of third-party valuation advisers, and consistent application of established valuation methodologies and firms should assess their own practices against these findings.
- **Conflicts of interest:** While all firms identified conflicts in their valuation process around fees and remuneration, and in many cases had limited these through fee structures and remuneration policies, other potential conflicts were only partly identified and documented. (including conflicts related to investor marketing, secured borrowing, asset transfers, redemptions and subscriptions and uplifts and volatility). Firms are expected to identify, document and assess all potential and relevant valuation-related conflicts, their materiality and actions they may need to take to mitigate or manage them.
- **Ensuring functional independence of the valuation process:** The FCA expects there to be sufficient independence in valuation functions and the voting membership of valuation committees (particularly from portfolio management) to enable and ensure effective control and expert challenge.
- **Incorporating defined processes for ad hoc valuations:** with many firms identified as not having defined processes or a consistent approach for ad hoc valuations to revalue assets during market or asset-specific events. Given the importance of these valuations in managing the risk of stale valuations, firms are encouraged to consider the types of events and quantitative thresholds that could trigger ad hoc valuations and document how they are to be conducted.

Multi-firm conflicts of interest review

Following on from its private markets valuations work, the FCA has started a multi-firm review focusing on conflicts of interest at firms managing private assets. Although not all firms will participate in the review, it would be prudent for private managers to generally consider:

- **Application of conflicts management framework**: Whether existing conflicts of interest policies and frameworks are sufficiently developed, tailored to the manager's business and updated with sufficient regularity such that conflicts are being appropriately identified, managed and mitigated.
- **Governance**: Are identified conflicts concerns escalated to appropriate governance bodies for consideration, and are appropriate arrangements in place for reviews by control functions?

Advice Guidance Boundary review

HM Treasury and the FCA continue to progress their joint review into the regulatory boundary between financial advice and other forms of support (commonly referred to as the 'advice guidance boundary').

In December 2025, the FCA published its near final rules and guidance for the delivery of targeted support to retail consumers. These rules are intended to narrow the gap between information and existing forms of investment advice so as to enable consumers to access greater levels of support with decisions about pensions and investments, and are designed to be outcomes-focused, flexible and future-proof, ensuring consumers are protected whilst also preserving a degree of latitude for firms to innovate.

Examples of scenarios in which the FCA envisages provision of targeted support could help include:

- **Consumers in a position to invest**: Whilst currently firms can suggest that consumers may be in a position to start investing, under targeted support a firm could suggest a specific investment product.
- **Consumers with investment products**: Whilst currently firms can provide information about investments consumers hold, under targeted support a firm could suggest an alternative investment product.

The basic structure for a targeted support offering remains broadly as consulted upon earlier in 2025 (in June 2025 and September 2025) with firms able to provide 'ready-made suggestions' to certain groups of consumers (known as 'consumer segments'). In order to do so, firms would need to:

(i) Pre-define situations for targeted support. For these purposes, a 'situation' means a circumstances identified by the firm in relation to its clients involving a common financial support need or objective that the firm reasonably considers could be met with a suggestion.

(ii) Pre-define 'consumer segments' to whom they intend to provide ready-made suggestions, ie, groups of consumers in a common situation and, where relevant, sharing common characteristics. 'Consumer segments' will need to be defined at an appropriate level of granularity so as to ensure they are not overly broad, whilst also not being too individualised.

In parallel, in December 2025, following its consultation in July 2025 on a draft statutory instrument proposing the creation of a new specified activity of providing targeted support, HM Treasury confirmed that targeted support will be a new regulated activity - firms will need to be authorised/vary their permissions before they can provide it.

Under the draft SI, a person will provide targeted support when such person:

(i) uses information about an individual to group them with other individuals who share similar characteristics and / or similar circumstances;

(ii) makes a recommendation to an individual to do or not do certain activities (including buying, selling, subscribing for, exchanging or redeeming particular investments, including securities) which is presented as suitable for the individual on the basis of them being in the group; and

(iii) provides a statement to the individual setting out relevant information, including specifying that the recommendation is not specific to the individual.

The Treasury stated that it intends to legislate as soon as Parliamentary time allows, with the expectation that the targeted support regime will be rolled out from early April 2026, and the FCA's authorisation gateway open for applications from March 2026.

The FCA will consult on simplifying its rules on investment advice and guidance in early 2026.



02 | Conduct and culture, intervention 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 next year.

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.



03 | Market-wide 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 the 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.

As explored in section 1, 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 and 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.

04 | 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. Although not binding unless implemented locally by regulators, the report will be of interest to managers transacting with liquidity providers that engage in pre-hedging activity.

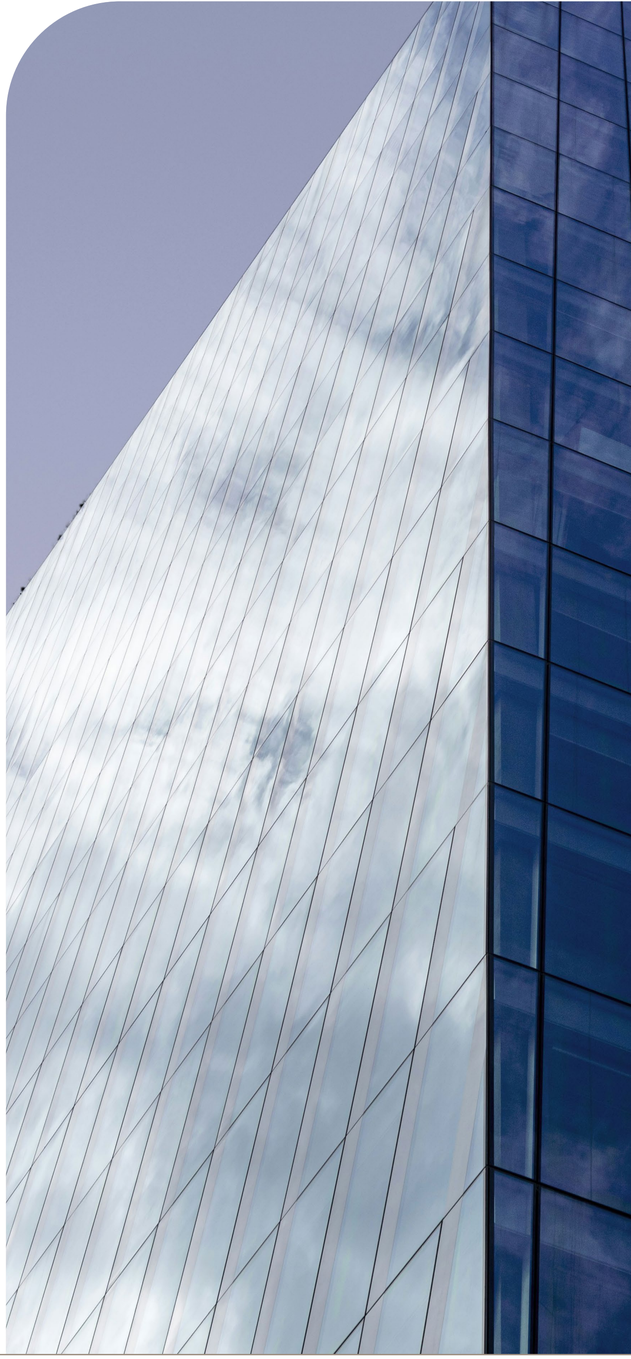
Market conduct in the EU's wholesale energy markets

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.



05 | Sustainable Finance

Product level disclosure: all change for asset managers

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.

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 early December 2025 (although the text is not available as at publication). In respect of CSRD, key elements of the deal are explained here:

> 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.

CSRD requires entities to disclose their transition plan or explain its absence; Omnibus leaves this largely intact, although the text of the political agreement is awaited to see whether there has been any softening of the requirement. CSDDD mandated a plan and its disclosure, but the political agreement in relation to Omnibus has removed this obligation.

Trilogue negotiations have concluded in early December, with the final text of the political agreement awaited. 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 next year.

05 | Sustainable Finance

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 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.

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 next year.

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.



06 | EU and UK wholesale markets reform

6.1 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 major reviews of UK & EU transaction reporting regimes are set to conclude. Our AFME & Linklaters joint implementation guide to these reforms has recently been updated and (although written with sellside firms in mind) will also be of interest to the buyside. 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 & 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 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, with a review of the equity SI regime due in H1 2026.

New market infrastructure

Consolidated tape providers (CTPs) will start operating in both markets, as bond CTPs have been selected in both the UK and EU, with the EU also selecting its first equity CTP. Asset managers will consider whether and how to use CTP data feeds (including to assess the quality of execution received) and put in place arrangements to connect.

EU

The tender for the derivatives CTP starting 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 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 the sandbox.

Investment research

EU

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

As joint payments will then be possible in both the **UK & EU**, this may prompt managers to review global research payment models.

Commodity derivatives regimes

EU

The Market Integration Package 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.

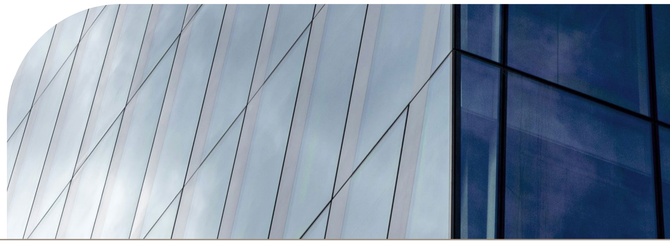
UK

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 streamliningof MiFIR, EMIR and SFTR reporting requirements during the year. Although the FCA CP indicates that there will be no full exemption for asset managers from UK transaction reporting requirements, managers may engage with the FCA on this topic, as the FCA's alternative suggestion to enhance conditional single-sided reporting could be onerous to put in place across the breadth of managers' broker networks.

Retail Investment Strategy & Savings and Investments Union

EU

Political agreement was reached on the Retail Investment Strategy package in December 2025 (see above). The recent Commission proposals on the Market Integration Package will be a key focus for firms in 2026. As noted above, for asset managers, the proposals give ESMA greater oversight of the largest asset management groups and increase ESMA's powers in respect of the cross-border operations of EU asset managers, as well as proposing other amendments to AIFMD and UCITS directive.



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.

6.2 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.

Key EMIR 3 changes include:

- **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.
- **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.
- **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.
- **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.
- **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.
- **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 has begun, 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.



6.3 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.



07 | UK Short Selling

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.

The pace of the repeal and replacement programme 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 covers more complex regulatory regimes.

Reform of the UK short selling regime is an example of a file moving towards the end of this repeal and replacement process.

Updating short selling legislation

The current UK Short Selling Regulation was assimilated into UK law on Brexit. It imposes restrictions on short selling UK shares and UK government bonds and on entering into uncovered sovereign credit default swaps referencing UK government debt. It also requires FCA reporting of net short positions and public disclosure of significant net short positions in UK shares.

Following a Call for Evidence in 2022, the Government concluded that the UK SSR could be tailored to the UK market and alleviate disproportionate burdens on firms. This included plans to remove the current requirement to individually disclose net short positions in UK shares exceeding 0.5% of issued share capital and instead replacing it with aggregated disclosures by the FCA of net short positions exceeding 0.2%. The government also concluded that the current restrictions on short selling of UK government debt and against entering into uncovered sovereign CDS could be removed.

The Short Selling Regulations 2025 have been made to replace the UK SSR, creating a new legislative framework for regulating short selling. Consistent with the Government's Smarter Regulatory Framework, the legislation sets the parameters of the regime and gives the FCA powers to make the rules which apply to market participants.

Draft FCA rules

The FCA has drafted a Short Selling Rules sourcebook which will largely replicate aspects of the existing UK SSR but with targeted modifications.

Proposed changes in the FCA's CP25/29 as compared to the current regime include:

- **Position reporting:** The deadline for notifying changes in net short positions (NSPs) will be extended from 15:30 to 23:59 (UK time) on T+1, giving extra time for holders of net short positions to comply with requirements to notify the FCA.
- **Net short positions:** New guidance will be provided on the calculation of NSPs to detail how persons can determine a company's issued share capital and when to calculate the NSP. The FCA will also clarify the approach to reporting within groups.
- **Reportable Shares List:** The current "negative" list of shares where the primary liquidity is overseas with that are exempt from the UK SSR will be replaced with a new "positive" list of shares which are in scope.
- **Market maker notifications:** The timeframe for notifying the FCA when seeking to benefit from the market making exemption for the first time will be reduced from 30 days under the current UK SSR regime to 15 days. Existing market makers will also benefit from a more streamlined process for extending their exemption to more financial instruments. The FCA proposes that pre-existing exemptions will be rolled over until 1 June 2027.
- **Public disclosure:** New processes will be introduced for the FCA to publish aggregated net short positions. The FCA also proposes to issue new guidance on how it will calculate, publish, update and correct the list of aggregate net short positions that it discloses.

The FCA plans to finalise its rules in April 2026 ahead of the main commencement day for the new regime in June 2026.

The FCA's proposals are welcome progress on the UK's journey to overhaul the short selling regime that it retained from the EU. The UK is improving rather than overhauling the existing regime, which helps to minimise the regulatory change burden on market participants. The FCA is also looking to streamline processes.

Any change, however, brings divergence from the EU's equivalent short selling regime, meaning that firms trading both UK and EU instruments will need to carefully manage updates to systems to ensure ongoing compliance with both regimes.



08 | Digital assets and tokenisation

Cryptoasset activities will attract more regulation

EU

As transitional measures come to an end, more parts of the EU's Markets in Crypto Assets Regulation will start to apply. Providers of cryptoasset 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. As part of its Market Integration Package, the Commission has proposed centralising the supervision of cryptoasset service providers under ESMA.

AIFMs and UCITS ManCos may provide cryptoasset services equivalent to investment portfolio management provided that they notify their regulators before they do so and submit the relevant information.

EU supervisors will start to collect feedback on the effectiveness of MiCA ahead of a Commission report to European Parliament and Council, which is required in 2027 and may include proposals to change the legislation.

UK

The Government has laid the legislation which will regulate cryptoasset activities. As well as setting key definitions and the perimeter of regulated crypto activities, the law also determines the regime's territorial scope.

Unlike MiCA, the UK regime does not propose to make portfolio management of cryptoassets a regulated activity. Asset managers may, however, be caught by other activities such as dealing in, or arranging deals in, qualifying cryptoassets.

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.



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, firms should continue to balance implementing other aspects of the AI Act (eg, on transparency and prohibited use cases) with ongoing financial regulation compliance.

UK

The UK has not adopted specific regulations governing use of AI by financial services firms, and the FCA has indicated that its stance is technology neutral.

The FCA expects firms to ensure that AI is used in a manner which is safe, robust and secure, and in compliance with the firm's obligations under the FCA's Principles for Businesses. This includes conducting business with due skill, care and diligence (Principle 2) and taking reasonable care to control the firm's affairs responsibly, effectively and with adequate risk management systems (Principle 3). The FCA has also been keen to emphasise that it will hold senior managers accountable for the safe use of AI within firms.

Fund managers should therefore ensure that deployments of AI are compatible with their general regulatory obligations, in particular the need to maintain effective systems and controls.

In the meantime, the FCA will continue to encourage testing of AI through its AI Lab. 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

AIFMs, UCITS ManCos and MiFID portfolio managers are among the financial entities which have implemented the Digital Operational Resilience Act.

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 related incidents to regulators.

Next on the horizon is the outcome of the EBA's consultation on guidelines for third party arrangements. These revised outsourcing guidelines exclude ICT services which are covered by DORA but extend their application to include a wider range of MiFID investment firms. Depending on the outcome of the consultation, firms could face 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 the autumn.

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.

UK

The FCA has consulted on new operational incident and third party reporting regimes. Different aspects of the rules apply to different types of firm. For example, asset managers that are enhanced SMCR firms will need to maintain a register of information relating to its material third party arrangements. Firms will need to build systems and processes to provide more information to the regulators about these arrangements and operational incidents.

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 finance

A critical year for Open Finance

EU

The EU plans to require financial services firms to open up the data they hold for customers. Once it is finalised, FIDA, as the proposed regulation for financial data access is known, will apply to AIFMs, UCITS ManCos, MiFID investment firms and several other types of financial institution.

Based on the Commission's 2023 proposal, FIDA would require financial institutions to join financial data sharing schemes. These schemes will then develop common standards for sharing access to different types of customer data between regulated firms. Firms would provide a dashboard allowing customers to toggle their data sharing preferences. The regulation also creates a new licensing regime for providers of financial information services.

Customer data in the scope of FIDA includes investments in financial instruments, insurance-based investment products, crypto-assets, real estate and other related financial assets.

Trilogue talks started in early 2025. Key points for debate included scope, application and timing. For example, the Commission's original proposal was drafted broadly to capture data held for professional and corporate customers.

At one point it seemed likely that the proposal would be dropped as it came under pressure from the EU's wider simplification agenda. After several twists and turns, the legislation continued to be debated and is nearing the end of the trilogue process.

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.

The FCA is likely to take a more gradualist approach to Open Finance than the EU's FIDA. One of the early priorities will focus on lending to small and medium-sized enterprises.



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