SLAUGHTER AND MAY/

2026 PROGRAMME

HORIZON SCANNING

Navigating complexity with clarity

Horizon Scanning 2026

Foreword

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The backdrop for 2026 is continuing geopolitical shifts and rapid technological change. Policy is diverging more than converging from jurisdiction to jurisdiction, and markets are prone to sharp adjustments. Yet within and alongside this complexity, there are also opportunities. So, as ever, businesses are operating in an environment that demands agility and foresight.

As you set your agenda for the year ahead, we hope our 2026 Horizon Scanning programme is a helpful resource. Drawing on insights from across the firm, our aim is to support your decision-making and help you navigate that complexity with clarity and confidence. Across five central themes, here is a quick setting of the scene:

Capital Flows

In 2025, despite market fluctuations and a new wave of political influence, dealmakers demonstrated – as they always do – adaptability and creativity in a market that was at times sluggish, with sponsor exits under more pressure than normal. Government policy stressed the need to balance enforcement with growth and competitiveness, and we expect that tone from the top to continue in 2026 – the interesting piece will be to see what it translates into on the ground, issue-by-issue and deal-by-deal. The regulatory angle will clearly remain critical. We expect merger control to recalibrate across the US, UK and EU, and success for dealmakers in 2026 will depend on navigating differences across jurisdictions and crafting compelling narratives to secure clearance. Away from M&A, UK equity markets have enjoyed a strong 2025, benefited from smart regulatory reform, and are poised for renewed momentum. On the back of that, we see clear potential for an uptick in IPO activity.

Governance and Sustainability

ESG initiatives faced serious pushback in the US in 2025, but the global picture is more nuanced. We expect legal and sustainability teams to continue navigating a patchwork of international regimes for some time to come. In the UK, the Employment Rights Act – one of the most debated legislative developments of the year – received Royal Assent in December. That will bring three waves of changes throughout 2026, requiring employers to take a proactive approach to manage risks, control costs and maintain good governance.

Energy Transition

This is where geopolitics will continue to play the biggest role as competition for resources drives policy as well as further regionalisation to ensure that resources and capacity are accessible in friendly hands. State intervention into markets – via pricing, subsidies with more stringent conditions, and regulation – looks inevitable. All of this is going to drive and affect investment decisions in the space. In particular, the resurgence of nuclear energy in the last year has been striking, and those opportunities are only going to continue.

Digital

The AI revolution continues to reshape the business landscape and drive high levels of M&A and investment activity. We take a close look at that, with a focus on the critical need for the energy and power to run data centres and AI assets. Separately, regulatory divergence continues to accelerate across the digital ecosystem, from data governance to financial services regulation – all with an increasing focus on the consumer impact. And, of course, AI itself faces increasing and shifting regulation as it evolves and permeates further into, well, everything – again, an area very likely to see policy diverging more than converging given the fundamental issues at stake.

Crisis Management

Enforcement and prosecuting authorities are signalling a more assertive stance for 2026. With enhanced tools and stronger penalties at their disposal, there is now more to back that up. Given the defensive behaviour and compliance costs that can drive, it will be interesting to see how this plays into the debate around political calls for growth and competitiveness. Away from regulation, steady state litigation risk remain – with class actions and litigation funding bringing increased edge – and we expect shareholder activism in 2026 to sustain the momentum built in 2025.

We hope the articles here – as well as the broader programme of podcasts and further updates through the year – will help as you fire up your radar screen for 2026.

Please do not hesitate to contact us to discuss any of the issues covered in this publication. We would be delighted to provide further insight and explore opportunities and challenges in more detail.

Many thanks
Simon Nicholls

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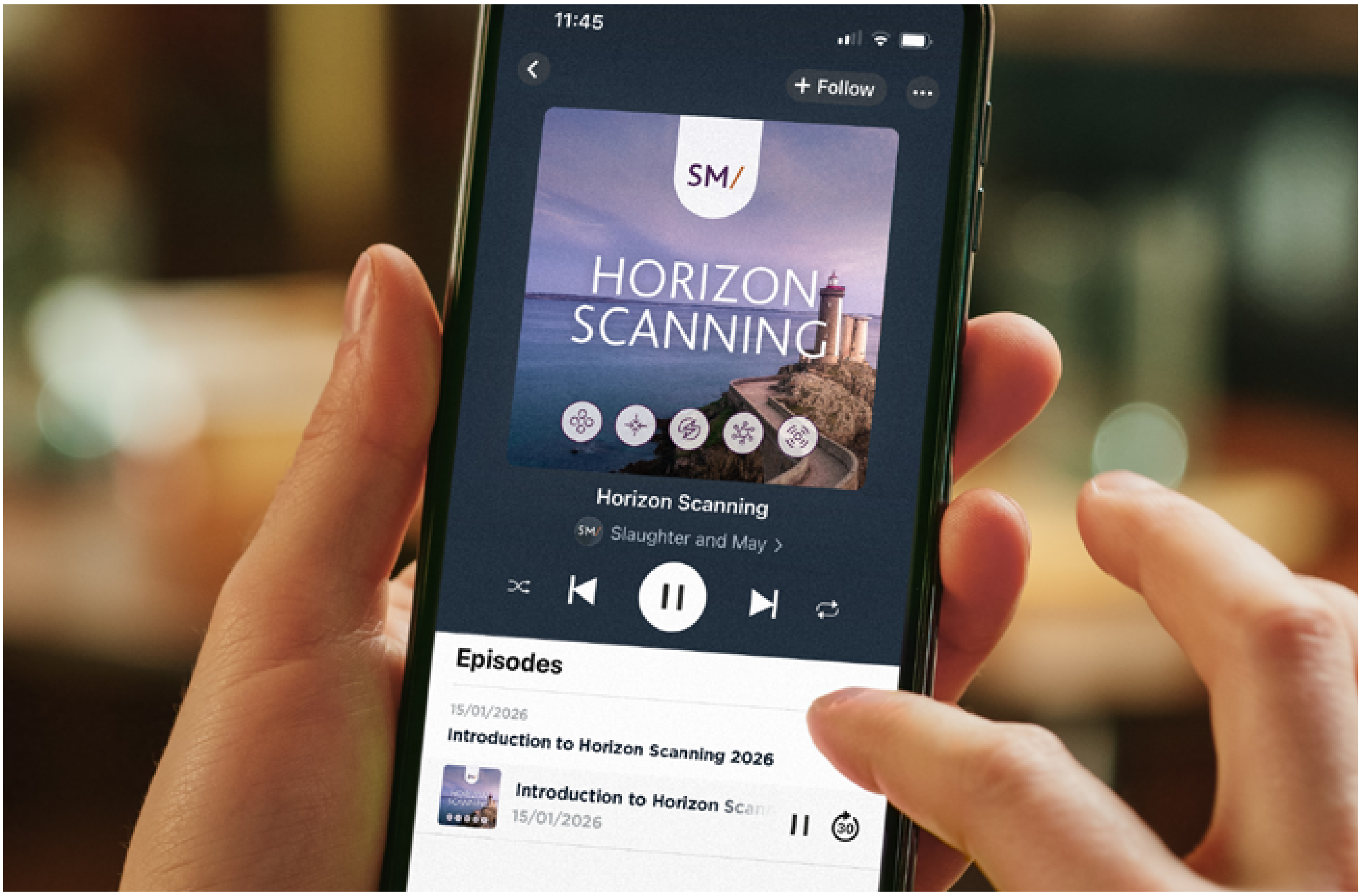
Our podcast

The Horizon Scanning podcast series brings our insights to life with conversations that dive deeper into the challenges and opportunities facing global businesses in 2026

The launch series for 2026 is hosted by Simon Nicholls. Throughout the year, we'll continue the conversation with further in-depth episodes exploring emerging issues as they unfold.

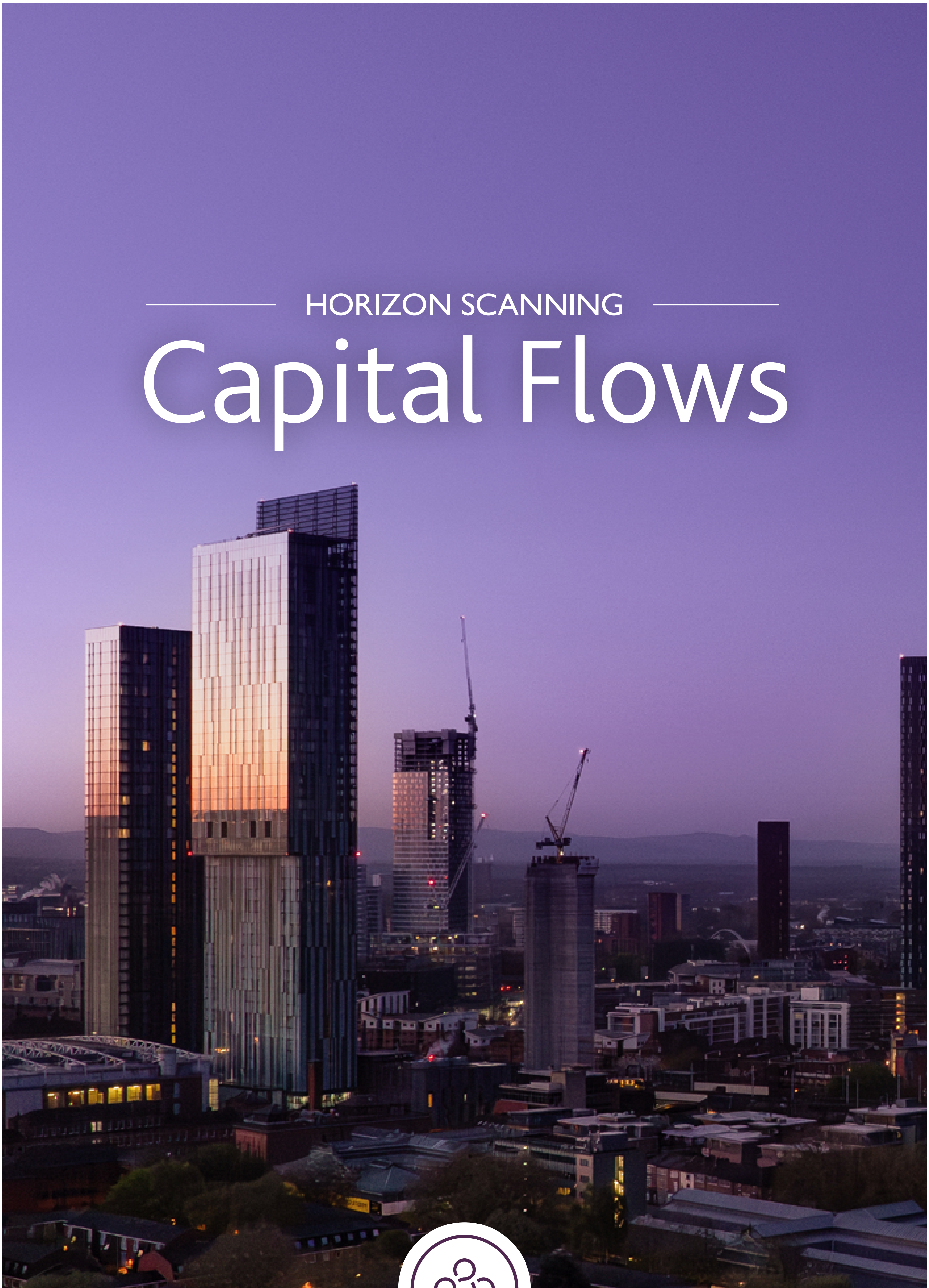
Subscribe now for exclusive perspectives from our partners on the topics relevant to you.

Search "Horizon Scanning Slaughter and May" on your preferred podcast app and stay tuned as we release new episodes throughout 2026.



HORIZON SCANNING

Capital Flows



M&A outlook for 2026

Dealmaking beyond the noise

Robert Innes
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2025 was a year of fluctuating momentum. Dampened confidence at the start of year gave way to cautious optimism and a willingness to press on with corporate deal activity despite market volatility and geopolitical uncertainty. As this volatility increasingly becomes a constant structural factor, businesses are separating the signal from the noise and adjusting to this new normal by pressing ahead with opportunistic and strategic M&A, future-proofing their portfolios and approaching dealmaking in adaptable and creative ways.

Our outlook for 2025 was optimistic; and for 2026 it remains cautiously so. In this latest publication, we look back at some of our predictions for 2025 and consider the main trends and developments we expect to see in 2026.

Trump, tensions and tariffs

> At the start of 2025, we (like many) hoped that global political uncertainty driven primarily by elections in a number of key jurisdictions, was behind us; and that a convergence of significant M&A drivers (from strategic imperatives to private capital realisation), combined with greater flexibility shown by key regulators through 2025, would provide an uptick in market activity.

Whilst no one could have predicted the disruptive effect of President Trump's Liberation Day tariffs, the speed with which the markets rallied was welcome, with the impact more muted than other recent global shocks (such as the COVID-19 pandemic and soaring interest rates). In particular, we saw a variety of deal and consideration structures being used to bridge valuation gaps and facilitate deal activity in this period of turbulence, including continued share-for-share deals, roll-over and stub equity and some relatively unusual deferred consideration mechanisms. While deal value and volume dropped in the immediate wake of the US tariff announcements, momentum returned in early summer, driven in part by the conclusion of the UK-US trade deal and a gradual de-escalation of trade tensions with China. Global M&A deal value increased by 43% between 2024 and 2025, marking the strongest 12-month period since 2021. 2025 was a year of record - including the largest M&A deal since 2022 and the largest ever take-private, both in the US, and in the UK, takeover activity in H1 2025 marked the strongest six-month period for well over 15 years in volume terms.

The UK broadly followed the global trend, albeit momentum slowed in the third and fourth quarters of 2025 ahead of the UK Budget in late-November, with some commentators concerned that this autumnal hiatus may be an annual feature. With the Budget behind us, the current backdrop appears more conducive to M&A. With equity markets at record highs, IPO activity showing signs of life, volatility declining, and interest rates easing and predicted to fall further, we expect these dynamics to continue supporting M&A activity through 2026. Transactions that benefit from valuation gaps between UK and US indices and market volatility will continue to thrive in the near term - including sponsor-backed public to private deal activity, with the FTSE 350 continuing to be seen as being undervalued, and both buy- and sell-side distressed and turnaround opportunities.

As global markets continue to shift with geopolitical tensions and competitive pressures, merger control too continues to undergo recalibration in the US, UK and EU. In the US in particular, domestic political dynamics and the shift towards political influence on enforcement outcomes is seen by some as a once in a lifetime opportunity to pursue mega-deals – such as HPE/Juniper (which is still subject to judicial review) and Union Pacific/Norfolk Southern. In the US, acquisitions valued at $10 billion and above reached a record high. Overall though, with foundational principles remaining steady, we expect incremental change rather than sweeping reforms, certainly in the UK and Europe, and a need to focus on strategic foresight and thoughtful regulatory engagement. On the execution front, the number of antitrust and FDI filings having to be made on deals is becoming increasingly burdensome, time consuming and costly – and agreeing which filings can impact timetables is becoming an increasing focus.

Private capital at a crossroads

> On exits, we expected the European IPO market to continue to search for positive momentum, and for corporate buyers to remain selective. Whilst we thought the cheaper cost of debt projected for 2025 would assist exit processes by enabling buyers to offer more compelling prices and reduce valuation gaps, that was not expected to be universal across asset classes. On the buy-side, we expected continued focus on deployment of dry powder, with sponsors using creative solutions to structure transactions and to allocate capital with precision.

Despite the well documented backlog of portfolio companies primed for exit and pressure on sponsors to return capital, we saw a sluggish start to the year, with much public and private deal activity on pause or taking much longer to implement. This was in part due to declining market valuations, exacerbated by tariff and wider uncertainty, which naturally reduced appetite for trade exits and delayed IPO processes. However, there is optimism this side of the Atlantic, with the reopening of the European market, seeing IPOs – like Verisure – across the Swiss, German and Nordic markets, and positive momentum in London too, with Q3 seeing the IPOs of Shawbrook, the Beauty Group and Princes. Stability will determine how far the markets can reopen, but in the UK, with a new favourable set of Listing Rules in full swing, interest rates on a downward path and inflation forecast to be at 2.5% in 2026, we foresee a healthy pipeline, particularly for IPOs sponsored by PE houses with portfolio companies too large for private sale.

On the buy-side, throughout the year, a combination of improved visibility on economic policy, rising public markets and ample dry powder created a favourable platform for funds to invest – particularly in the UK and Europe. We expect transactions in the near term to be opportunistic, heavily structured and subject to extensive negotiations, with a focus on industries less correlated to traditional business cycles, such as healthcare, financial services and defence. The uptick in IPOs allowing partial or full sponsor exits will add to the pool of deployable capital, and as confidence builds, so will competition for quality assets.

Will corporates remain "king"?

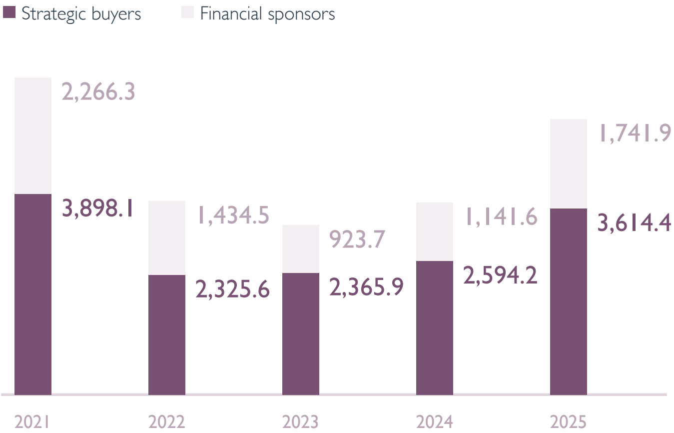
> We expected corporate-to-corporate dealmaking to play a significant role in market activity in 2025 and that a greater availability of funding would result in more corporates being able to use debt to pursue transactions, whilst maintaining an opportunistic approach to M&A and a tight focus on capital allocation.

Dealmaking in 2025 was driven in large part by companies seeking to build future-proof portfolios – through scale, capability expansion and strategic divestitures. These imperatives, coupled with a tight focus on capital allocation, an ability to leverage strong balance sheets and the availability of financing, led to a continued dominance of corporate-to-corporate dealmaking through 2025, and we expect to see corporates continue to shape the market in 2026.

We are likely to see corporates pursuing both transformative mergers of equals and bolt-on acquisitions and using a variety of tactics to try to gain an edge over deep pocketed sponsors (including share-for-share bids, which are likely to remain attractive with stock indices at all time highs). At the same time, we expect companies to push forward with "corporate clarification" transactions – divesting businesses that will not serve them in a changing future whether as part of a wider strategic transformation, or in response to activist pressure on corporate strategy. We anticipate corporate separation and carve out activity to remain a prominent feature, with sponsor-backed buyers able to take advantage of prize assets too.

These strategic moves will likely be defined by sectoral trends. We expect to see consolidation continue in the energy and natural resources space, with the growing energy demand for data centres, cloud computing and AI expected to accelerate deal activity as companies seek to acquire the infrastructure needed to power these technologies. Ongoing geopolitical tension will likely continue to drive investment and spending in growth-orientated M&A in aerospace, defence and cybersecurity in the UK, US and Europe.

GLOBAL M&A SINCE 2021
Deal value USDbn



Source: Mergermarket, 2026

2026 outlook

Overall, we are optimistic that the challenging environment that continues to shape market economics, strategic imperatives and regulatory reform will facilitate M&A in 2026, with businesses making bold, strategic moves despite high (but falling) interest rates, valuation gaps and disruptive technologies. The convergence of strategic imperatives – including private capital value realisation and business transformation – improving market sentiment and spending and investment commitments in some industries, suggests, absent any major macroeconomic or geopolitical shocks, a strong M&A roadmap for 2026. Albeit with the early days of 2026 hinting at this being a bigger caveat than one might hope.

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The future of merger control

Navigating political shifts and a dynamic regulatory environment

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As geopolitical tensions, industrial policy, and competitive pressures reshape global markets, merger control is undergoing recalibration across the EU, UK and US. Although the foundational principles remain steady, enforcement is being reshaped by political imperatives and evolving policy goals. As we look ahead to 2026, what can dealmakers expect in this shifting regulatory environment?

The focus on growth, competitiveness and political dynamics

Competition policy and enforcement underwent a shift in 2025. A new wave of political influence encouraged regulators to balance enforcement with broader economic goals, such as stimulating growth and attracting investment.

The Draghi Report, published in September 2024, prompted a reassessment of EU competition policy, recommending the removal of internal market barriers and highlighting strategic sectors in need of innovation and investment. The report also encouraged merger control reviews to take better account of innovation and long-term competitiveness. In response, the European Commission (EC) launched a review of its Merger Guidelines, with draft revisions expected in spring 2026.

In May 2025, after the unprecedented replacement of the Competition and Markets Authority (CMA) Chair, the UK government issued a strategic steer directing the CMA to prioritise growth and investment. The steer also recommended a more proportionate and globally coordinated approach to merger control enforcement. The CMA has since launched consultations on its approach to jurisdiction and remedies, signalling a shift towards more streamlined investigations. This includes avoiding unnecessary scrutiny of non-problematic mergers and adopting a "wait and see" stance on global deals. The UK government has also announced that it will soon launch its own consultation on proposed reforms to the regime.

In the US, merger control is increasingly shaped by domestic political dynamics. Nevertheless, enforcement remained robust under the Trump administration in 2025, particularly in consumer-facing sectors.

This more-politicised environment has seen the role of lobbying increase, particularly around high-profile mergers such as HPE/Juniper. Despite internal resistance, the US Department of Justice leadership overruled the Antitrust Division's preference for structural remedies, opting instead for a behavioural solution following political lobbying. While this case is now subject to judicial review, it signals a shift in how political dynamics can influence enforcement outcomes.

A new dawn for efficiencies?

As competition authorities consider how to adapt merger control policy to reflect this new environment, we are seeing a more flexible and pragmatic approach to efficiencies and remedies emerge in certain jurisdictions.

Efficiencies can play a critical role in merger review by helping to offset anticompetitive effects. However, because of a high burden of proof, merging parties have rarely relied on them in practice. Efficiencies are now gaining renewed attention, particularly in sectors requiring large-scale investment.

The CMA's decision in Vodafone/Three UK illustrates this trend. While the CMA provisionally concluded that the merger could lead to price increases or reduced services, it accepted that there were strong efficiency arguments, including that the deal had the potential to improve mobile network quality in the UK. The CMA therefore cleared the deal based on behavioural remedies, including a long-term commitment to invest in infrastructure that "locked in" these efficiencies. More widely, the CMA has signalled its intention to revisit its approach to efficiencies in the near future.

The EC is also revisiting its treatment of efficiencies as part of its review of the Merger Guidelines. The forthcoming guidance is expected to address dynamic and out-of-market efficiencies, including those linked to sustainability.

In the US, while efficiencies have traditionally played a limited role in merger assessments, there is growing interest in broader, policy-aligned justifications, such as benefits to workers or national strategic interests.

Rethinking remedies

In recent years, several authorities had adopted a stricter approach to remedies, leading to several mergers being abandoned due to regulatory concerns. However, remedies policies are now being reconsidered.

The CMA's decision in Vodafone/Three UK highlighted its evolving approach to behavioural remedies. In July 2025, the CMA accepted remedies in Schlumberger/ChampionX which included both divestments and behavioural commitments. The CMA then published draft remedies guidelines in October 2025, which signalled a wider scope for behavioural remedies and remedies aimed at securing efficiencies.

US antitrust agencies are again open to discussing remedies, marking a shift from the previous administration's "litigate and block" approach. Alongside accepting divestiture remedies in 2025, agencies have also shown a willingness to consider behavioural remedies including in mergers between competitors, such as HPE/Juniper and Omnicom/Interpublic.

In the EU, the EC has maintained a consistent but cautious approach to merger remedies. In 2025, it cleared eight cases subject to remedies – all involving divestments – but still appears open to considering behavioural remedies in appropriate cases.

What to expect in 2026

Looking ahead to 2026, further developments are expected in both the UK and EU as authorities prepare to publish updated guidance, and potential legislative changes are on the horizon.

The UK government's forthcoming public consultation will aim to clarify the scope of merger control review, improve the effectiveness of remedies and streamline decision-making – although it remains to be seen what proposals will be adopted. The CMA's "wait and see" approach to global deals may also face tougher tests, raising questions about its long-term viability.

In the EU, the revised Merger Guidelines are expected to codify existing enforcement practice and provide clearer guidance on innovation, potential competition and ecosystem effects. We also expect further guidance on how merger review can support scale-up strategies. However, it remains unclear how much the new guidance will change the EC's approach in practice. Recent cases like Prosus/Just Eat and Mars/Kellanova have shown that the EC is still willing to engage with, and intervene where necessary, based on nuanced theories of harm.

In the US, it is expected that the more interventionist Merger Guidelines introduced by the previous administration will remain in place, although they may be less frequently cited in practice. We also await the judicial review of HPE/Juniper and whether that case signals the high-water mark of lobbying affecting deal outcomes.

Overall, dealmakers should expect incremental change rather than sweeping reforms in 2026, but with shifting political tides, strategic foresight and thoughtful regulatory engagement will be more important than ever.

The road forward for dealmakers

Merger control is in a new phase marked by both convergence and divergence in enforcement styles. While authorities remain committed to protecting competition, there is growing recognition that merger control should also support investment and strategic priorities. For dealmakers, this means understanding jurisdictional nuances, anticipating dynamic competition arguments and crafting compelling investment narratives will be key to securing clearance in 2026 and beyond.

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Private equity – a more dynamic deal environment?

Unlocking exit pathways in 2026


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Private equity deal makers also faced a year of fluctuating momentum in 2025. The U.S. "liberation day" tariff announcements froze sentiment and pushed many Q2 transactions onto the back burner. Activity then revived in the second half of the year, as we saw some blockbuster buyouts and a clear rise in the number of exits taking place (including trade sales and IPOs).

The conditions for this trajectory to continue into 2026 are all present – trade tensions have cooled (for now), and macroeconomic conditions are more stable (with interest rates forecasted to decline in both the U.S. and Europe). Crucially, liquidity remains the most significant issue for sponsors, and the pressure from Limited Partners (LPs) to transact and generate distributions is only going to become more urgent as the year progresses. In the absence of any significant global crises, this should translate into more exits, across a range of different pathways which we explore in this publication.

The PE deal arena

After a period of adjustment following the U.S. tariff announcements, deal activity in the European PE market recovered in Q3 2025. Deal count increased by around 11.3% year-on-year, while the aggregate value of PE deals rose by approximately 15.2% over the same period. This was driven by "big ticket" transactions, which accounted for around a third of total deal value across Europe.

2025 witnessed the largest ever leveraged buyout on record: the $55 billion takeover of Electronic Arts by a consortium comprising Silver Lake, Saudi Arabia Public Investment Fund and Affinity Partners. We also saw some significant carve-outs, including Advent's $4.8 billion acquisition of Reckitt Benckiser's Essential Home business. Sponsors also remained active in the P2P space, participating in many of the year's competitive bids (including KKR's £4.2 billion acquisition of Spectris, following a bidding war with Advent). The year also featured a steady stream of mid-market deals, dominated by bolt-ons and platform build-outs.

Several trends emerged:

- First, transactions tended to be heavily structured and subject to extensive negotiation with multiple parties. Co-investments and partnership deals became more prevalent, allowing sponsors to plug the equity gap where leverage was constrained or more expensive. Structured equity and minority investments also featured heavily, the latter providing liquidity to sellers without requiring full exits to be implemented at a perceived undervalue.
- Second, we saw increasing focus on industries which are more resilient to macroeconomic uncertainty and less correlated to traditional business cycles, such as healthcare, financial services, defence and infrastructure. This was accompanied by continued interest in more dynamic sectors such as tech, fuelled by AI and data centre growth.
- Finally, fundamental value creation was an increasingly essential imperative, resulting in a focus on attractive assets which offer opportunities for growth and are capable of generating sustainable, organic value.

Exits and different pathways to liquidity

In Europe, exit activity also began to recover from Q3 2025. The year ended with reasonable growth in exit volume compared to 2024, with the number of exits up by around 8%, while the aggregate value of exits increased by around 9.2%. The UK performed particularly well, accounting for 28% of exit activity across the region, with the aggregate value of exits increasing by around 47% from the first half to the second half of the year.

Sponsors accessed a number of different routes to liquidity:

- **Sponsor to sponsor transactions:** deals between sponsors (or sponsor-backed companies) remained an important tool. The UK saw several significant transactions, including the £5.7 billion sale of Pension Insurance Corporation (PIC) by a consortium of sellers (Reinet, ADIA, CVC and HPS) to Apollo-backed Athora.
- **Sales to strategics and trade buyers:** alongside deals within the private capital ecosystem, there was a resurgence of interest from strategics and trade buyers. High profile transactions such as GTCR's sale of its Worldpay stake to Global Payments for USD 24.25 billion and the sale by Lone Star of its majority stake in EUR 6.4 billion Novobanco to Groupe BPCE are good examples.
- **Alternative liquidity routes:** alternative exit routes are now firmly established in the market, and are no longer seen as a niche or cyclical tool. In particular, General Partner (GP)-led secondaries, or CV (continuation vehicle) transactions, delivered around 20% of exit value for sponsors in 2025. Key trends included both an increase in ticket sizes for CV deals implemented by large-cap sponsors, as well as the entry of more mid-market PE houses into the CV market (e.g. Inflexion's £2.3 billion continuation fund which closed in May 2025, moving four mature portfolios from older funds into the new structure).
- **IPOs:** the UK IPO market has been relatively subdued over the last few years, with only a trickle of PE-backed listings. The £1.92 billion Shawbrook IPO was a notable exception in 2025, marking a return to the public markets for the bank after it was taken private in 2017, and generating liquidity for both Pollen Street and BC Partners. This was accompanied by a handful of sponsor-backed IPOs across Europe (including the €13.7 billion IPO of Verisure) and a pronounced increase in US IPO activity.

Outlook for 2026

With market conditions improving and valuations stabilising, we anticipate that sponsors will move forward with a variety of exit strategies in 2026. Despite the increase in activity in Q3 and Q4 of 2025, there remains an ever-growing roster of PE-backed companies which need to be sold (in the UK, this number has grown from 1,700 to 2,700 over the last decade, for example), with average hold periods for sponsors at just shy of 6 years. Over the past few years, this backlog has stalled distributions to LPs, reducing liquidity available for deployment into new funds and dampening the fundraising environment.

The imperative to transact in 2026 is therefore very real. While industry participants anticipate that sponsor-to-sponsor exits will continue to dominate, we also expect to see:

- growth in trade sales, particularly as financing conditions become more favourable and bid-ask spreads converge;
- to a lesser extent, IPOs (particularly where a listing would be a more natural fit for larger portfolio companies); and
- relatedly, more dual-track or multi-track processes to facilitate exits.

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The future of UK equity markets

Reforms and revival

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UK equity markets have entered a period of renewed optimism, bolstered by regulatory reforms, a rebound in IPO activity and a sharper focus on increasing institutional and retail investment in UK equities. We explore the major trends and developments influencing UK equity markets and look at what lies ahead for 2026.

Regulatory reforms and market competitiveness

London's regulatory framework has been simplified by a series of targeted, de-regulatory reforms that have reduced friction for UK listed companies and put London ahead of many of its competitor markets. Changes to the listing regime introduced in July 2024 have bedded in well, with companies particularly welcoming the flexibility to enter into significant M&A transactions without shareholder approval. In January this year, long-awaited changes will be made to the public offers and prospectus regime which, among other things, will in principle make it easier and quicker for listed companies to do rights issues and other large secondary fundraisings (of up to 75% of their existing share capital) without having to publish a UK prospectus. Where the offer has a US element, additional disclosures will likely be needed to satisfy US investor expectations and manage liability risks – however it will be a missed opportunity for the UK if US practice continues to drive prospectus-levels of disclosure under the new rules. The prospectus regime changes will also simplify disclosures where a company offers its own shares in a takeover or other M&A transaction, giving a further boost to companies looking to use their shares as acquisition currency for M&A.

Market recovery and the return of IPOs

In the second half of 2025 investor confidence increased, and Q4 saw the first wave of significant UK IPOs in several years, with listings by Shawbrook, Princes and Beauty Tech. Shawbrook's IPO, a landmark listing on which we advised, was the UK's largest IPO by market capitalisation since 2021 delivered a partial exit for the company's private equity owners, Pollen Street and BC Partners. We expect to see more private equity-backed IPOs in 2026 as more successful listings give sponsors confidence to return to the public markets as a credible path to exit. Indeed, London has consistently demonstrated that it has large pools of capital available to support secondary fundraisings and sell-downs. In March 2025, Pfizer completed the last of a series of large-sell downs through which Pfizer and GSK sold over £14 billion of shares in Haleon in less than three years since its listing to fully exit their respective investments – each highlighting London's strong capacity to support successful exit strategies by shareholders in UK listed companies.

In November the UK government announced a "stamp duty holiday" by introducing a new Stamp Duty Reserve Tax (SDRT) relief for newly listed securities to incentivise companies to list in London over rival markets. The relief exempts from the 0.5% SDRT charge transfers of company securities made within three years of listing on a UK regulated market. (Transfers of AIM company shares are already exempt.) Although the relief aims to address concerns raised by a number of financial technology companies as a perceived disadvantage to listing in London, its time-limited nature is likely to take the edge off an otherwise welcome incentive to attract more companies to list in the UK.

Living with the US

In September, AstraZeneca made headlines announcing that it would harmonise its share listing structure to enable investors to trade ordinary shares across the London Stock Exchange (LSE), Stockholm Stock Exchange (STO) and New York Stock Exchange (NYSE). However, AstraZeneca's place of incorporation, listing, headquarters, tax residence, governance regime and takeover regulation will remain in the UK, and its shares will still qualify for FTSE UK index inclusion. Due to a quirk in the structure for US listings, its shares will trade without SDRT – even in London. While AstraZeneca stressed that the move is designed to increase access to US investors and does not signal a loss of confidence in the UK, it was inevitable that a decision by the largest company in the FTSE 100 to elevate its New York listing would raise questions around London's attractiveness as a listing venue.

More widely however, the narrative of London-listed companies eyeing a move to the US is faltering and companies and sponsors are recognising that perceived differences in levels of valuation and liquidity between the UK and US diminish on closer inspection. When considering total liquidity in the UK market (using fully comparable volume data) and adjusting for available free float, liquidity in the UK is comparable to that in the US. In addition, the relatively poor record of UK companies moving their primary listing to the US suggests that such a move is only viable for the largest of companies with a very substantial presence in the US and, to be even eligible for inclusion in the S&P 500, a market cap of at least USD 22.7 billion.

In October, Texas-based AI data centre company, Fermi Inc, took the unusual step of seeking a secondary listing for its shares in London at the same time as a primary listing on Nasdaq. We expect the LSE to encourage other US companies to use a secondary listing in London to access a wider range of UK and global investors. London is a truly global exchange, with 64% of institutional investors in the FTSE All Share being international compared to a US market that is dominated by domestic investors. In 2026, the Transatlantic Taskforce for Markets of the Future is expected to publish a report on how to improve links between UK and US capital markets, and how to reduce burdens for companies seeking to raise capital cross-border.

Increasing pension scheme investment in UK equities

Over recent decades, UK pension schemes have dramatically reduced their allocations to UK equities in favour of global diversification, and the UK pension system now has a significantly lower absolute and relative allocation to domestic equities than most of its international peers.

There is wide agreement that encouraging UK pension schemes to allocate more capital to UK equities is a necessary part of efforts to revitalise UK capital markets, but opinions differ on how best to achieve this. Mandating a minimum investment in UK assets would be controversial, particularly with scheme trustees and their advisers, and could have unintended consequences. However, the UK government might use a stick and/or carrot to encourage schemes to invest a set percentage. While tax relief to incentivise greater ownership of UK equities is unlikely in the current political and economic climate, a less contentious approach would be to make "UK equities" the default option in defined contribution (DC) schemes, including auto-enrolment schemes. The forthcoming Pension Schemes Bill is expected to require new default arrangements to invest a prescribed percentage in "qualifying assets", likely including UK equities. According to New Financial, setting a 20-25% UK equity allocation in default DC funds could increase investment in UK equities by up to £95 billion. The Bill will also accelerate the process of consolidating certain schemes into larger "megafunds", enabling greater diversification and cost efficiencies in asset allocation.

Increasing retail investment

Companies doing an IPO or secondary fundraising are increasingly allowing retail investors to participate, and we expect this to continue in 2026. Shawbrook's IPO included an offer to UK retail investors (with around 7% of shares sold in the IPO sold through the retail offer, raising approximately £25 million) and retail investors were invited to subscribe alongside institutional investors on most of the larger placings (£30 million or more) by Main Market companies in 2025.

To address some of the barriers to retail investment, the UK's Financial Conduct Authority (FCA) plans to introduce new "Targeted Advice" rules later this year. These rules are designed to enable firms to provide targeted, but non-bespoke, advice without having to follow all the rules that apply to bespoke advice. The UK government is also keen to encourage individuals to invest more of their savings into equities: as part of the November 2025 Budget measures, the amount of money that can be saved tax-free each year in a cash ISA will from April 2027 be reduced from £20,000 to £12,000 for the under 65s, and a campaign to promote the benefits of equity investing has been promised.

AIM's future remains uncertain

Although the Alternative Investment Market (AIM) has been successful over the past 30 years, recent market developments have gradually made it less compelling to companies and investors. The main challenge it faces is the lack of capital and liquidity, not burdensome regulation. As a result, more AIM companies are making the decision to move to the Main Market with a flurry of "AIM to Main" transfers in 2025 compared to previous years. In April, these issues will worsen when the rate of inheritance tax business property relief on investments in AIM shares reduces from 100% to 50%.

In response, the LSE has set out a roadmap for the future development of AIM. As part of this, deregulatory changes to the AIM Rules will be introduced later this year and the Exchange will seek to reposition AIM as distinct from the Main Market.

Private, public and PISCES

Private markets have grown in popularity as a source of capital for companies, but public markets continue to offer distinct advantages – such as greater liquidity, broader investor access and higher standards of governance and transparency. Recognising the need for more flexible liquidity options, the LSE will launch a new PISCES platform, the Private Securities Market (PSM) in early 2026. The PSM will allow investors to buy and sell shares in participating private companies at set intervals, providing a route to liquidity when an IPO or other exit is not immediately available. While a PISCES platform cannot be used to raise new capital, participating can help a company prepare for a future public offering. Although similar platforms are well-established in the US, we expect adoption in the UK to be gradual. Ultimately, both private and public markets play essential, complementary roles.

Outlook for 2026

These targeted regulatory reforms, the return of IPO activity and efforts to increase both institutional and retail investment are promising steps towards a long-awaited recovery. While challenges remain, strong pipeline of prospective listings and ongoing UK political support signal a turning point that sets the stage for UK equity markets to rebound in 2026.

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Financing in 2026

Emerging trends and shifting market dynamics

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Debt markets were resilient in 2025. Strong issuer fundamentals met with a more accommodating economic backdrop to drive higher volumes and tighter spreads across almost all areas of financing. Concerns around tariff-related disruption largely failed to materialise – aside from a brief period of volatility in the wake of Liberation Day – and credit markets were able to quietly absorb further shocks, including signs of increased fiscal distress in France and a US government shutdown. While refinancing and repricing continued to dominate activity across the board, acquisition-related financing gained momentum, supported in particular by the consumer, technology and industrials sectors.

The outlook for 2026 is promising, with debt markets well-positioned to support further event-driven financing as M&A activity rebounds. Against this positive backdrop, we explore some of the key developments and emerging trends in European debt markets and offer insight into the factors that may drive market dynamics and impact financing strategies in 2026.

Private credit: Expansion amid increased scrutiny

In 2025, even during periods of geopolitically driven market volatility, private credit (PC) demonstrated its ability to offer flexible, tailored and efficiently executed funding solutions to a diverse range of borrowers, from innovative companies in sectors such as technology and healthcare to entities in distress requiring access to higher leverage. The market has also increased in capacity, with a range of tools being employed to deepen the capital pool.

To date, PC has operated mostly in the sponsor-backed universe. More recently, PC has been positively targeting non-sponsor-backed corporates, including some of the largest investment grade entities, aiming to compete directly with traditional bank and capital markets funding. This expansion beyond PC's core customer base, coupled with an increasingly diverse product offering, suggests PC is poised for further growth and expansion in 2026 and beyond.

DIVERSIFICATION OF PRODUCT OFFERING

PC has become an increasingly important source of capital for event-driven financing and is well-positioned to benefit from the expected uptick in global M&A activity in 2026. It is, however, increasingly being deployed beyond core direct lending and acquisition finance, for example, into asset-backed finance, infrastructure, higher risk commercial real estate and special situations.

This trend has been maturing for some time in the US with several PC funds launching asset-based financing (ABF) or asset-based loan (ABL) strategies with dedicated funds, whilst others have partnered with or purchased ABF/ABL portfolios from other financial institutions. This is also anticipated as a growth area in Europe – with yield premiums, asset collateralisation and scalability opportunities being attractive features to an ever-widening investor pool, including reinsurance firms, pension funds, sovereign wealth funds, endowments and family offices.

SHIFTING REGULATORY LANDSCAPE

The rapid growth of PC has attracted regulatory attention. Regulators and policymakers from across the UK, EU and globally are examining its implications, particularly the interconnectedness between PC and the broader financial system, most notably banks. While the future regulatory trajectory remains uncertain, it will need to be balanced against the significant role PC clearly has to play in supporting wider economic growth.

Debt capital markets: Regime reform and innovation

European debt capital markets delivered strong performance in 2025, supported by robust investor demand and lower borrowing costs. US issuers capitalised on these favourable conditions, with several high-profile transactions, including first-time euro prints from leading technology and healthcare names. This "reverse Yankee" trend is expected to continue into 2026, alongside a potential increase in corporate hybrid issuance, following notable subordinated deals that were met with strong investor demand towards the end of 2025.

PROSPECTUS REGIME REFORM

As issuance continues at pace, the regulatory framework underpinning the market is undergoing significant change, with reforms to both the UK and EU prospectus regimes. For issuers of UK main market listed debt, the new public offers and admissions to trading regime will replace the existing UK prospectus regime on 19 January 2026. While most of the existing rules relating to prospectuses and admissions to trading will be carried across into the new regime broadly as they are, there are some targeted changes for issuers of debt securities, which aim to reduce the costs of admission and make capital raising easier. The changes are also designed to facilitate the issuance of low denomination bonds, which will be of interest to eligible issuers and could pave the way for a stronger retail investor presence in the UK corporate bond market.

INNOVATION DRIVING CHANGE

Technology and innovation are increasingly shaping the debt capital markets. In 2026, the UK government is expected to deliver its pilot Digital Gilt Instrument (DIGIT), a digitally native, UK government debt instrument, issued on a Distributed Ledger Technology (DLT) platform within HM Treasury's new Digital Securities Sandbox (DSS). The DSS has been created to explore the role of DLT and other technologies in the issuance, trading and settlement of securities.

The DIGIT pilot's objective is to boost development of DLT infrastructure across UK capital markets. It remains to be seen whether this experimental issuance, coupled with political support for digital asset initiatives more broadly, will drive increased interest in digital bonds.

Restructuring and special situations: An expanding toolkit

Throughout 2025, special situations and restructuring activity spanned a broad spectrum of industries with increasingly innovative approaches deployed to provide liquidity and/or implement turnarounds.

Liability management exercises (LMEs) have featured more prominently during initial phases of financial distress, with European markets embracing more assertive techniques as stakeholders continue to test the limits of credit documentation including through the use of enforcement and distressed disposal mechanisms to threaten or implement non-pro rata transactions. As a result, there is an increased focus on LME protections at origination and when negotiating amendments.

M&A and accelerated M&A transactions have continued to provide solutions, frequently executed outside formal proceedings, although pre-packs remain popular and the Part 26A restructuring plan (RP) has proven highly effective. In summer, we advised on the first "pre-arranged" RP, a novel use of the tool to facilitate the sale and restructuring of Poundland.

A UNIQUELY FLEXIBLE TOOL

The RP has been deployed across diverse scenarios, including its first use by a US-based company as a fall back to an exchange offer process. Inevitably, given the ability of the RP to impose a compromise on dissenting stakeholders, with scope to target specific liabilities and without the constraint of an absolute priority rule, some cases have been contentious. This has contributed to a growing body of judicial guidance, including from the Court of Appeal when it considered RPs proposed by Thames Water and Petrofac.

EARLY OPTIONS PLANNING

As distressed companies continue to navigate persistent headwinds, early consideration of strategic options will be key. Guidance from the courts will continue to shape the landscape for those seeking to extend runway and drive successful turnarounds. Evolving stakeholder dynamics will need to be factored in, with PC funds playing a more significant role. We are also starting to see private equity sponsors take a more active role when managing distressed portfolio companies to obtain more runway, achieve burden sharing with creditors and, in some cases, to achieve an orderly handover to creditors. We anticipate that the RP will remain a leading tool both in the courts and driving consensual solutions behind the scenes, although it will continue to be benchmarked against alternative implementation options.

Looking ahead

The outlook for the debt markets is broadly positive, underpinned by a resilience which was notable throughout 2025. Looking ahead, the evolution of PC, regulatory reform, technology and digitisation, and innovation in liability management techniques and turnaround tools, are expected to be key drivers of change. These themes look set to shape the trajectory of the credit markets at a macro level while also influencing how individual businesses approach their funding strategies in an increasingly complex and dynamic environment.

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Bright spots in real estate markets

Where capital is flowing in 2026

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Against a backdrop of elevated geopolitical risk and tougher financial conditions, investment in traditional property sectors has stalled in the past few years both in terms of deal values and volumes. A combination of interest-rate and inflation volatility, and global political unrest and uncertainty saw investment dipping to a ten-year low in 2023, with a relatively cautious pick-up throughout 2024 and 2025.

However, signs of renewed confidence are emerging. Investors appear to be selectively re-engaging with core real estate markets as structural demand drivers and stabilising economic conditions begin to restore momentum. The prime office sector is experiencing a steady resurgence, with resilient occupier demand and limited prime supply driving record-high rents in major European cities. The growth of e-commerce and supply chain modernisation have contributed to a surge in investment in logistics assets across Europe.

Simultaneously, data centres have emerged as a standout growth sector, consistently outperforming more traditional investment assets. Fuelled by substantial global investment and the rapid growth of AI, data centres have fast become part of our critical infrastructure. With an estimated USD6.7 trillion in global data centre investments projected to be required by 2030 to meet global demand, the sector's expansion shows little sign of slowing.

A rebound in activity in the city office market?

After a turbulent period for the city office market defined by the COVID-19 pandemic, the widespread adoption of flexible working and a challenging economic environment, occupier and investor interest in city office space is rebounding. This trend is driven by a renewed appetite for well-appointed, future-proofed workspaces.

Stable office vacancy rates, amid growing demand, have further limited the availability of quality office space, leading to increased rents across Europe. London's West End recorded the highest growth in prime rents in 2025, with an average 17% year-on-year increase, followed by Paris and Frankfurt, both of which saw year-on-year prime rent increases of 13%.

Despite the booming office market, investors remain cautious, with many believing that a significant price correction is required. This carries the risk of credit events being triggered on leveraged properties, where loan-to-value ratios may no longer stack up.

We expect occupier demand to persist as employers encourage a return to in-person working culture, and seek sustainable, wellbeing-focused spaces. This positions city markets in the UK and Europe for continued resilience heading into 2026.

Private equity's role in logistics

The European logistics real estate market has remained similarly buoyant amid sectoral challenges, with logistics assets now accounting for 22% of total European real estate investment, up from 13% in 2018.

The market trajectory is promising. Underpinned by structural drivers including the growth of e-commerce and supply chain modernisation, as well as global trade conflicts, US tariffs and general economic volatility, demand for shorter supply chains and proximity to end markets is increasing.

Against a backdrop of constrained supply, elevated rents for prime logistics space across key European cities – London recording the highest (EUR27.50/sqm/month), compared with the second highest in Zurich (EUR16.50/sqm/month) – reflect persistent demand in metropolitan areas, including the booming "last mile" asset class.

Private equity firms are the most active players in UK logistics, attracted by the prospect of stable yields and the sector's structural resilience. These players are driving a trend of consolidation in the sector, with scalable platforms poised to excel as the market reshapes. Blackstone's GBP470 million acquisition of Warehouse REIT in September 2025 is a stand-out example of private equity's strategic focus on resilience and scale.

We expect momentum to continue as investors seek scale and strategic positioning in a growing market and strive to compete through consolidation.

Data centres take centre stage

As a market similarly dominated by private equity funds, with sponsors estimated to account for nearly 90% of the global data centre M&A market, data centres have defied the trend of steady growth seen across traditional real estate markets. This is despite power availability challenges and planning delays, which are expected to remain the predominant constraints on the sector. In 2026, UK data centre revenues are forecast to meet USD18.2 billion, and the value of the Europe-wide market is projected to reach USD97.3 billion by 2030.

From a private equity perspective, data centres align with key investment criteria, providing stable and predictable long-term cash flows backed, particularly in the case of hyperscale data centres, by customers with strong credit ratings such as Amazon, Google and Meta. They also offer technology-backed growth potential, whether through ramp-ups in power connections or advances in chip technology and cooling solutions, designed to maximise returns on investment.

The sector's expansive growth, largely driven by such investment, has positioned the data centre market as a strong investment proposition in its own right. This transformation has given rise to several trends. Focusing on the UK market, while private equity remains the dominant force in data centre investment, we are observing increased interest from institutional real estate investors.

The emergence of institutional real estate investors into the UK data centre market

To date, sponsor-led investments have primarily been through infrastructure funds, rather than real estate funds. As the market becomes more familiar with the asset class, and examples of transactions involving stabilised sites and platforms, at an asset-level and through M&A, become increasingly common, interest from traditional real estate investors is growing. Early examples include Allianz's acquisition of a minority stake in Yondr and The London Fund's co-investment alongside Macquarie in Virtus.

We expect to see the trend continue – particularly with the growing focus on customer contract / lease terms and a desire to align them more closely with "triple net" (or, in UK terms, "effective FRI") lease terms. This means that the occupier bears all risk and cost associated with the asset, including repair and maintenance costs, business rates and charges. Along with the annual, index-linked rents that are already a feature of most data centre leases, this will bring asset deals further into alignment with more established investment-grade assets such as warehouses and core office buildings.

What lies ahead?

The outlook for 2026 is promising. We expect continued growth in the city office and logistics sectors. In city offices, investor focus is shifting to prime assets with strong sustainability credentials; we can expect sustained rent increases propelled by limited demand. Despite regulatory complexity, rising costs and labour shortages, structurally-driven demand and investor appetite for resilient, income-producing assets will underpin optimism in the logistics sector.

Data centres will continue to face significant developmental challenges as the sector continues to suffer from limited grid capacity and long connection queues in the face of increasing demand. Land constraints present a further challenge and may prevent the UK from reaching the levels of investment and development seen in the likes of China and the US. Nevertheless, as the internet of things continues to expand, and reliance on access to low latency, high performance technology increases exponentially, it is clear that data centres are not only here to stay but will continue to provide compelling opportunities for investors and developers.

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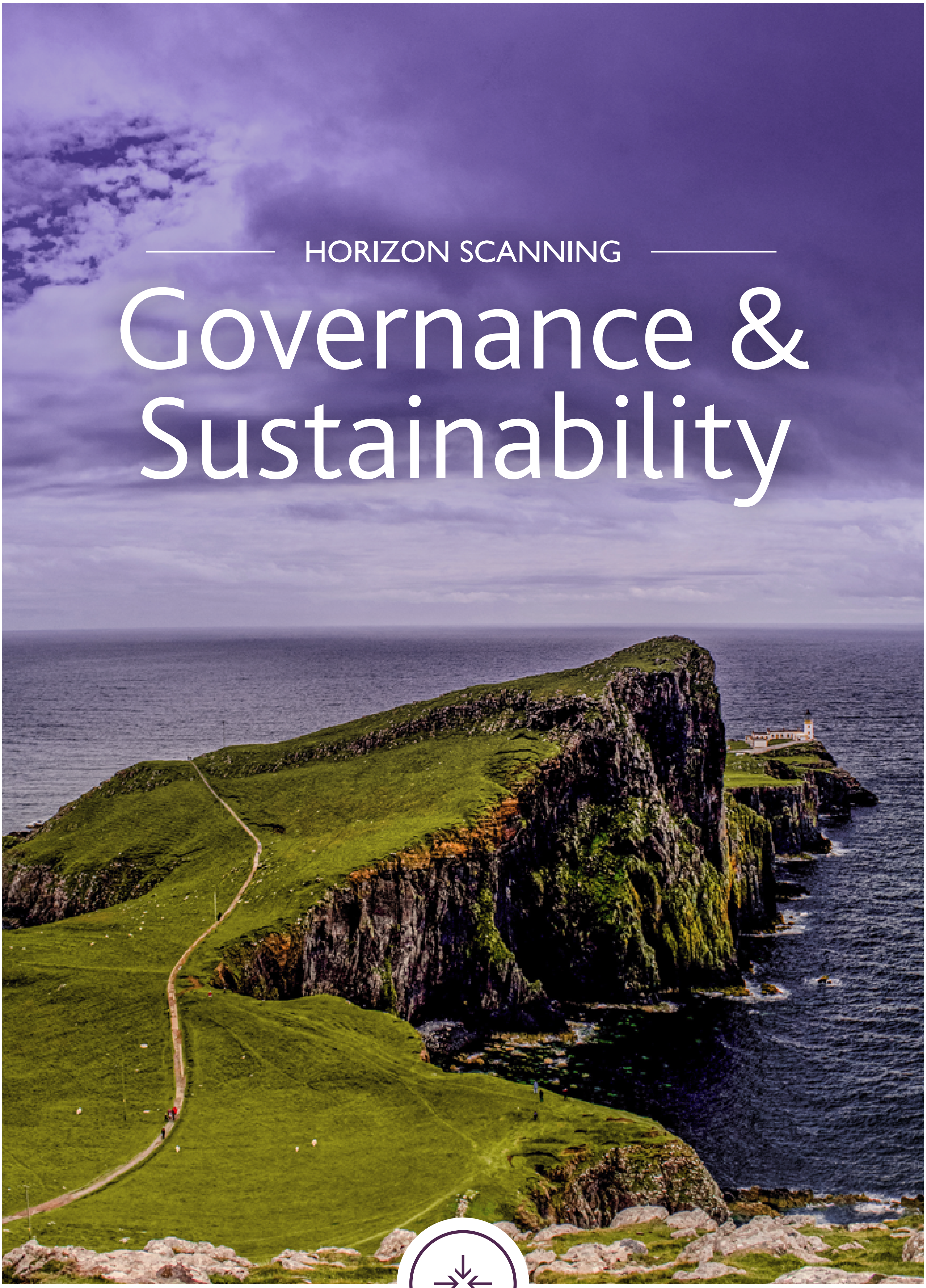
HORIZON SCANNING
Governance & Sustainability

Trans-Atlantic divergence in ESG agendas

Navigating the evolving sustainability landscape in Europe and the US

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With 2026 now underway, we reflect on a year of significant global upheaval in the world of sustainability. After 2024's plethora of elections, 2025 saw a raft of new legislatures and leaders pulling in very different directions, creating significant uncertainty across the world. This was especially true in the US, where sustainability deregulation was top of the agenda. While we expect the dust to begin to settle, the emerging picture is one of divergence between jurisdictions, and continued challenges ahead for companies fulfilling their many and varied obligations.

Geographical divergences

The US experienced a pronounced backlash against ESG during 2025, with widespread challenges to diversity, equity and inclusion measures, attempts to restrict sustainability reporting and investing, and state-level regulatory action against climate collaboration efforts. The divergence has had cross-border impacts, with the anti-ESG agenda influencing inter-state trade negotiations and casting doubt over how other jurisdictions choose to implement their own sustainability regulations.

This divergence is set to continue through 2026, as the US' withdrawal from the Paris Agreement takes effect, while the other signatories maintain committed and grapple with their legally binding decarbonisation targets.

While there has been some backtracking on this side of the Atlantic, we have not seen the same rejection of sustainability efforts as in the US. The ambition of the EU's flagship sustainability regulations means that even simplified obligations set a higher bar than other jurisdictions, and much of the ESG-related legislation expected to come into force in the UK is also still on track.

We have seen criticism from the US administration of these continued sustainability regulatory efforts and attempts to deem them unlawful. These attempts have not been successful so far, but multinational companies will need to tread the line between complying with the law in certain jurisdictions while mitigating their exposure to risk in the US.

More legislative certainty ahead in 2026?

CONTINUED PROGRESS IN THE UK

In 2026, we expect a greater degree of legislative certainty than was experienced during 2025. The global adoption of the International Sustainability Standards Board's (ISSB) sustainability and climate standards, as well as requirements in respect of transition planning, should continue to progress. Following a series of mid-year consultations by the UK government, we have the clearest picture to date that the UK intends to incorporate the ISSB Standards into domestic law as the UK Sustainability Reporting Standards (SRS). We should also get a greater indication of whether and how the government wishes to mandate transition plan development, disclosures, and implementation during the coming year.

With the Home Office's updated statutory guidance on Modern Slavery Act 2015 statements being published late in 2025's reporting season, it is too early to say exactly what impact this will have on reporting practice. We anticipate more clarity in 2026 as we see statements starting to align with the updated recommendations.

Amid continued calls over the past 12 months for the UK to enhance its forced labour legislation, the government launched a review into the UK's approach to responsible business conduct, with a remit to strengthen the existing reporting regime and to explore avenues for further legislative development. We should begin to see the outcomes of that review during the course of 2026, including whether the government seeks to introduce mandatory human rights due diligence, import bans, and/or a "failure to prevent forced labour" duty.

CALMER WATERS EXPECTED IN EUROPE

In Europe, the past year saw significant and prolonged uncertainty surrounding the substance of the European Commission's "omnibus" proposals, particularly with respect to the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CS3D), two of the EU's flagship pieces of sustainability legislation. Negotiations finally concluded in December, meaning that 2026 should offer businesses much greater clarity and a more settled legislative environment within which to continue preparations for compliance.

The Deforestation Regulation (EUDR) was simplified towards the end of the year following proposals submitted by the Commission in October. The regime was also delayed for a second time, meaning that it will begin to apply at the end of 2026 for medium and large operators, and six months later for micro and small operators. 2026 should also see the publication of the Commission's due diligence guidelines for the Forced Labour Regulation (FLR) and the EU Batteries Regulation (EUBR), which will clarify how the obligations under these regimes are intended to sit alongside those imposed by other EU regimes and international soft law standards.

Managing regulatory uncertainty

Behind the noise are concrete laws with which companies need to comply. In the UK and EU, companies will need to fulfil their obligations under the upcoming due diligence and preventative action regulations in the EU so that they are able to place their products on the market. Businesses must also continue making environmental and sustainability-related disclosures required by relevant legislation, otherwise they risk legal action for failure to do so.

Global companies will benefit from assessing which regimes might more immediately apply to their business and whether they might come into scope of those on the horizon. Taking stock will allow organisations to align and streamline their practices, preparing them for when regimes come into force and enabling flexibility if changes occur.

Ensuring that sustainability practices are built on the basis of legal requirements will set businesses up well as they move forward. As a helpful supplement to these obligations, companies should look to international frameworks, which underpin many of the legal requirements and serve as useful guidance for best practice and practical implementation. The companies with clarity on what is expected of them and align their practices accordingly will be better equipped to navigate the sustainability landscape. And while the uncertainty caused by last year's divergence will likely remain, companies might cautiously hope that the gaps will not grow any wider.

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Sustainability reporting in 2026

Is the UK playing catchup, or just exercising pragmatic caution?

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The UK is preparing to hardwire the International Sustainability Standards Board's (ISSB) sustainability reporting standards into domestic regulation through the UK Sustainability Reporting Standards (UK SRS), joining over 30 other jurisdictions in adopting this unified global sustainability reporting standard. Given these changes, we outline the status, scope and considerations for companies getting ISSB ready.

Nature reporting is also increasingly coming to the fore. The Taskforce on Nature-related Financial Disclosures (TNFD) continued to shape market practice in 2025. It has recently crossed a critical inflection point, following the ISSB's recent announcement that it intends to pursue standard-setting for nature-related disclosure requirements.

UK SRS: status, scope and what to expect in 2026

Even if the details have been some time in coming, the direction of travel is clear. The UK intends to endorse International Financial Reporting Standards (IFRS) S1 (crosscutting sustainability) and IFRS S2 (climate) into the UK SRS with minimal UK specific amendments. The UK government's consultation on exposure drafts indicated an emphasis on proportionality, interoperability and a commitment to keeping divergence from the ISSB to a minimum. Emerging design features include:

- climate-focused reporting, based on IFRS S2, for the first two years, with broader sustainability reporting, based on IFRS S1, starting in the third year;
- a one-year relief on scope 3 emissions reporting; and
- making the Sustainability Accounting Standards Board (SASB) industry standards voluntary.

Who these disclosure requirements apply to, and when, are still the key unknown variables to monitor. Although this is still subject to further consultation, the current expectation is that the UK SRS will initially capture UK listed companies and potentially large private companies/LLPs, aligning with existing UK reporting requirements.

We expect the UK government to endorse a decision and publish the final standards in early 2026, with a further consultation on the scope of the regime to follow. The Financial Conduct Authority (FCA) has also stated that it would consult on the implementation of the UK SRS, which is expected to follow an endorsement decision in early 2026. The earliest that reporting is likely to start is January 2027, in respect of financial year 2026.

Getting ISSB ready: priorities for companies

The UK SRS are likely to represent a step change in UK sustainability reporting. Companies should therefore be mindful of the following:

1. **More disclosure can mean more risk:** The UK SRS are likely to require companies to disclose a greater breadth and depth of sustainability information, including statements based on third party data and forward-looking statements. While there are existing Companies

Act protections, this could result in greater risks of misstatement and associated litigation and regulatory risks.

2. **An opportunity to reflect:** The change represents an opportunity for companies to re-evaluate how they want to approach sustainability as part of their wider business strategy.
3. **Financial disclosures:** The ISSB focus on connectivity with financial reporting is likely to be of particular interest to investors and other stakeholders. This will likely require more robust data processes and clear strategies to address any significant impacts or risks identified.
4. **Get involved:** With so much dependent on future consultations, companies should consider actively participating to help shape the future of UK sustainability reporting.

Hong Kong offers useful parallels, being ahead of the UK in having implemented IFRS S2-aligned climate-related disclosures. The requirements came into effect on 1 January 2025 and are to be implemented by listed issuers in phases. This is intended to be an interim step towards full adoption of the ISSB standards (S1 and S2), which are expected to apply to large listed issuers and financial institutions from 2028. Reporters looking to make the step up to ISSB reporting may find resources such as The Hong Kong Stock Exchange's Implementation Guidance on Climate Disclosures helpful, and gain insight from the sustainability reporting of Hong Kong issuers.

Nature reporting

Nature reporting is still nascent, with early adopters facing challenges ranging from inadequate data to difficult questions of quantification. The key message from organisations like the TNFD has been for all companies, wherever they are on nature, to get started.

As a result of the its Biodiversity, Ecosystems and Ecosystem Services (BEES) research project, the ISSB announced in November 2025 that it will undertake further standard setting to introduce incremental disclosure requirements on nature-related risks and opportunities not already reflected in explicit requirements in IFRS S1 and S2, with potential options ranging from a dedicated standard to incremental changes to S1 and S2 and accompanying implementation guidance.

While there is a longer road to adoption for nature reporting, it's worth noting that both the EU's CSRD as well as IFRS S1 already require companies to disclose material nature-related risks and opportunities. Any UK companies in-scope of the CSRD or IFRS S1 disclosures in other jurisdictions should therefore already be taking nature-related risks and opportunities into account. This presents an opportunity to identify learnings that are relevant in the UK context.

A practical takeaway is to build TNFD informed capabilities under the S1 architecture, rather than alongside it. Geolocating assets, screening for sensitive ecosystems, assessing dependencies and impacts and translating findings into assurable metrics can preserve interoperability with CSRD, hedge regulatory uncertainty and ready organisations for an ISSB led evolution of nature reporting.

Looking ahead

With so much of the recent focus being on the EU's sustainability reporting simplification efforts, it is important that reporters don't lose sight of the evolving landscape in the UK. The more predictable and pragmatic UK approach is welcome but also means that reporters have been given a clear signal to get started on preparing.

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UK Corporate Governance reform – the latest instalment(s)

Continued (slow) evolution and the need to support growth

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As we move through 2026, the UK landscape for corporate governance continues to evolve. Companies are under sustained – and, in many areas, heightened – pressure to uphold robust governance standards. We highlight the key reforms and developments for boards and legal teams to consider in planning corporate governance strategies for the year ahead, including the anticipated consultation on the Audit Reform and Corporate Governance Bill, implementation of Provision 29 of the UK Corporate Governance Code 2024 and changes that may impact how companies hold their AGMs.

These developments reflect the ongoing challenge of striking the right balance between strengthening governance and ensuring that regulation does not act as a barrier to commercial success. While new requirements aim to enhance oversight, transparency and accountability, they are also shaped by a clear recognition that effective corporate governance should be robust but proportionate. By refocusing regulatory frameworks and reporting obligations, the UK aims to create an environment where companies can respond swiftly to emerging risks and opportunities while remaining competitive in a rapidly changing market.

Audit and corporate governance reforms

Audit and corporate governance reform has been on the agenda since 2018, following Sir John Kingman's review of the Financial Reporting Council (FRC) after major corporate failures such as Carillion, Thomas Cook and BHS. Progress seemed likely in 2025, with the Audit Reform and Corporate Governance Bill announced in July 2024 and expected to be introduced for pre-legislative scrutiny in the current Parliamentary session. However, in July 2025 the Minister for Employment Rights, Competition and Markets confirmed this would not happen, referring to the volume of legislation before Parliament. The Minister also stressed the need to ensure reforms "strike the right balance between oversight and assurance" without overburdening businesses. Highlighting the ongoing tension between the UK government's stated desires of strengthening the UK's audit and corporate governance framework and, at the same time, positioning the UK capital markets as a more attractive and better place to do business.

Reforms returned to the spotlight in September 2025 when the Minister signalled in a letter to the Chair of the Business and Trade Committee that a consultation would be published in "the autumn" (though at the time of writing (early January 2026) it is still awaited).

An important aspect of the new framework was the transition of the FRC into the new Audit, Reporting and Governance Authority (ARGA) with additional powers. The Minister's letter indicated that the new regulator would become a "revamped modern regulator", which the government now intends to call the Corporate Reporting Authority (CRA).

More significantly, the Minister indicated that the consultation will seek views on granting the CRA authority to hold company directors accountable for serious failures of existing corporate reporting duties via a new regime of civil regulatory sanctions. Although we are awaiting further details, these new powers – which will give the regulator significant new powers to enforce Companies Act 2006 breaches without court proceedings – are likely to be a focus of attention and attract discussion from boards and legal teams alike.

The letter also indicated that the consultation would seek comments on:

- Extending public interest entity (PIE) status to the largest unlisted businesses, companies and LLPs with more than 1000 employees and a turnover of £1 billion or more, a significant increase on the previously trailed 750:750 threshold.
- Whether PIE status should be extended to other businesses based on sector or type of business rather than size.
- Measures to address the poor functioning of the audit market, especially for large, listed companies.

The need to balance increased administrative and other costs against the benefits to the UK was identified as a contributing factor in the decision not to pursue proposals related to managed shared audits and market share caps, which some organisations may welcome.

Provision 29 of the UK Corporate Governance Code 2024

Although the originally planned changes were scaled back, revisions to the 2024 UK Corporate Governance Code relating to risk and internal control were an integral part of the audit and corporate governance reforms. At the heart of these revisions is Provision 29 of the 2024 Code, which moves beyond narrative disclosure to requiring boards to provide a formal declaration on the effectiveness of material controls. The stated emphasis is on strengthening board accountability and oversight in reporting. Changes have also been made to Principle O, which make it clear that the board must not only establish, but also maintain, an effective risk management and internal control framework.

The 2024 Code applies to listed companies on a "comply or explain" basis for financial years beginning on or after 1 January 2025. However, Provision 29 has a delayed implementation date and applies to financial years beginning on or after 1 January 2026. Therefore, the first (mandatory) reporting under Provision 29 will appear in annual reports for 2026 year-ends, published in 2027. This delay has provided companies time to prepare and ensure that additional processes and procedures are in place during the first reporting period (i.e. 2026). Although many companies may choose to report on preparations relating to implementation of Provision 29, there is no expectation that boards make the new declaration in 2026.

How should companies prepare for these changes?

- Update the board and its committees on their new responsibilities.
- Review and refine the internal control framework.
- Revisit principal risks and material controls focusing on those most critical to the company's resilience and stakeholder interests and identify any gaps.
- Identify any additional internal, or external, assurance activities – such as testing or validation – required to support the board's declaration. These may change year on year.
- Plan for ongoing monitoring throughout the year, including the frequency and format of reporting to the board.
- Review governance structures and processes and update committee terms of reference to reflect new responsibilities.
- Conduct a dry run of the board declaration and enhanced disclosures ahead of the effective date to identify gaps and refine processes.

Modernisation of Corporate Reporting

Alongside audit reform, a broad consultation under the Modernisation of Corporate Reporting programme is expected in 2026. The programme extends the existing review of non-financial reporting to the whole annual report as part of a holistic review of the UK corporate reporting framework. The goal is to refocus annual reports on concise, decision-relevant information for investors and creditors while removing unnecessary burdens, further reflecting the overarching theme of balancing robust governance oversight with business agility and UK market competitiveness.

Overall, the UK government aims to modernise and simplify the corporate reporting framework. Announced proposals include:

- Removing the requirement for all companies to produce a directors' report, with some content relocated elsewhere in the annual report.
- Exempting wholly-owned subsidiaries that are included in the reporting of a UK parent and most medium-sized companies from producing a strategic report.

The outlook for AGMs in 2026

Physical AGMs remain the dominant format in the UK, rising to 72% of FTSE 350 meetings in 2025. Hybrid meetings account for 15%, while virtual only meetings remain rare (1%) due to practical and legal hurdles. The remaining 12% of meetings in the 2025 sample were physical meetings with a live webcast, broadcast or dial-in facility (Practical Law, November 2025). In contrast, virtual only AGMs are widespread in Hong Kong, common in the US and increasingly adopted across Europe, particularly in Germany.

Boards should monitor legislative developments, as the UK government proposes to amend the Companies Act 2006 to clarify that fully virtual meetings are permitted. Although the timing of the amendment is unclear given delays to the Audit and Corporate Governance Reform Bill, some companies may choose to renew and, where necessary, update their articles during the 2026 AGM season to enable virtual meetings should they choose to do so in future. Engagement with shareholders will be key, with investor bodies continuing to express concern about virtual meetings reducing board accountability in the UK. In December 2025, the GC100 published guidance on best practice for virtual shareholder meetings, which focuses on enabling shareholders to question and hold boards to account in the context of a virtual meeting.

Embracing the evolving corporate landscape

The audit and corporate governance reform journey that started in 2018 is set to continue in 2026. Although the pace of change may seem glacial, and timelines for key changes still remain unclear, 2026 is set to be a pivotal year for UK corporate governance with changes to Provision 29 finally becoming effective and signals from the UK government that other key reforms are progressing. At the heart of these changes, the UK must balance appropriately robust oversight and assurance with the need to foster, encourage and enable a competitive business environment. For boards, senior executives and legal teams, an emphasis on transparency, accountability and stakeholder engagement, and having their voice heard through participating in the upcoming consultations, will be paramount.

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Implementing the Employment Rights Act 2025

"Making Work Pay" in 2026

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The Employment Rights Act 2025 (the Act), described by Prime Minister Kier Starmer as "the biggest upgrade to workers' rights in a generation", was one of 2025's most significant pieces of UK legislation. It contains a set of reforms to implement Labour's "Plan to Make Work Pay" published before the 2024 general election. Having received Royal Assent on 18 December last year, implementation of the Act will be staggered across 2026 and beyond. The UK government's provisional roadmap outlines three waves of changes during 2026 – in February, April and October, shown in the timeline below. In this piece, we look at the key developments for employers. By taking a proactive approach, employers can mitigate risks, reduce potential costs and ensure compliance with increased standards.

February: Reshaping trade union rights

February will see the first wave of changes relating to trade unions and industrial action, although these are not expected to be the most fundamental of the changes. The main change is the repeal of most of the provisions of the Trade Union Act 2016, including those relating to industrial action ballots. We expect employers that are already unionised to feel the most impact.

April: More union changes, (some) day one rights and new enforcement mechanisms

The introduction of electronic and workplace balloting for industrial action and other trade union matters is expected in April this year. This change will significantly broaden the scope of situations where unions may call for a ballot, no longer so constrained by costs and timing considerations.

The Act also simplifies the support required for trade union recognition in the final ballot, so that:

- A simple majority of those voting is sufficient (turnout thresholds are removed)
- It is no longer necessary to show at least 50% of workers in the bargaining unit are likely to support recognition

The requirement for union members among workers in the bargaining unit can be reduced from 10% to 2%, which could lead to larger bargaining units.

April will also see paternity leave, unpaid parental leave and statutory sick pay (SSP) all become "day one" rights. SSP will be extended to lower earners, albeit at a reduced rate. For employers, implementing these measures will lead to greater costs, and the need to update policies.

In terms of increased costs, another proposal is the increase in the maximum protective award for employers who fail to meet collective redundancy consultation obligations. The maximum award per affected employee will increase from 90 to 180 days' pay.

The UK government has also announced the establishment of the Fair Work Agency (FWA). This agency will combine the various existing labour market enforcement functions (including national minimum wage enforcement, the employment tribunal penalty scheme, and powers to tackle labour exploitation and modern slavery), as well as introducing the enforcement of SSP and holiday pay. However, it may take some time before the FWA is fully up and running.

October: New protections against harassment, restrictions on "fire and rehire", and new trade union rights

From October 2026, employers will once again become liable for harassment of their staff by third parties, such as customers and suppliers. One incident may suffice to fix the employer with liability, unless it can prove it took all reasonable steps to prevent third party harassment.

For the preventative duty on employers, the Act requires employers to take all reasonable steps (not just reasonable steps, as currently) to prevent sexual harassment.

Alongside these new protections, we will also see the implementation of the controversial fire and rehire changes. The Act will make employee dismissal automatically unfair where the employer is seeking to make a "restricted variation" to their contractual terms e.g. those relating to pay (including performance-related pay), pension, hours, and holidays. Employers must therefore examine contractual arrangements with employees and identify where greater flexibility is needed. Inserting or amending contractual variation clauses will not be "restricted variations" if done before October 2026, but will be thereafter – so preparedness is key.

Notably, October will also introduce a new broad right of access for trade unions. This will be both physical and electronic, to enable the recruitment of new members, facilitate collective bargaining or pursue one of the other recognised "access purposes". Employers who are not currently unionised may need to consider preparing for a possible union approach.

Other related changes include new rights and protections for trade union representatives, extending protections against detriments for taking industrial action and a new duty to inform workers of their right to join a trade union.

The final significant change expected in October is the extension of employment tribunal time limits from three to six months. When combined with the sheer volume of new claims made possible by measures in the Act, it is likely to increase the number of tribunal claims being lodged, putting further strain on the tribunal system.

Preparing for a landmark year of employment law reform

In terms of new regulation, we expect 2026 to be the most demanding year for employers in decades. However, this marks the beginning of ongoing transformation, with additional major changes – such as guaranteed hours offers for workers on zero and low hours contracts – scheduled for 2027.

The biggest change for 2027 however will relate to unfair dismissal. In a significant u-turn just before Royal Assent, the government abandoned its manifesto commitment to introduce day one protection from unfair dismissal. Following discussions with trade unions and business representatives, the Act instead reduces the current two-year qualifying period for unfair dismissal to a six-month qualifying period. It also ensures that the qualifying period can only be further varied by primary legislation, reducing the scope for future changes.

Even more significantly, as part of the row back from day one unfair dismissal protection, the government introduced a clause into the Act to remove the cap on the unfair dismissal compensatory award. The cap currently stands at the lower of 52 weeks' gross pay or £118,223. Removal of the cap is a major change to have been introduced so late in the Bill's passage, and it will have considerable ramifications for how employers approach terminating employees, particularly high earners. The new regime for unfair dismissal is expected to take effect on 1 January 2027.

The breadth and depth of these changes will require careful consideration and coordination across your business. Now is the time to engage with the Act and develop an appropriate strategy.

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2026 Implementation Roadmap

Note: These dates are not binding and may be subject to change

Implementation at Royal Assent or soon afterwards

- Repeal of Strikes (Minimum Service Levels) Act 2023 and most of Trade Union Act 2016
- Simplification of industrial action notices and industrial action ballot notices
- Protections against dismissal for taking industrial action

Apr 2026

- Fair Work Agency established
- Day-one paternity leave and unpaid parental leave
- Collective redundancy maximum protective award doubled from 90 to 180 days' pay
- Sexual harassment whistleblowing protections implemented
- Statutory Sick Pay – removal of Lower Earnings Limit and waiting period
- Simplification of trade union recognition process; electronic and workplace balloting
- Gender pay gap and menopause action plans (voluntary only until 2027)

Oct 2026

- Fire and rehire changes (dismissal for failure to agree contractual variation)
- Requiring employers to take "all reasonable steps" to prevent sexual harassment of employees
- Introducing employer liability for third party harassment
- Strengthening trade unions' right of access in the workplace
- Enhanced protections for trade union representatives
- Enhanced protections for workers against detriments for taking industrial action
- Duty to inform workers of their right to join a trade union; strengthening of trade unions' right of access
- Employment tribunal time limits increase from three to six months
- Measures to ensure the fairer allocation of tips

More developments to come in 2027 including changes to unfair dismissal

The new HQ

From status symbol to strategic asset

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The office sector is continuing to undergo a structural shift, generated by the changing ways offices are occupied in the post-pandemic and ESG-focused climate. Despite the growth of flexible working practices, there has been sustained demand for office space in the UK. HQ moves are partly responsible for this upwards trend – particularly active in the pre-letting market are law firms, accounting for a third of all pre-lets in London since 2020. Fears related to large-scale downsizing have failed to materialise and instead we expect occupiers to expand their presence by taking up additional office space. We outline the key trends reshaping the corporate office and how these are set to influence HQ strategy in 2026, from hybrid-enabled space and elevated employee amenities to robust ESG credentials and the integration of smarter building technologies.

Facing the realities of hybrid working

While working from home has become the "new normal", an increasingly vocal number of employers have called for a return to the office. However, this is not all employer-driven. A new generation of workers is challenging the post-pandemic hangover, seeking the benefits of urban living and sense of community that come with regular in person attendance in the office. Recent moves by major organisations reflect this shift. Firms including Deutsche Bank, Panmure Liberum and UBS have tightened their hybrid policies and industry data shows that around 15% of UK companies have increased mandatory office days since first introducing hybrid working.

It is no longer possible for an organisation simply to move offices and expect employees to follow. Employers must respond to the competing demands of a workforce that remains divided on the "work from home" front. Hybrid-friendly office layouts that provide quiet spaces for calls, areas for collaboration and adaptable zones are now part of a broader trend in headquarters design, reflecting the interplay between evolving working patterns and the spaces that support them.

Changing workforce expectations

In 2026, premium amenities are now a baseline expectation in a competitive market. The employee experience is an area of increasing focus for employers as they aim to attract fresh talent and boost office attendance. Part of this change entails the design of quality spaces, offering benefits such as gyms, medical facilities and hotel style "end of trip" facilities.

As well as expanding floor space, reevaluating current utilisation of office space is vital in responding to workers' changing needs. Biophilic design improves employee wellbeing and productivity by integrating plants, natural light and organic textures and continues to be a feature of HQ regeneration.

ESG priorities on the rise

Satisfying ESG requirements has worked its way up the agenda for occupiers as well as landowners, no longer just a compliance issue – ESG can also be a reputation and financial imperative that is making it a frequent discussion for boardrooms. The built environment accounts for at least 25% of the UK's greenhouse gas emissions, a figure that is often overlooked. As the UK moves closer to its net zero target, ESG considerations have become a defining influence on headquarters design.

Given the growth of the UK green finance market, corporates are incentivised not only politically, but also fiscally to meet ESG goals. As climate risk becomes embedded in valuations and lending criteria, compliance offers clear advantages, while failure to act could leave organisations behind. Businesses looking to stay ahead are increasingly carrying out early building performance assessments, setting clear sustainability criteria at the heads of terms stage and using data tools to monitor and evidence progress over the life of the lease.

Recent headquarters moves highlight both the growing importance of sustainable practice and the opportunity for law firms to distinguish themselves from competitors. Office moves have been accompanied by public commitments to achieving Building Research Establishment Environmental Assessment Methodology (BREEAM) Outstanding, Well Platinum and NABERS 5* ratings – internationally recognised certifications of ESG compliance. Where a building commands exceptional sustainability credentials, its liquidity in the market is significantly enhanced. Without these benchmarks, some real estate funds will simply not engage.

Occupiers are now ensuring these standards form part of lease negotiations and are prepared to share in the cost, as ESG performance is closely tied to a firm's reputation. For almost half of UK office workers, ESG considerations influence where they choose to work, underscoring the link between employee expectations and the evolution of headquarters design.

Leveraging digital transformation in the workplace

With changing employee expectations around amenities, flexible working and a stronger focus on climate-aligned standards, the rise of property technologies, "proptech" and AI could not be more timely. AI can now analyse vast volumes of data to optimise space utilisation and better meet workforce needs.

Proptech are being deployed to optimise building performance and advance long-term net zero goals. Yet this sits against a growing tension for organisations, as the rapid expansion of AI across operations is increasing energy demand and raising questions about whether its adoption could, in some cases, conflict with decarbonisation goals. One emerging application is digital twin technology, a virtual replica of a building that updates in real time using live data. By simulating different scenarios, digital twins enable firms to optimise layouts, anticipate maintenance needs and improve energy efficiency before changes are implemented.

HQ strategy redefined

Headquarters once served as a clear symbol of corporate status. That certainty has been unsettled as patterns of work evolved and expectations shifted. Its identity is now shaped by employees, sustainability imperatives and technology, becoming a flexible, data-driven environment rather than a static emblem of prestige.

Far from disappearing, the office continues to adapt. Vacancy rates in London have risen close to the ten-year average, but demand persists for well-located, high-quality space with advanced connectivity. Yet older stock faces obsolescence for failing to meet energy and functionality standards, and continual reinvention will be critical in order to meet evolving standards.

Previous reports of the death of the office appear contrary to the current narrative of its rebirth. The corporate office is not dying; it is being reinvented. Organisations that proactively adapt their HQ strategies in 2026 will be best placed to attract talent, improve productivity and culture, and meet the demands of a changing environment.

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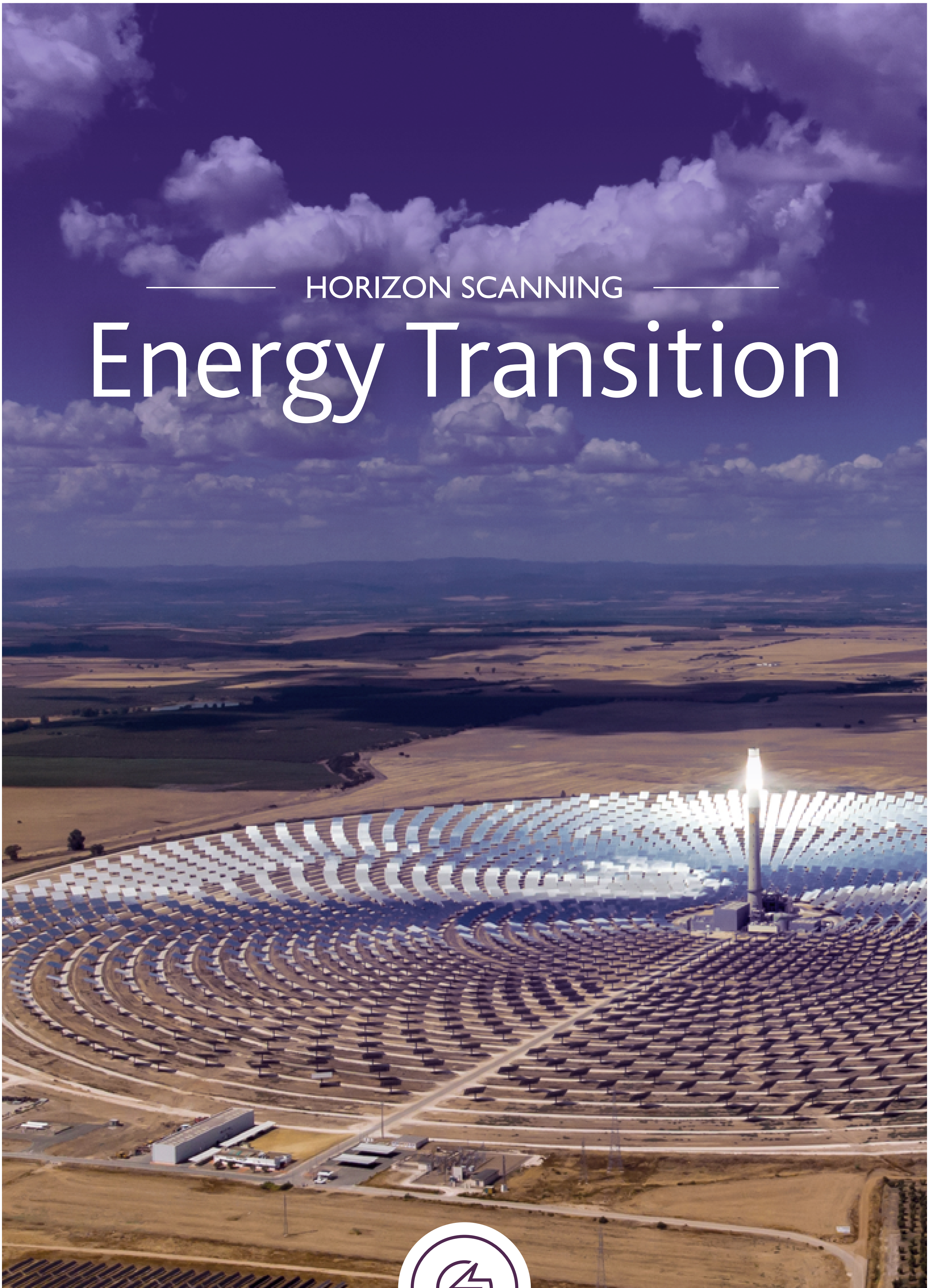
HORIZON SCANNING

Energy Transition



Geopolitics of the energy transition

Fragmentation, security and the new corporate playbook

Alex Dustan
Partner

The global energy system is undergoing a reconstruction. For decades, an open, trade-friendly, market-based order underpinned integrated supply chains and converging energy prices. That order is now fragmenting into competing regional coalitions creating new barriers to investment. Energy transition narratives have shifted from economic efficiency and decarbonisation to national security concerns. However, this reordering carries real commercial consequences: it alters cost structures, redirects capital flows and reshapes legal risk across energy value chains.

We anticipate the shift from globalisation to fragmentation will continue throughout 2026, as a result of defensive trade measures, foreign direct investment ("FDI") screening and export controls. We consider the concrete steps that can help to recalibrate risk-return equations for energy transition technologies, and the concrete steps that can help to structure, contract and govern for resilience.

From open markets to security-led ordering

Energy is, once again, a geostrategic domain in which dependence equates to vulnerability. But now, due to heightening political tensions between major economic powers, governments are increasingly pursuing protectionist agendas to achieve both energy sovereignty and domestic supply chains. This is heightened by energy demand through increasing use of AI, which is perceived by many as critical to future economic growth. In particular, some governments are responding through investment screening, local content rules and export restrictions on raw materials to reduce exposure to adversarial suppliers and anchor domestic capacity. These measures reinforce interventionist, state-led industrial policies across multiple regions, each with different priorities for hydrocarbons, nuclear fuels and clean technology manufacturing.

We are seeing "golden share" equity investments, direct subsidies and public-private consortia spanning upstream extraction, midstream processing and downstream assembly. State-backed investments and interventions proliferate for activities such as in steel production, lithium extraction and battery gigafactories. Sovereignty over energy inputs, supply chains and technologies has become a standalone policy objective, frequently outweighing efficiency gains from globalised sourcing.

Fragmentation into regional coalitions

Together, these policy tools are steadily fragmenting a once-global market into regional ecosystems with competing standards and priorities:

- Firstly, export restrictions and quotas on critical minerals and technology supplies – including advanced machinery and semiconductors – curtail cross-border flows, elongating lead times and increasing working capital needs across solar, wind and battery supply chains.
- Secondly, FDI screening regimes now encompass minority interests, supply agreements and data-rich energy platforms, treating security threats expansively.

- Thirdly, measures to reduce dependence on foreign markets – including local content mandates, so called "friend-shoring" and preferential procurement – are rescaling production networks. Certain measures risk straining the delicate architecture of non-discrimination rules enshrined in international trade law and may signify a more fractious trading landscape marked by escalating disputes.

For corporates, these measures may now demand localising production, duplicating critical value chain stages across regions and moving from just-in-time delivery to higher inventories of critical components, fuels and materials to manage disruption risk. Global trade persists, but is being reshaped by security imperatives and activist industrial policy.

Recent policy packages such as the US Inflation Reduction Act, the EU's Clean Industrial Deal and Net-Zero Industry Act, and Japan's economic-security legislation include measures promoting local content or export controls. We expect to see these further hard-wired into energy and clean technology supply chains in 2026 via support regimes for energy transition technologies.

Prices, inflation, and competitiveness

Fragmentation carries material cost. As supply chains reconfigure around new bottlenecks, and redundancy replaces just-in-time optimisation, input prices for energy and energy-adjacent goods have become more volatile. Energy-intensive industries face higher and less predictable power and fuel costs, with direct effects on margins and investment planning.

Where states underwrite domestic capacity with subsidies, tax credits or other support mechanisms, they are increasingly imposing stringent conditionality – such as local content, data localisation, or technology transfer requirements – which can raise total lifecycle costs despite generous headline incentives. These dynamics shift the competitiveness frontier, favouring businesses able to secure less-volatile (and often low-carbon) energy supplies and to pass through cost increases without eroding demand or market share.

Operational complexity and regulatory divergence

Cross-border regulatory divergence intensifies operational complexity. Standards for cyber and data governance, product safety, environmental assessment and sustainability disclosures are diverging, whilst access to energy markets and grids remains disjointed. Overlapping rules multiply certification burdens and fragment product lines. Sanctions and trade controls compound these difficulties, forcing granular mapping of counterparties, beneficial ownership and data flows. In addition, compliance increasingly operates as a continuous function woven into core business operations, rather than an occasional process conducted at transaction close. Boards should recognise a growing gap between what is legally possible on paper, and what regulators, licensing authorities and communities are likely to approve within commercial timelines.

Recalibrating risk-return profiles

Policy volatility, supply chain constraints and cross-border frictions are reconfiguring the risk-return profile of energy infrastructure. Lenders and sponsors are beginning to treat supply chain security and policy durability as core underwriting criteria, particularly for new build projects and critical operations and maintenance inputs.

For instance, in the solar photovoltaics sector, manufacturing concentration for polysilicon purification wafer production, and cell assembly introduces potential procurement risk and commissioning delays. If export controls on certain key inputs were introduced (as seen in technologies for rare earth processing), or exposure to anti-dumping and countervailing duties introduced, this could affect both technology choice and financing availability.

This is a live issue under discussion in the offshore wind industry, which is seeing escalating turbine and vessel costs, and so is actively exploring cheaper turbine supply options from new markets. This, coupled with congested grid build-out and compressed returns, has impacted bids in recent European auctions. Projects once bankable on fixed-price revenues may now require tariff renegotiations, enhanced indexation or carefully drafted contractual reopeners.

In this context, nuclear energy has benefited from renewed governmental commitments to low-carbon power and system stability, with expanded public support, insurance backstops and sovereign co-investment. Initiatives such as Great British Nuclear in the UK and small modular reactor partnerships illustrate how states coordinate to anchor technology ecosystems and secure fuel supply chains. However, in this sector also, fuel cycle and supplier-state geopolitics, together with long-lived dependencies on specific technology ecosystems, simultaneously elevate political risk. Careful partner selection, fuel supply diversification and rigorous long-term political risk assessment therefore become central to investment decisions.

For battery storage, competition for copper, lithium, nickel, manganese and other critical minerals – together with evolving rules of origin, sustainability criteria and recycling mandates – reconfigure siting economics and revenue models. Value is enhanced by second-life applications, closed-loop recycling and chemistries less exposed to single-mineral chokepoints.

Across these technologies, bankability turns increasingly on policy durability, the ability to localise supply chains and the potential to ringfence political and regulatory risk within project and financing documents.

Structuring, contracting and capital generation

Corporates will need to translate geopolitical uncertainty into contractually manageable risk, whilst preserving operational scale across competing regulatory spheres.

- **Realigning portfolios:** Businesses may need to consider parallel supply chains for critical components, design regionalised product variants and pursue selective friend-shoring partnerships with counterparties aligned on export control and security standards.
- **Screening and diligence:** Transactional diligence should try to incorporate FDI-screening, sanctions, and export control analysis early-on, with pre-consultations where available, and embed mitigation structures – such as tailored governance rights, data silos and proxy or trust arrangements – in deal documentation where necessary.
- **Contracting:** Offtake and supply agreements might, where appropriate, deploy price indexation to baskets of relevant inputs – for example, composites of power prices, freight rates and key commodities – rather than relying on a single benchmark. They should also provide for the consequences of tariff, sanctions and export control events: such as the imposition or material increase of carbon border adjustment mechanisms, new export licensing requirements on critical components or the reclassification of counterparties or jurisdictions as restricted. These risks can be allocated through targeted change-in-law and political risk clauses, coupled with robust dispute resolution procedures. Modernised force majeure provisions or standalone clauses should capture sanctions, export licence denial, cyber security events and supply chain disruptions, with clear notice, mitigation, relief and termination regimes. Step-in rights and robust cure periods can help manage counterparty distress in volatile markets.
- **Capital structuring:** To anticipate policy volatility, sponsors can use blended finance and risk sharing with export credit agencies, development finance institutions, or domestic green banks – for example, by wrapping senior debt with guarantees, using public sector first-loss tranches or adding political risk insurance on key exposures – to derisk projects and crowd in private capital. Where governments seek to anchor capacity, strategic or golden share investments may lower capital costs, but bring regulatory constraints. Sponsors should seek to negotiate clear remits, ringfenced veto rights, dispute resolution pathways and parallel shareholder arrangements preserving operational flexibility.
- **Stockpiling and inventory strategies:** Holding inventories of critical inputs might raise working capital needs, but materially reduce schedule risk. Contracts should specify storage quantities, title, risk transfer points and insurance coverage. Structures such as warehouse-receipt financing, escrowed stock or trust arrangements over inventory can help secure dedicated supply, whilst providing lenders and investors with comfort on collateral and control.

The new corporate playbook

Ultimately, the energy transition's commercial opportunities remain substantial, but these are increasingly conditional on geopolitical resilience. The organising principle can be simple: build for resilience so that when geopolitics intrudes, projects bend rather than break, capital remains deployed and stakeholder confidence endures. Effective integration of geopolitical risk into capital allocation, contracting architecture and regulatory strategy – for example, structured engagement with regulators on licensing, security reviews, and subsidy conditionality – from inception will determine success.

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Harnessing headwinds

Strategies for energy transition investment in 2026

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As we head into 2026, there is continued demand for energy transition investments. The International Energy Agency's World Energy Outlook 2025 reported that renewables met much of the 2% increase in total global energy demand in 2024, driven by rising demand from data-centres, electric vehicles and air-conditioning. Long-term forecasts indicate electrification for energy security and decarbonisation will continue to drive growth in the energy transition.

However, investments, particularly in renewables, faced continued headwinds in 2025. As new opportunities developed amid macroeconomic and market challenges, we consider what strategies are needed to reach a final investment decision in the current climate.

Headwinds or hurricanes?

Geopolitical tensions challenged economic models in 2025, with the spectre of trade tariff barriers between the US and China exacerbating cost increases for essential components across already stretched supply chains. In some markets, this was coupled with tax authorities taking an increasingly tough stance on compliance and enforcement, creating uncertainty as to the availability of expected tax reliefs for major energy projects.

In 2025, even markets that were historically stable experienced increased political risk when the US federal government intervened in offshore wind licensing for projects already in construction. Consequently, investors added a new election risk category to their registers.

With rising levels of intermittent renewables like solar and wind, power markets and grid networks in developed economies are facing growing challenges to maintain a stable electricity supply. These issues become acute in the context of increased demand, at times when generation from wind and solar is limited. Network constraints are contributing to increased delays and cost risks for projects, as well as system-wide changes. Although a new wave of network expansion is underway, power projects face lengthy delays for grid connections and may face rising charges, as the costs of upgrade works are shared amongst users. To ease network strain across Europe, reforms to manage grid congestion are being considered. However, these reforms may heighten actual or perceived change in law risk. Additionally, there have been growing incidents of negative prices, caused by over-supply of renewables pushing power prices below zero. As a result, the average capture price of some intermittent renewable generators is now reportedly lower than the average market price.

Strategies for harnessing headwinds in turbulent times

This volatility has created opportunities for those ready to harness them. We are seeing several strategies employed by governments, corporates and investors, often in combination:

1. **Accessing innovative support schemes**
   For investors looking to mitigate key risks, government support through regulatory schemes is becoming increasingly important. Examples include:

- Governments in the UK, Germany and the Netherlands are deploying Contracts for Difference to mitigate power, fuel or carbon market price risk. This approach encourages investments in sectors such as offshore wind, low carbon hydrogen and carbon capture, effectively fixing revenues at a strike price, and settling against a market reference price.
- Traditionally used in gas, water and electricity networks, Regulated Asset Base (RAB) models are now also being deployed in the UK to support new large-scale infrastructure such as new nuclear power generation, hydrogen transportation and carbon dioxide pipeline and storage networks. Central to any RAB model is the price control process. At each review, an economic settlement is agreed with the regulator, providing an allowed revenue to be charged to consumers, depending on the achievement of certain performance incentives and outcomes.
- Cap and floor regimes are also being extended to long-duration electricity storage and offshore hybrid assets (OHAs). OHAs combine interconnection with the transmission of electricity generated by offshore wind farms, creating direct links between power grids and wind farms. Under these schemes, the regulator sets upper and lower revenue limits, designed to mitigate the asset owner's exposure to market risk.

2. **Transaction structuring**
   In constrained markets, transaction structuring is key to enabling energy transition investments. Portfolio or platform transactions can spread risk across a pool of investments, allowing greater flexibility for project development. Structured finance also enables different types of capital to participate in large-scale investments, allowing private equity and institutional capital to take risk-adjusted positions in high-capex projects.
3. **Tax risk management**
   Initiatives to increase tax certainty are starting to emerge, as governments begin to understand that a lack of tax certainty often affects economic modelling and investment decisions for major projects. The UK is considering the introduction of a special new HMRC clearance process for the largest and most significant projects. At times, this pro-investment and pro-tax certainty message can strain against governments' increasing push for tax authorities to collect more revenue without new taxes being imposed. This tension is well illustrated by the Gunfleet Sands litigation in the UK, in which HMRC are attempting to disallow tax relief for pre-development expenditure for a wind farm – even though this appears to run contrary to government policy on the issue. Tax certainty initiatives may help to avoid issues like this in the future.
4. **Leveraging blended finance**
   Blended finance may be used to reduce the cost of capital for energy transition investments. Sources of blended finance include equity, debt and guarantee products from national and multilateral financial institutions. Blended finance is common in emerging markets financing but also plays a key role in large-scale projects in OECD countries. For example, the new Sizewell C nuclear power plant project leveraged government-backed and private debt through a £36 billion term loan facility from the UK's National Wealth Fund and a BpifiranceAE export credit facility alongside 13 commercial banks supporting a £5 billion debt raise.
5. **Stimulating demand**
   A clear route to market and revenue generation are essential for all investors. However, in energy transition investments, demand for low carbon products often requires regulatory intervention. Government or international schemes to establish demand are important to stimulate investment by introducing carbon pricing, labelling schemes and/or mandates that underpin long-term demand. In the EU, the ReFuel Aviation initiative promotes the increased use of sustainable aviation fuels (SAF) by setting a requirement for aviation fuel suppliers to gradually increase the share of SAF blended into conventional aviation fuel supplied at EU airports. When used in combination with other support and carbon pricing schemes, these provide a powerful signal for investment.
6. **Value-chain integration**
   Integration of value-chains can also de-risk projects, thereby attracting investment and/or making debt-finance terms more attractive. Intra-group or JV partner participation in the supply or offtake arrangements covering all or part of a project's supply or production can significantly reduce"project-on-project" risks, mitigating the risk of undersupply of a crucial input and / or ensuring revenue for at least a minimum proportion of the project's output, underpinning the investment case.
7. **Political risk management**
   As geopolitical tensions rise, so does the importance of managing political risks. Due diligence is crucial to assess legal system risk and change in law risk. Jurisdictions with robust and independent legal systems can offer stability and predictability for investors in an unpredictable geopolitical environment.

Establishing a clear investment pathway in 2026

While energy transition investments continue to face obstacles in 2026, there are nevertheless opportunities for investors. By employing innovative structures or financial models, leveraging government support, and integrating risk management strategies, both public and private sector actors can unlock new opportunities and drive sustainable growth. As the market evolves, resilience and agility remain critical, with collaborative approaches and forward-thinking policies shaping the next wave of energy investments.

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Nuclear energy

A new atomic age?

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Nuclear energy's resurgence has continued at pace over the past year. Around the world, policymakers, developers and investors are showing renewed interest in conventional nuclear power, whilst the race to commercialise small modular reactors ("SMRs") and fusion is raging on. This is creating new opportunities for sponsors investors, and large energy users. In this article, we explore the broad state of the market, together with implications for sponsors, investors and corporates.

Global market dynamics and policy shifts

Over the last 12 months, we have seen continuing rapid development of the nuclear sector in China, a major policy shift in Japan calling for "maximising the use of nuclear energy", consistent support for existing nuclear technologies in Europe and the US and high levels of investment in new nuclear technologies. As noted in the IEA's World Energy Outlook 2025, "as demand surges and the need for reliable, low-emissions baseload electricity increases, nuclear is increasingly seen as a critical part of a secure, affordable and diverse electricity mix".

That said, nuclear policy remains acutely vulnerable to electoral volatility. The temporal mismatch is fundamental: nuclear projects unfold across decades, yet political mandates typically operate within four-to-five-year horizons. Consequently, administrative transitions can fundamentally reshape permitting schedules, recalibrate support mechanisms and – perhaps most crucially – erode or reconstitute the fragile social licence upon which both new-build programmes and life extension initiatives ultimately depend. This structural tension between project longevity and political change constitutes an enduring source of regulatory and investment uncertainty.

Total investment in the nuclear value chain is forecast to reach $2.2 trillion over the next 25 years with global nuclear capacity set to more than double in the same period – from 398 GW in 2025 to 860 GW in 2050. Whilst much of this growth is driven by China (which currently has more nuclear plants under development than any other country), other countries are also showing renewed ambitions.

In May 2025, President Donald Trump issued a series of executive orders aimed at quadrupling the United States' nuclear generating capacity by 2050. France needs to renew its significant fleet of nuclear reactors, running both a life extension programme whilst preparing for its EPR 2.0 new-build programme. The Belgian government struck an agreement with Engie in March 2025 to extend the life of its Tihange 3 and Doel 4 reactors by ten years. As noted above, Japan has dropped prior policy commitments to reduce reliance on nuclear energy and pivoted once more to maximising its use, while South Korea is re-emphasising nuclear as part of its export and industrial strategy. Across central and eastern Europe (including Poland, the Czech Republic and Romania), as well as in the Gulf (notably the UAE and Saudi Arabia), governments and utilities are actively exploring large-scale plants and SMR deployments, creating a broader pipeline of opportunities for sponsors and investors.

UK: new build, life extensions, and financing models

In the UK, the government's stated ambition is still to deploy up to 24 GW of nuclear capacity by 2050, with Great

British Nuclear established to help deliver this programme. Whether this is achievable given planning and construction timescales remains to be seen, and progress will be needed in harmonising regulatory requirements and reducing red tape.

Prime Minister Keir Starmer has recently issued a "strategic steer" to the nuclear sector in which he stressed the need for regulation to be proportionate, with regulators as "active enablers of progress", in order to prevent delays in nuclear projects. In particular, Starmer emphasised both the importance of regulators, planning bodies, and government departments acting "as one team", but also the need for UK regulators to "work closely with trusted overseas regulators" (particularly in the context of SMRs) to ensure appropriate regulatory alignment. The "strategic steer" also pointed to the Planning and Infrastructure Bill, which contains a number of planning measures designed to reduce obstacles to the development of future nuclear projects.

For now, all but one of the nuclear power stations currently in operation are due to close by the early 2030s, with two large-scale new power stations in development at Hinkley Point C and Sizewell C. It is likely that there will be a sizeable decrease in the UK's nuclear power generating capacity prior to these two new projects coming online over the next two decades. There is however consistent support in the UK for nuclear energy from both the public and private sectors. The most notable example of this trend is the recent financial close of the 3.2 GW Sizewell C nuclear power station – a joint investment between the UK government, EDF, Centrica, La Caisse and Amber Infrastructure.

The Sizewell C project is especially noteworthy for being the first project to be funded using the UK's nuclear regulated asset base ("RAB") model. The adoption of a RAB model marks a fundamental shift in how construction and financing risks are allocated in UK nuclear new build projects. Under the model, eligible project costs can be recovered from electricity consumers during construction, subject to regulatory oversight. This means that developers and investors earn a return on their capital throughout the construction period, lowering the overall cost of capital and broadening the pool of potential investors. For institutional capital, the focus is on the stability of the regulatory regime, indexation and incentive mechanisms, and how construction phase overruns, performance shortfalls and decommissioning obligations will be treated within the allowed revenue.

SMRs, AMRs and fusion: from prototypes to pipelines

Whilst established nuclear technologies have captured the headlines in recent months, investment in and development of small modular reactors has continued apace with a range of projects announced in 2025 across the UK, United States, Canada and China.

In November 2025, the UK government announced that Wylfa in Anglesey will host the UK's first SMRs and that Rolls-Royce SMR – successful in the Great British Nuclear SMR competition – will be its preferred technology provider. This aligns with a further government announcement that North Wales – which includes the proposed Wylfa SMR – will host the first UK AI Growth Zone.

Other notable developments include the announcement by Centrica and X-energy of a joint development agreement aimed at deploying 6 GW of new nuclear capacity in the UK using X-energy's Xe-100 SMRs. Alongside this, UK-Czech cooperation on SMRs has accelerated at both the commercial and governmental levels: in 2024, Rolls-Royce SMR and ČEZ Group announced a strategic partnership, including an approximately 20% equity investment by ČEZ, to support deployment of Rolls-Royce SMR technology in the Czech Republic, and to advance plans for up to 3 GW of capacity. This sits naturally alongside the UK-Czech civil nuclear memorandum of understanding, signed in July 2025, which signals closer collaboration across policy, industry cooperation and supply chain opportunities.

In the EU, the European Commission launched a call for evidence in November 2025 to help shape its upcoming SMR strategy which is aimed at accelerating the development and deployment of SMRs in Europe over the next decade. Advanced modular reactors ("AMRs") – such as high-temperature, gas-cooled reactors – will follow similar, but not identical regulatory and commercial trajectories, potentially with stronger emphases on use cases including industrial heat, maritime and mining.

Whilst commercially deployable nuclear fusion technology remains a long-dated proposition, private sector investment in the area remains strong. In August 2025 Commonwealth Fusion Systems raised $863m, whilst, in January 2025, Helion Energy announced a $425m fundraise with investors including SoftBank. Industry players remain bullish about the potential of the technology with the International Atomic Energy Agency recently declaring that, with more than 160 fusion devices either operational, under construction or planned, "fusion energy is entering a new phase of real-world implantation".

Governments and regulators are also beginning to consider how existing nuclear safety, licensing and waste management frameworks should apply to fusion facilities. Yet, there is no settled consensus on whether fusion should be regulated identically, or subject to a more streamlined regime.

What this means for sponsors, investors and corporates

Whilst the long-term role of nuclear in the UK's energy mix appears secure, the next decade will be characterised by fluctuations in nuclear capacity with the closure of the majority of existing plants by the early 2030s before Hinkley Point C and Sizewell C respectively start commercial operations. At a macro level, the closure of nuclear plants may lead to an increase in electricity prices but will reduce the amount of low-carbon baseload capacity available on the grid and will pull biomass and gas-fuelled power stations (in each case, whether CCS-enabled or not) up the merit order.

The rise of AI presents a range of opportunities for developers and investors in the nuclear sector. For example, nuclear energy is increasingly attractive for large-scale data centres because it combines high-capacity, predictable output with a very low carbon lifecycle footprint. Given existing trends in constrained grid connection capacity, volatile wholesale prices and mounting scrutiny of AI's energy and emissions impacts, long-term access to dedicated or preferential nuclear supply can become a strategic differentiator. In addition, the relationship is essentially symbiotic, as AI can support nuclear innovation, particularly in the context of SMRs and nuclear fusion. These dynamics may accelerate investment and innovation across the nuclear value chain, particularly for SMRs and associated supply chains. Yet, for all the technological synergies and commercial momentum, the sector's trajectory remains hostage to a variable that even sophisticated contracts cannot hedge: nuclear policy exhibits an acute vulnerability to changes of government, exposing even the most carefully structured transactions to macro-level political discontinuity.

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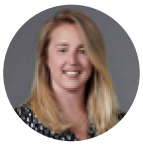
HORIZON SCANNING

Digital

Digital regulation

Navigating diverging paths



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Recent years have seen a proliferation of digital regulation. The (often overlapping) regimes emerging across the globe are creating an increasingly fragmented picture internationally, with that outlook further compounded by the impact of geopolitical tensions in the digital arena, and divergent domestic policy agendas.

For its part, the UK has vigorously pursued a pro-growth agenda in its approach to digital regulation. Despite that ambition, the government itself acknowledges that the current landscape is imperfect, recently suggesting that regulation "still acts as a boot on the neck of businesses". On the continent, the EU has come under heavy criticism for the impact of its significant legislative efforts on innovation, resulting in a renewed focus on seeking to ensure regulation does not impede growth. Of course, in light of its ecosystem of tech companies, the influence of the United States is never far from sight and the current administration's pro-growth, anti-regulation approach inevitably creates spillover effects across the globe.

Here, we examine how these developments are contributing to digital divergence across four key areas: AI, data, competition, financial services and tax.

AI: Balancing innovation and risk

The global competition around AI, and the importance of the AI industry to national economic growth, means that AI regulation is not just about managing the risks AI creates. It is also about ensuring AI development is encouraged, balancing the interests of different sectors and managing geopolitical tensions.

Unsurprisingly, this has led to different approaches to AI regulation. While international initiatives such as the OECD AI principles have influenced many of the AI regulatory regimes we see around the world, when it comes to AI specific legislation, countries tend to sit across a spectrum. At one end, the EU has its comprehensive, risk-based EU AI Act. While parts of the Act are now being reviewed under the EU's Digital Omnibus simplification programme, it still provides a comprehensive risk-based legal regime governing AI development and deployment. The US (certainly at federal level) arguably sits at the other end, with its minimalist, innovation-first agenda. The UK, which adopts a sector specific approach to AI regulation and is now expecting some form of AI Bill, sits somewhere in-between, though it remains to be seen what the AI Bill will look like and whether that will move the UK along this spectrum.

When looking at the UK and EU, we are also seeing some divergence in other legal regimes impacting AI including privacy and IP.

Data: Privacy at a crossroads

We are seeing both divergence, and convergence in the privacy world.

- **Legislation and judicial interpretation:** The UK's Data (Use and Access) Act 2025 amends the UK data protection regime while the European Commission has proposed simplifying the EU GDPR in its Digital Omnibus programme. While both amendments aim to streamline the regimes, given they differ, it may become harder in practice for organisations to adopt a uniform approach to compliance across the EU and UK. There is also an increasing recognition of the importance of consistency of interpretation. This is reflected in, for example, the European Data Protection Board committing in its Helsinki Statement to new initiatives to increase consistency across Member States and simplify GDPR compliance. The UK courts seem to be singing from the same hymn sheet, with the Court of Appeal recently commenting (in the Farley case) that, it "makes good legal sense for the court to interpret and apply the GDPR in conformity with settled [including post-Brexit] Court of Justice of the EU jurisprudence". At a global level, the biggest challenge for organisations remains the proliferation of privacy laws across the globe. Given only some are based on the GDPR, organisations are having to adjust their local compliance accordingly.

- **Enforcement and civil claims:** Data Protection Authorities (DPAs) diverge in the frequency and value of fines they issue, though the EU is trying to address this. DPAs are all focusing on AI as a key priority area, but some favour industry engagement over monetary penalties. The risk profile for mass litigation remains higher in some countries (eg Netherlands), but this is a developing area.

Competition: Regulation of Big Tech

With the UK's digital markets regime now in force, divergence between the UK and EU regimes is playing out in real time. While divergence was expected – the regimes are based on fundamentally different regulatory philosophies – the picture is further complicated by domestic and geopolitical agendas.

In the autumn, the UK's Competition and Markets Authority (CMA) issued its first "strategic market status" (SMS) decisions, in respect of Google and Apple. It will now consult on possible interventions which, in contrast to the "one-size-fits-all" approach of the Digital Markets Act (DMA), will be tailored to the firm in question. The CMA will be keen to model a proportionate approach, in line with the UK government's steer and mindful of US rhetoric on regulation of US tech companies.

Meanwhile, after wasting no time launching non-compliance investigations in 2024, the European Commission has found itself balancing its desire to be seen as a firm enforcer of a key piece of European legislation against the risk of retaliation from the US administration. Although 2025 saw its first non-compliance decisions, they came later than expected, with fines thought to have been calibrated to avoid a reaction from across the Atlantic. Nevertheless, the Commission's recent announcement that it is investigating whether certain cloud computing services should come within the rules suggests the Commission is unbowed.

A key question for 2026 will be the role of these regimes in addressing potential competition concerns in the AI sector. While the UK regime should be flexible enough to allow the CMA to respond if and when the time is right, the position is currently less clear in Europe – the conclusion of the Commission's DMA review in May 2026 may shed some light on the direction of travel.

Financial services: Targeted rules make room for divergence

The UK and EU financial services regulators continue to develop specialised digital regulation to encourage responsible innovation, with no signs that omnibus style simplification plans are on the cards. These initiatives are taking place during a period of steady convergence of financial services and technology businesses, where traditional financial services are now delivered via digital platforms and apps, and technology firms are offering payment wallets and credit options.

In 2026 the UK will follow in the EU's footsteps and finalise its list of third-party tech providers which are considered "critical" to the financial sector. While the UK and EU requirements imposed on these critical third parties are similar on paper, pronounced divergence may emerge in practice if these provider lists look different.

The EU appears to be pulling ahead of the UK on the regulation of cryptoasset activities. Its Markets in Cryptoasset Regulation is fully in force, with grandfathering periods ending by 1 July 2026 across all member states. Meanwhile, the UK is finalising the creation of several new regulated activities tailored to cryptoassets under the Financial Services and Markets Act 2000, which are expected to go live in October 2027. Policy priorities are, however, shared between the jurisdictions, as both wrestle with their approach to US dollar stablecoins and seek to capitalise on momentum in the tokenisation space.

AI regulation presents the sharpest split. The UK financial regulators are maintaining, for now, their principles-based and tech-agnostic approach to AI, contrasting with the EU's classification model. Developments in generative and agentic AI, met with differences between the UK and EU regulatory toolkits, may prompt further divergence.

Tax: Taxing digital business

As digital regulation evolves, often in differing directions in different places, so does the taxation of digital enterprises. Digital opportunities create digital profits which need to be taxed. We continue to expect developments as tax authorities grapple with, for example, how to tax cryptoassets, and the burgeoning returns made by users of online marketplaces. In addition, many countries, including the UK, have implemented digital service taxes (DSTs) which affect social media, search engines and online marketplaces. Some have announced plans to review and potentially remove these DSTs, whilst others are considering introducing new ones. US resistance to DSTs remains resolute – and concerns about retaliation against countries with them remain real.

Mitigating risks and leveraging opportunities in 2026

For some global organisations, divergence in digital regulation can be an additional compliance burden, requiring strategic decisions around whether or not to set a consistent, global benchmark. But for others it might provide opportunities to leverage regulatory differences, benefiting from less strict regimes where possible alongside increased supplier transparency, security and standards where stricter regimes have driven changes in market and supplier behaviour.

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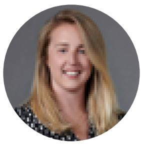
AI update for 2026

Adapting to the evolving AI regulatory landscape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As AI continues to transform the business landscape, staying ahead of legal developments in this space has never been more critical. Global regulation poses a particular challenge, with jurisdictions adopting divergent approaches amid fierce international competition and concerns that excessive regulation could hinder innovation. At the same time, the way AI systems are trained and operate, and the way in which the market itself operates, creates unique legal issues, prompting new legislation, guidance and case law.

In this update, we will help you navigate this evolving web of digital regulation by examining key developments across:

- AI-specific regulation
- Intellectual property
- Data privacy
- AI litigation
- Competition law

AI specific regulation

Regulators worldwide share concerns about AI risks. However, their approach to regulation varies significantly, reflecting today's complex geopolitical landscape. At one end of the spectrum, the US pursues a strongly pro-innovation, light-touch stance at federal level (despite some states passing new AI laws). At the other, the EU has a comprehensive AI legislative package, albeit that its implementation is being refined through the current drive to simplify its digital rules. Countries like the UK arguably sit somewhere in between.

Diving a little deeper – in the EU, the AI Act has been in force since August 2024, with staged implementation over two plus years. The current focus on the EU's competitiveness and publication of its digital omnibus mean that some of the rules around high risk AI which were due to apply from this summer are being slightly delayed. Their entry into application is also being linked (in part) to the availability of tools (including the necessary standards) to help organisations comply. Other proposed changes to the Act include extending some of the exemptions granted to SMEs and the availability of sandboxes, and reinforcing the AI Office's powers to oversee AI systems built on General Purpose AI (GPAI) models.

Meanwhile, the UK has maintained its sector specific approach to AI regulation. The UK government has discussed introducing an AI Bill, although its scope and timing remain unclear. It is expected to be broader than originally planned, covering AI safety and possibly also IP, but is not expected to replicate the EU model.

Intellectual property

2025 was another busy year for AI and IP. This trend will continue into 2026, with a lot of the focus (again) being on copyright.

While progress in the UK will no doubt continue to take time, we can expect some development this year. The UK government is due to publish two AI and copyright-focussed reports by 18 March 2026 under the Data (Use and Access) Act 2025. The outcome of the UK consultation on copyright and AI is also expected later this year, with the UK government due to outline its plans on: (i) balancing the rights of AI developers and rights holders for AI-training purposes and (ii) UK copyright protection for AI-generated outputs. Further guidance may cover treatment of AI models trained abroad (particularly relevant in light of Getty Images v Stability AI), infringement and liability relating to AI-generated outputs, and whether individuals have sufficient control over use of their likeness.

On the disputes front, the UK Court of Appeal is expected to hear Getty's appeal on secondary copyright infringement in its dispute with generative AI provider Stability AI.

Developments are also expected in the EU, with the European Commission currently consulting on protocols for reserving rights from text and data mining, the Court of Justice of the European Union expected to hand down its first decision in this space (in Like Company v Google) in late 2026 or early 2027, and further copyright and AI-related decisions expected in Germany and France.

Data privacy

AI remains a major focus for data privacy regulators and legislators, with them seeking to balance promoting innovation and protecting individuals. For example, provisions in the UK's Data (Use and Access) Act 2025 will relax the data protection rules for AI, likely from January, particularly around automated decision making (ADM), while maintaining important guardrails for the riskiest use cases.

Regulators on both sides of the channel are developing guidance to support AI uptake:

- The UK's Information Commissioner's Office (ICO) has promised updated guidance on ADM this winter, with a new AI code of practice to follow (to provide organisations with new clear and certain guidance).
- The ICO is collaborating closely with other UK regulators, including via the Digital Regulation Cooperation Forum, to provide organisations with welcome regulatory consistency around AI, particularly in financial services.
- The European Data Protection Board is developing guidance to support organisations to navigate the interaction of the EU General Data Protection Regulation and EU AI Act.

While the importance of incentivising innovation is front of mind, UK and EU data protection authorities are also increasing their AI enforcement activity. They are focusing on both developers and corporate deployers of AI solutions in circumstances where tools or models pose real privacy risks to individuals, which may mean further fines, potentially of higher value, in 2026.

AI litigation

With AI becoming ever more widespread, the risk of litigation when it goes wrong continues to grow.

The opacity of AI models, the potential for AI to produce inaccurate outputs (or "hallucinations"), and the ability for AI to replicate errors quickly at scale – create fertile ground for substantial claims against developers and the businesses deploying these technologies.

Regulators are also keeping a keen eye on so called "AI washing" – the practice of making false or exaggerated claims about the use of AI, with, for example, the US Federal Trade Commission having underscored its focus on "ensuring the promise of new technology isn't misused as a means to mislead consumers". Closer to home, the FCA is keen to ensure the "safe and responsible use of AI in UK financial markets." Adverse regulatory findings may also serve as a catalyst for follow-on civil claims.

Fundamental questions of legal liability also remain unresolved: should responsibility for AI-driven errors rest with the developer, the deploying organisation, or even the AI model itself? How can one prove the underlying cause and mechanism of a "hallucination"? As AI-related claims reach the courts, judges will inevitably be required to address these types of questions, with the answers potentially providing some clarity on where the risks inherent in AI deployment ultimately lie.

Competition law

Competition authorities around the world are keeping a close eye on AI markets, recognising both the innovation potential and the risk of entrenched market positions.

They are continuing to monitor partnerships under the merger control and antitrust rules, having tested the boundaries of their jurisdiction to review such transactions under the merger control rules over the last couple of years. The UK Competition and Markets Authority (CMA), for example, has used its flexible jurisdictional thresholds to review non-traditional transaction structures like acquihires, commercial partnerships and non-controlling minority acquisitions.

On the antitrust front, authorities are moving beyond theoretical discussion of algorithmic pricing concerns to bring real enforcement cases – algorithmic collusion is at the centre of the RealPage litigation in the US, and the European Commission has indicated that it has several algorithmic pricing investigations underway. Classic forms of unilateral conduct, such as self-preferencing, price discrimination, predation or tying also remain on the radar – the European Commission has recently announced new probes into whether Google and Meta are favouring their own AI services.

Looking ahead, we can expect 2026 to bring some clarity on whether and how new digital markets regimes might be deployed to maintain contestability in AI markets. While the UK regime is already sufficiently flexible to include AI products and services in its scope if and when the time is right, the position under the Digital Markets Act (DMA) is less clear. With the AI sector a focus of the Commission's current review of the DMA, we can expect some further clarity when that review wraps up in March.

Adapting to an AI age

As AI continues to reshape industries and challenge established legal frameworks, organisations must ensure that they adopt practical AI governance frameworks which fit within their risk appetite, manage specific risks linked to their particular AI use cases and are agile enough to adapt to a changing regulatory and technological landscape.

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Dealmaking in AI infrastructure

Boom or bubble?

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Investment in digital infrastructure has grown year-on-year since the turn of the century, but the recent AI revolution has catalysed exponential growth, driving M&A activity to an all-time high. We examine whether this is a bubble or a sustained boom.

What do we actually mean by a "bubble"?

The best way to think of a "bubble" is an overheated sector where asset valuations are increasingly divorced from analytical means of assessing fundamental value – in other words, valuations are driven by "hype" rather than intrinsic value. The surge of investment in AI infrastructure shares some all too familiar traits with previous bubbles: soaring valuations for not-yet profitable assets, aggressive capital inflows and highly leveraged financing structures. The crucial difference though is demand: while a lack of consumer demand ultimately exposed fundamental flaws in business models during the 1990s dot-com bubble for example, demand for AI infrastructure continues to surge. Early and development-stage infrastructure investors are also used to a higher risk and return profile and investment horizons are often longer.

Will power cause a pop?

While demand seems unlikely to slow, the risk of a market correction remains and infrastructure bottlenecks, particularly related to resource capacity, are a likely potential trigger for that correction. Power grids are already constrained, and we are increasingly seeing infrastructure investors relying on innovative "off grid" or self-sufficient energy solutions to power their AI infrastructure. While a grid connection remains the optimal solution, these come with significant lead-times and increasing regulatory hurdles. Nevertheless, these self-sufficient "island" solutions may allow supply to keep up with demand. Cross-sector partnerships with power providers can allow the parties to share capital costs and operational risks while leveraging synergies: investors bring demand certainty while energy providers deliver generation capacity, but making the economics work can be challenging given the demand energy providers currently have. Long-term offtake agreements, ensuring predictable revenue streams can help manage this.

Is it all AI, or is cloud still carrying the load?

While AI dominates the narrative, the digital infrastructure boom has also been powered by strong demand for cloud computing. Enterprise migration, the rise of Software-as-a-Service, and the growth of edge computing all drive data centre investment. AI and cloud workloads are increasingly interdependent, with hyperscale data centres designed for both and investment strategies reflecting this convergence. This dual demand base adds resilience, supporting sustained deal activity even as market conditions shift. For dealmakers, understanding the interplay between AI and cloud is key to assessing long-term value. Ultimately, it is the combined momentum of AI and cloud that underpins the current wave of dealmaking, suggesting the boom is grounded in broad structural shifts rather than short-term hype.

Creative deal and platform structuring

To manage risk and attract diverse capital, maintaining the necessary investment in the sector, creative structuring such as DevCo/YieldCo structures are being adopted. Construction-stage projects carry significant uncertainty, including risks of cost overruns and delays, which certain investors traditionally avoid. These structures separate development assets from operational ones, enabling investors such as infrastructure funds to invest in the higher-risk DevCo while other investors such as pension and real estate funds focus on the YieldCo, which holds stabilised assets with contracted revenues. Completed projects can be sold from DevCo to YieldCo, creating a self-sustaining pipeline of developments without excessive leverage. This structure supports efficient capital allocation: DevCos typically use mezzanine debt or construction loans with higher margins, while YieldCos secure long-term, lower-cost financing backed by predictable cash flows. More sceptical commentators point to circular financing structures as an early warning sign of an investment bubble, but when implemented well these deal structures actually channel investment into growth without forcing risk-averse investors into speculative positions, ultimately helping to temper volatility.

Alternatively, HoldCo structures can also be popular, consolidating development and stabilised assets under a single corporate entity. In some ways the opposite of a YieldCo/DevCo, this allows equity investors looking for portfolio diversification with some a mixed risk profile to invest, while enabling developers to raise corporate-style debt facilities backed by the operating portfolio, avoiding the complexity of asset-level financing. By offering exposure to both growth and stability within one vehicle, HoldCos attract capital from diverse sources and strengthen resilience against market fluctuations. In an environment where AI-driven demand is fuelling rapid expansion, these structures provide some stability, helping developers secure long-term funding and reducing systemic risk in the sector.

Rethinking exit strategies

As private capital pours into the AI infrastructure sector, exit horizons are becoming a key consideration in M&A deals. Platforms are becoming significantly larger, major investors are increasingly developing their own platforms and public markets remain challenging. This creates significant difficulties in exit which in turn tempers appetite for initial investment. Again, creativity is being deployed to find solutions. For example, we are increasingly seeing investors use securitisation structures to realise investments without disposing of the underlying assets. While features like amortisation and long-term leases with strong guarantees can bolster confidence, whole-campus securitisations may be too large for the market, requiring smaller, phased securitisation or indeed site by site disposals. Rather than creating a barrier to growth, these evolving exit strategies, including securitisation and phased transactions, are allowing investors to recycle capital and reinvest in new opportunities. By anchoring valuations to contracted revenues and supporting steady asset turnover, these mechanisms are helping to sustain deal flow and underpin the continued boom in AI infrastructure investment.

So is it a bubble or a boom?

While the current frenzy of investment and dealmaking in the sector is revealing some symptoms of an investment bubble, the pace of investment is, crucially, matched by an exponential increase in demand. That demand is, in turn, supported by structural shifts in technology and enterprise adoption, pointing towards long-term utility rather than short-lived hype. Unprecedented levels of dealmaking bring novel challenges, and we expect to continue to see bespoke structures and solutions to sustain investment over the long term – but our view is that investment will sustain. The AI boom (or bubble) is now too big and too intrinsic to the future to pop.

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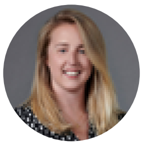
Get smart: data portability is moving from concept to reality

Opportunities and challenges in a new era of data sharing



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Data sharing is set to be turbocharged in the UK and EU through new schemes centred on customer-directed data portability. Ambition for these schemes is high, as drivers of competition, innovation and growth, including in the UK's latest industrial strategy. With some schemes already operational and others set to progress rapidly across 2026, organisations should now be considering the extent to which they will be impacted and how they can take advantage of new data flows while mitigating compliance challenges.

Data sharing legislation reaches fruition

New data sharing schemes are being introduced to build on the right to data portability included in the General Data Protection Regulation (GDPR). While detail of the schemes vary, they all enable customers to receive a download of data they generate using a service or product, and/or to have this data shared directly with a third party. Some schemes also provide for wider sharing of connected business data by participants.

In Europe, new obligations around data portability have been introduced by two major pieces of digital legislation:

- the Digital Markets Act (DMA), which requires those designated as digital gatekeepers to provide users (or third parties authorised by the user) free of charge with effective portability of the data the user has provided or generated on the platform; and
- the Data Act, applicable from September 2025, which requires the sharing of data generated through a customer's use of internet connected devices.

In the UK, the Data (Use and Access) Act 2025 (DUA Act), made law in June 2025, includes framework legislation to enable the introduction of sector-specific "smart data" schemes via secondary regulations.

Broad impact across UK sectors

The UK government is aiming to launch more than 20 new smart data schemes by 2035. Current consultations suggest many UK sectors will be impacted, including communications, transport and even retail, however two sectors have emerged as front-runners over recent months – energy and Open Finance.

The energy scheme would potentially allow domestic and business customers to share their energy consumption data with third parties, to support price comparison, switching and tailored insights into low carbon options. The UK government responded to a consultation on the energy scheme in July 2025 and is working on next steps.

The other front runner, Open Finance, would provide data sharing in relation to a range of financial products. These would potentially include savings, investments, mortgages, pensions and insurance, building on the success of the current Open Banking scheme – worth over £4 billion to the UK economy. The Financial Conduct Authority (FCA) has committed to publishing a roadmap for Open Finance by March 2026 and expects the regulatory foundations for the first scheme to be in place by the end of 2027.

What do organisations need to be considering now?

Drawing lessons from existing schemes, we outline four areas organisations should focus on:

- **Opportunities from new data flows:** Newly available data will enable the development of innovative products and services, by both existing market players and new entrants. For new schemes, the usefulness of the data flows will likely depend on the level of participation across the relevant sector. While participation by the largest players will most likely be mandated (as provided for in the DUA Act), questions remain around how smaller players should be included, particularly if mandating participation would burden them with disproportionate costs. In such case, would market forces be sufficient to get them to join in? Or are government incentives required? There is also no guarantee that individuals will use the schemes in practice, particularly where there is a lack of strong third-party offerings to drive them to switch.
- **Compliance complexity:** Organisations need to navigate compliance with the new portability schemes alongside existing laws, including ongoing GDPR duties, such as data security. There are also concerns about overlapping portability schemes being developed both nationally and internationally. Digital platforms, for example, could fall within the DMA, be subject to data portability conduct requirements under the UK Digital Markets, Competition and Consumer Act and the UK government's proposals for a digital market smart data scheme. Regulatory cooperation and consistency will be essential to ensuring a workable regime and we are seeing encouraging signs here: EU regulators have recently issued guidance on the DMA/GDPR overlap and we are seeing ongoing collaboration between UK regulators.
- **Expense:** How new portability schemes are paid for and how costs are spread fairly remain uncertain as the DUA Act leaves these issues to be decided on a scheme-by-scheme basis. Alongside direct costs, organisations in scope of the new schemes will also likely face costs in ensuring their systems meet required data and transfer standards. This will be most onerous for those with extensive legacy data/systems. Organisations are expected to have little wiggle-room in the format and way information must be provided, as the UK government will likely take lessons from the strong data sharing standards and Application Programming Interfaces (APIs) used in Open Banking. Encouragingly, some organisations implementing the DMA's portability rules have reported leveraging existing GDPR data sharing mechanisms to help meet the new requirements.
- **(But also) potential efficiencies:** Organisations can expect to save costs in the longer-term as a result of system improvements made for smart data. There is also significant potential for businesses to take advantage of smart data schemes on the consumer-side, in comparing prices and easier-switching.

Preparing for new data sharing schemes in 2026

To stay competitive, organisations need to ensure they are on the front foot as new data portability schemes gather pace. As we look ahead, now is the time to keep close to schemes in development and start considering how existing processes can be leveraged to facilitate compliance. Thought should also be given as to how businesses can explore strategic opportunities to harness new data flows and get ahead in an increasingly dynamic market.

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UK and EU shifts in consumer protection

Navigating the new era

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Consumer protection in the UK and Europe is entering a new era. In the UK, the enhanced regime introduced by the Digital Markets, Competition and Consumers Act 2024 (DMCCA) is well underway, while in the EU the new Commission has released initial proposals for a new Digital Fairness Act (DFA) to reinforce existing consumer protection rules.

Together with recent changes to cookie rules and penalties in the UK (and equivalent proposals from the EU), these regulatory developments are reshaping customer journeys and related compliance obligations for consumer-facing businesses through stricter transparency, consent and fairness requirements. Businesses should therefore prepare for increased scrutiny in 2026.

Lessons from the first months of the enhanced UK regime

The key consumer protection aspects of the DMCCA entered into force in April 2025, giving the Competition and Markets Authority (CMA) the power, for the first time, to impose fines of up to 10% of a company's turnover for breaches of UK consumer protection laws.

For the first seven months of the regime, the CMA focused primarily on helping businesses get to grips with the new rules. Instead of taking enforcement action, last summer the CMA issued "advisory letters" to over 50 companies whom it considered may not be compliant with its new rules on fake reviews, recommending they review the guidance against their current policies and approach. In its November 2025 announcement on the launch of its first enforcement cases into suspected drip pricing and pressure selling at eight companies, the CMA explained that it had spent the intervening time reviewing the pricing practices of over 400 businesses, as a result of which it launched these eight investigations and wrote advisory letters to a further 100 companies. While the outcome of these cases is uncertain, it is encouraging to see the CMA continue to use advisory letters rather than seeking enforcement action in all cases of potential concern, aligning with the UK government's strategic steer on proportionately.

Since April 2025 the CMA has also published a plethora of lengthy guidance documents, focusing on unfair commercial practices, fake reviews and drip pricing, amongst others. This has been supplemented by business-focused guidance and webinars, resulting in a vast amount of policy being generated upfront for consumer-facing businesses to navigate.

Customer journeys in focus at both the EU and UK level

Many of these early policy updates, and more than half of the first enforcement cases, have focused on fake reviews and drip pricing – that is, on ensuring that early in the customer journey, customers have clear and accurate information about a product or service's qualities and its total cost. These are both areas where any breach of the rules is automatically unlawful, so the stakes are high. Yet much remains unclear. At a CMA webinar on fake reviews held last summer, a quarter of respondents incorrectly answered a question whose answer was supposed to be clear from the guidance.

Similarly, the initial draft guidance on drip pricing caused so much uncertainty that the CMA conducted an additional consultation on a revised guidance document, which was subsequently released in final form in November. Precedent developed through the CMA's first enforcement cases, where some of the drip pricing guidance will be thoroughly tested and applied in practice, will be key to refining these policy areas as the regime matures.

For those practices where the CMA must also prove that a breach would likely cause the average consumer to take a particular transactional decision, the new guidance means that businesses must ensure that consumers have all relevant information at the outset of their customer journey. Building on earlier case law, the guidance explains that deciding whether to visit a shop, click through onto a website, or agree to a sales presentation are all "transactional decisions". In practice, and in light of the CMA's new direct enforcement powers, businesses should review all claims made during the customer journey for accuracy, and conspicuously flag any material contractual provisions which could affect a consumer's decision making as early as possible.

The EU is also zoning in on similar issues. In December, the Commission issued its first fine (of €120 million) under the Digital Services Act against X for breaching the regime's transparency and design obligations. The Commission held that X's "blue checkmarks" give users a false impression that accounts had been meaningfully verified and amount to a "deceptive design practice". The Commission also highlighted how X's design choices hinder researchers' abilities to analyse ads on the platform. Looking beyond its existing regulatory toolbox, in a bid to ensure that its consumer protection rules remain fit for purpose in the digital age, the European Commission pledged in its recent 2030 Consumer Agenda to table a legislative proposal for the DFA by Q4 2026. Although it is not yet clear exactly what the proposal will cover, the Commission seems to be focused on areas such as drip pricing and scarcity tactics. It is also, though, considering a wider range of issues including dark patterns, addictive design features like "infinite scrolling", and misleading online choice architecture – which has previously been a focus for the CMA. Given that the UK Secretary of State has powers to expand the list of automatically unlawful practices under the DMCCA, we expect the government will watch the progress of the EU legislation carefully, potentially with an eye for future amendments to its own legislation.

Cookie rules in focus

Meanwhile, recent changes to the UK's cookie rules are already impacting the design of customer websites (and apps) in the UK. The Data (Use and Access) Act 2025 (DUA Act), which became law in June 2025, has liberalised the UK's cookie consent rules, so more cookies can be set without the need for opt-in consent, including analytics and security update cookies. In parallel, the DUA Act aligns the maximum fines for marketing and cookie infringements with those applicable to breaches of the UK General Data Protection Regulation (GDPR) (i.e. £17.5 million or 4% of the business' annual worldwide turnover, whichever is higher). UK businesses should review their approach to cookie compliance, including the design of website banners, in light of these changes and also in response to ongoing focus on cookies from the UK data protection authority (DPA) – which has included the regulator auditing compliance by the UK's "top" 1000 websites.

Cookie changes are also on the agenda at the EU level, as part of the pro-growth Digital Omnibus reforms. These would include adding new consent exceptions and aligning cookie penalties across the EU with those under the EU GDPR, as the UK has done. The current EU proposals go beyond the UK's changes – for example, they would require businesses to facilitate one click cookie rejection, and for the rejection to be respected for six months, to address concerns that "dark patterns" are driving consent rates. However, the Omnibus proposals are at an early stage and may be revised following scrutiny by the EU institutions. In the meantime, increased regulatory focus on compliance with the current rules (such as the €750 million imposed on Conde Nast by the French DPA in November) is pushing cookie compliance up the agenda across Europe.

The road forward for consumer-facing businesses

Further developments are expected in both the UK and EU in 2026. In the UK, policy creation will continue apace as the final pieces of the enhanced consumer protection regime (and further cookie changes under the DUA Act) come into force. We expect secondary legislation and guidance on subscription contracts to be published in the autumn (at the earliest), following the UK government's consultation on its proposed policies last year. The progress of the CMA's first investigations will also provide important insights into how the CMA's new rules and enforcement toolkit will be applied in practice. In the EU, as well as developments in relation to the DFA and Digital Omnibus, the Commission has committed to assess whether centralised enforcement powers might be required in certain cases, and how otherwise to bolster coordination among national authorities. This assessment will inform a proposed revision of the Consumer Protection

Cooperation Regulation, which governs cross-border cooperation over suspected breaches of consumer protection rules. Given the current decentralised and fragmented enforcement landscape, this is an encouraging step for significantly reducing the compliance burden for consumer-facing businesses active in the EU.

In the UK in particular, any missteps could have serious ramifications, with the UK DPA and CMA able to impose larger fines by the day (the duration of the infringement post-April 2025 being a relevant factor in calculating the penalty). Consumer-facing businesses operating in the UK and EU should continue to monitor these developments carefully and review their policies and practices as these regimes mature.

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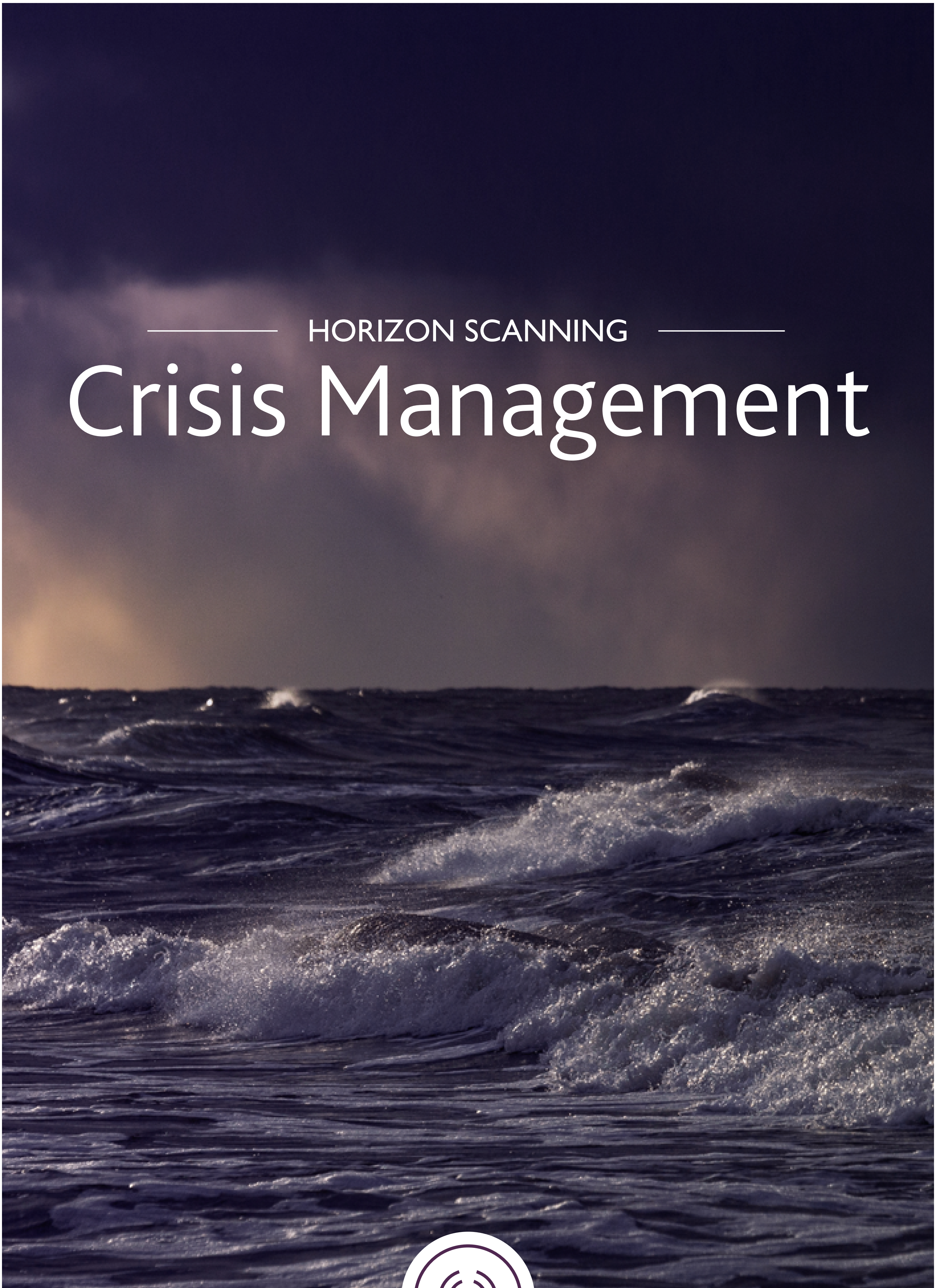
HORIZON SCANNING

Crisis Management



The enforcement landscape

Priorities and projections for 2026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UK regulators and prosecuting authorities are signalling a decisive shift toward tougher enforcement in 2026. Armed with new legislative tools, advanced analytics and stronger penalties, authorities are creating a higher-risk environment for corporates. We highlight the priorities and projections for the Serious Fraud Office (SFO); Financial Conduct Authority (FCA); Competition and Markets Authority (CMA); the sanctions bodies, Office of Financial Sanctions Implementation (OFSI) and Office of Trade Sanctions Implementation (OTSI), and HM Revenue & Customs (HMRC) and what organisations need to consider as the enforcement landscape evolves.

The SFO to step up corporate enforcement

The SFO is set to adopt a more assertive stance toward corporates in 2026. Its long-sought legislative tool – the failure to prevent fraud offence under the Economic Crime and Corporate Transparency Act 2023 – finally arrived in September 2025. This imposes strict liability on large organisations for fraud by employees or associated persons, with only a "reasonable prevention procedures" defence available. We expect the SFO to seek to deploy this tool reasonably quickly, alongside the expanded "senior manager" test introduced in 2023, which lowers the bar for prosecuting corporates for economic crime.

Deferred Prosecution Agreements (DPAs) may also see a revival. In 2025, the SFO aimed to encourage early disclosure by clarifying that companies which self-report and fully cooperate can expect to negotiate a DPA rather than face prosecution – barring exceptional circumstances. The SFO has also sought to incentivise corporate self-reporting by committing publicly to evaluate an organisation's compliance programme as part of its processes, including to assess whether a prosecution of the organisation is in the public interest.

Corporates should also watch for continued lobbying by the SFO for a whistleblower reward scheme modelled on the US Dodd-Frank framework, under which whistleblowers to US agencies can receive substantial monetary awards – generally 10% to 30% of the sum collected when their information leads to an enforcement sanction exceeding $1 million. Momentum is building – and in December the Government committed, in its Anti-Corruption Strategy paper, to explore opportunities to reform the UK whistleblowing framework, including through potential financial incentives – but such reform would mark a major cultural shift in UK economic crime detection.

In terms of cross-border enforcement, although we are likely to see fewer US-led cross border investigations under the current administration compared to the period after the financial crisis, there has been renewed focus on UK/EU initiatives, particularly with respect to financial crime, which may bear fruit in 2026.

A sharper focus for the FCA

The FCA enters 2026 with a clearer long-term strategy and sharper enforcement posture. Its message is clear: enforcement will be more focused, data-led and faster. Firms should expect assertive supervision, increased skilled person reviews, earlier interventions and targeted investigations aligned with FCA priorities.

What are the hotspots to look out for?

- Financial crime: anti-money laundering, sanctions, perimeter breaches
- Market abuse: across asset classes, including a developing crypto market integrity regime
- Operational resilience: meeting impact tolerances, i.e. a firm's ability to keep each of its important business services operating within predefined limits during disruption including IT-related outages
- Consumer Duty: fair value, vulnerable customers, redress
- Listing rules breaches
- Anti-greenwashing and ESG claims
- Non-financial misconduct

In relation to consumer redress, all eyes will be on the outcome of the FCA's motor finance consultation, the first proposed market-wide use of its s404 FSMA powers. Another area to monitor will be the FCA's expanded review of the consumer insurance market, prompted by Which?'s 2025 "super complaint". In its December 2025 response, the FCA announced plans to expand its workplan, focusing on improving claims processes and increasing consumer understanding of their cover over the next year.

Regarding greenwashing and ESG, FCA-CMA coordination is likely to increase, with the CMA's strengthened consumer law powers under the Digital Markets, Competition and Consumers Act 2024 creating parallel exposure for misleading environmental claims.

On non-financial misconduct, from 1 September 2026 the FCA will extend the scope of its conduct rules (COCON) to make it clear that serious misconduct such as bullying, harassment and violence is a matter of regulatory concern at all regulated firms and not just banks.

The FCA dropped its plans to "name and shame" firms at the outset of investigations, but still has an ability to do so in "exceptional circumstances" and refreshed its Enforcement Guide in June 2025. It may now, in defined circumstances, make announcements to warn consumers about suspected unauthorised or criminal activity or confirm the existence and scope of an investigation where the fact of it is already public. Additionally, the FCA will now publish anonymised notices describing issues under investigation, to educate the market. In October 2025 a judicial review challenge by an anonymous company of an FCA decision to publicly identify it as the subject of an investigation was dismissed, indicating that there is a high threshold for companies seeking to challenge the FCA's approach on this topic.

Beyond the FCA developments, the Prudential Regulation Authority (PRA) launched an Early Account Scheme in 2024, which seeks to facilitate faster enforcement processes. The scheme offers firms up to 50% discount in return for the firm completing and handing over a detailed factual account of the issues under investigation, accompanied by an attestation from a Senior Manager. There have not yet been any resolutions under the scheme, so this is an area to watch out for in 2026.

The CMA ramps up cartel and consumer enforcement

The Digital Markets, Competition and Consumers Act 2024 strengthens the CMA's toolkit – adding seize-and-sift powers at homes, clearer remote data access, a duty to preserve evidence and tougher penalties. An April 2024 High Court ruling further lowered the bar for raids on domestic properties.

We expect to see more proactive cases: the CMA is investing in AI-driven screening, expanding ex officio investigations and consulting on leniency reform. Substantively, it has moved into labour markets, issuing its first infringement decision in April 2025 on freelance fee exchanges in sports broadcasting. Priority sectors include public procurement, reinforced by the Procurement Act 2023's debarment regime, and sustainability, with over £77m in fines for vehicle recycling breaches.

In 2025, the CMA also gained direct consumer powers – including an ability to impose fines up to 10% of global turnover. In November, it announced its first investigations under this regime, targeting online pricing practices.

A more active year for sanctions enforcement?

UK sanctions enforcement has lagged behind other jurisdictions, but OFSI and OTSI promise a more active 2026, with focus still on Russia and the Oil Price Cap.

OFSI is shifting to proactive, intelligence-led cases, broadening beyond banking to professional services, real estate, luxury goods and crypto. Heavy investment in analytics means more cases from non-self-reported sources, plus a dedicated team for licence-related breaches and reporting deficiencies.

Established in October 2024, the OTSI is now fully operational, with early cases expected to target trade sanctions circumvention, mischaracterised services and licence/reporting breaches.

In 2026, expect more public outcomes, use of information-offence powers and penalties for governance and reporting failures.

New powers for HMRC, and new use of old ones

2025 saw the commencement of the first prosecution for the "failure to prevent facilitation of tax evasion" offence, some eight years after it came into force. However, even far away from deliberate evasion, or even avoidance, HMRC are increasing their focus on large business and the wealthy, with an emphasis on closing the "interpretation gap". Newly issued "guidelines for compliance" set out HMRC's view on how taxpayers should approach their tax affairs, while HMRC also plan to consult on broadening the requirement for taxpayers to notify uncertain tax treatments. The release of the draft Finance Bill 2026 also brings ever-further reaching legislative powers for HMRC to crack down on what they see as avoidance.

Preparing for a more assertive enforcement environment in 2026

Across fraud, financial crime, cartels, consumer protection, sanctions and tax, UK regulators are signalling a decisive shift towards tougher enforcement in 2026, driven by new legislative powers and stronger penalties. Organisations will need to prepare for proactive investigations, rising expectations for compliance and increased coordination from regulators. Those that monitor and respond quickly to these changes through robust frameworks and reporting mechanisms will be best placed to manage these heightened risks.

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Corporate criminal liability

The expanding legal net

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Since the Bribery Act in 2010, corporate criminal liability in the UK has continued to expand and that trend has accelerated in recent years. The Economic Crime and Corporate Transparency Act 2023 (ECCTA) marked a major shift, introducing an expanded identification doctrine and creating the new "failure to prevent fraud" offence – changes that attracted significant attention at the time.

By contrast, the proposals in the Crime and Policing Bill 2025 (CPB) – currently progressing through Parliament – have received relatively little scrutiny, despite their potentially far-reaching implications. In this piece, we outline the proposal in Section 196 of the CPB to further expand the identification doctrine, its lack of a "benefit safeguard" or a defence based on the adequacy of a company's compliance framework and the practical considerations for businesses.

ECCTA – a refresher

Two provisions of ECCTA have already broadened the scope of UK corporate criminal liability. The first is the expanded identification doctrine, in force since 26 December 2023. This widens the category of individuals whose actions can trigger corporate criminal liability for specified economic crimes – from a narrow group at the top of the organisation (typically the board) to a wider group of senior managers – under what is now referred to as the "senior manager test".

The second major change is the new failure to prevent fraud offence, which came into force on 1 September 2025. From that date, companies may face unlimited fines if employees, or other associated persons, commit a fraud offence intending to benefit the organisation or its clients.

What's new?

If enacted, the CPB would apply the senior manager test to all criminal offences under UK law – far beyond the list of economic crimes captured under ECCTA.

As under the existing ECCTA test, an organisation would be criminally liable where a senior manager commits an offence while "acting within their actual or apparent scope of authority." However, determining who qualifies as a senior manager remains challenging: the definition is deliberately broad and designed to capture individuals who exercise significant influence within the organisation. This may include senior figures in functions such as compliance, finance, operations and HR.

Importantly, the senior manager test does not require that misconduct be intended to benefit the organisation (i.e. there is no benefit safeguard), nor does it allow any defence based on whether a company took reasonable steps to prevent the conduct. When combined with the CPB's much broader scope of offences, this substantially lowers the bar for corporate liability.

What offences are covered?

Section 196 of the CPB casts a wide net. Beyond offences already included under ECCTA, in-scope offences can be grouped into two broad categories:

1. **Business-related offences:** These occur during the course of normal business operations or relate closely to the duties of senior managers, making it easier to justify attributing responsibility to the organisation. Examples could include environmental breaches, data protection violations, computer misuse, modern slavery, human trafficking and health and safety offences.
2. **Personal offences:** These offences are largely unrelated to business activities, and could include violent crime, sexual offences, driving offences and harassment. Under the CPB, no distinction is made between business-related and personal offences, meaning personal offences could, in theory, give rise to corporate liability. While one could argue that this type of personal offending falls outside a senior manager's authority, there may be situations where misconduct occurs within the workplace or forms part of a systemic issue or work culture, making it possible to contend that it was within the actual or apparent scope of the senior manager's authority.

While holding companies accountable for business-related offences may be defensible, extending the same standard to personal offences raises significant fairness concerns, particularly when the organisation has strong compliance measures in place or the senior manager acted without any intent to benefit the business.

Comparisons across the Atlantic

The UK's expanding approach to corporate criminal liability contrasts with the current trajectory in the US, which has been narrowing and refining its corporate criminal enforcement practices. In February 2025, President Trump paused enforcement of the Foreign Corrupt Practices Act (FCPA) – the US equivalent of the Bribery Act – a pause effectively lifted in June when the US Department of Justice (DOJ) issued updated Guidelines. These Guidelines signal a resumption of enforcement but with a refocused agenda: targeting cartels and transnational criminal organisations, prioritising individual over corporate liability and protecting US business interests.

While the UK's Serious Fraud Office (SFO) has hinted it might step in to fill gaps left by a softer US approach and increasingly has the legislative tools to do so, it is unlikely to have the resources to fully assume the DOJ's international enforcement role.

Navigating the expanding legal net in 2026

The UK government's objective of extending the identification doctrine beyond economic offences is understandable: holding organisations accountable for the conduct of senior employees can encourage stronger compliance and deter wrongdoing. However, implementing such a broad framework requires careful calibration. The CPB's broad provisions – embedded within a bill focused on a wide range of other matters – risk imposing additional burdens on companies without delivering clear public benefits.

The Bill is currently at Committee Stage in the House of Lords and is expected to progress towards Royal Assent later this year with little indication that section 196 will be significantly revised.

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An inflexion point for litigation funding?

Overview and recent developments

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Litigation funding has an important but contentious role at the heart of the civil justice system. The law has tolerated its growth because it can open up access to justice for people who could not otherwise afford it. For international investors, though, it is first and foremost about profit, and by 2021 the UK market was estimated to be worth over £2 billion. The tensions here – between profit and justice, investor and victim – are nothing new, but they have become starker as the market has grown, notably through a proliferation of high-value class actions against large corporates across a range of sectors. These in turn have spawned a series of judgments, reports and consultations, culminating in proposals for far-reaching reform of the sector. In this climate of increased scrutiny, is the litigation funding market now at an inflexion point?

The evolution of litigation funding and current challenges

Thirty years ago, most third-party litigation funding was prohibited in England and Wales as a matter of public policy. Allowing third parties to profit from litigation in which they had no personal stake was thought to risk corrupting the justice system. The long decline of public funding for litigants helped change the public policy calculus. For many who could not otherwise afford to go to court, litigation funding became the only realistic option. Its reach has since extended across the civil justice system. As well as individuals and small businesses, funders work with multinational banks and private equity firms, and contract directly with claimant-focused law firms to fund portfolios of litigation. The range of funded claims has expanded too, from misstatements and non-disclosures by listed companies, to alleged competition law breaches, to mass tort claims, often in the ESG space. Because the overriding aim is to obtain the maximum return on investment, funders seek to build large claimant classes so as to enlarge the quantum of claims, generate publicity and increase pressure on defendants to settle. The legal foundation for litigation funding has never properly caught up with these changes. Rather than being set out in statute, rules have developed piecemeal in case law and by amendments to existing laws. The result is an opaque and incomplete system that operates according to practice as much as principle. Its fragility was exposed by the Supreme Court's 2023 decision in PACCAR. In this case, a majority held that litigation funding agreements that entitled funders to a percentage of damages were, as a matter of law, damages-based agreements. The market had always assumed that these tightly regulated contingent fee arrangements could only be entered into by lawyers and their clients. The judgment rendered most litigation funding agreements unenforceable at a stroke and prompted a sector-wide reappraisal of risk and pricing.

Post-PACCAR, most funders adopted a new model for recoveries that entitled them to a multiple of their investment in the event a case succeeded. Some included a clause that would allow them to revert to their preferred percentage-based recovery, if the law was changed to permit it. Inevitably, defendants challenged these new arrangements, however in a recent decision, the Court of Appeal confirmed that they did not render litigation funding agreements unenforceable. Meanwhile, an increasing number of investors have sought to step outside the current regime by focusing on providing funding to law firms, rather than the underlying clients.

Some have acquired equity stakes in firms and others have advanced or re-financed huge loans. In both cases, the aim is the same: to indirectly finance a portfolio of claims in order to spread risk and, potentially, extract very large returns.

These developments have been the context for a series of controversies in cases where funders' returns appeared to dwarf the recoveries made by claimants for whose benefit the cases were allegedly brought, or where claimants have been left exposed to significant adverse costs liabilities. Litigation against the Post Office by former sub-postmasters was a prominent example. In the Merricks v Mastercard litigation in the Competition Appeal Tribunal (CAT), these tensions spilled over into a very public dispute between the funder and the class representative over the amount of the funder's entitlement to a share of a settlement.

Reviews into litigation funding and opt-out collective proceedings

Against this background, the UK government initiated two reviews: one (started before the 2024 general election by the Civil Justice Council (CJC) into the litigation funding market and reforms to its regulation and availability; the second (started early in 2025) by the Department for Business and Trade into the operation of the opt-out collective proceedings regime in the CAT.

The CJC, in a report published in summer 2025, made 58 recommendations to reform litigation funding. The most headline-grabbing was a proposed new law to reverse the effect of the PACCAR judgment, reviving the right of funders to agree returns calculated as a percentage of damages awards. Funders obviously welcomed this and are lobbying for its speedy enactment.

However, the CJC's other recommendations would, if implemented, be equally significant – and not necessarily so favourable to funders. They start from the premise that litigation funding, when defined broadly, includes the range of relationships that funders, lawyers and litigants may enter into to share the risks and rewards of litigation. That approach is helpful because it highlights the interconnected nature of these relationships and the variety of ways in which cases are funded. For example, several recent ESG-focused mass tort claims are backed not by funders but by lawyers, acting on a no-win, no-fee basis. For defendants this presents a significant risk: if they defeat a claim, they may not be able to recover the often substantial legal costs they will have incurred – the individual claimants are impecunious and their lawyers cannot usually be made liable for a defendant's costs.

As a baseline, the CJC proposes a regime of: (1) greater legal certainty by putting litigation funding on a clarified statutory footing; (2) greater stability by placing capital adequacy and anti-money laundering obligations on funders; and (3) greater transparency by requiring full and timely disclosure of the fact of funding and key contractual terms.

From there, the CJC recommends different levels of regulatory intervention depending on the nature and relative sophistication of the contracting parties: where consumers are contracting with litigation funders:

- funders should be subject to a duty akin to that imposed by the Financial Conduct Authority (FCA) where financial services firms contract with consumers;
- the court would be required to approve funding arrangements (including the funder's proposed return) at the outset; and
- adverse costs insurance would be mandatory. However, the CJC declined to recommend extending the requirement for insurance to claimants who have no funder and are instead supported by a solicitor acting on a CFA. That lacuna will be of particular concern to potential defendants to the kinds of mass tort claims described above.

Separately, the CJC concluded that portfolio funding – the provision of finance to law firms to fund a range of cases – raises significant concerns and should be regulated by the FCA, not least to address concerns over the identity of funders, compliance with anti-money laundering regulation and capital adequacy. In circumstances where some law firms may have "developed high-risk and unstable business models that depend on unrealistically high levels of return", the CJC proposed that the UK government investigate portfolio funding and consider the need for regulatory reform of the legal profession.

Conversely, where corporates are negotiating funding or risk-sharing arrangements, the CJC would liberalise the rules, for example by removing the caps on success fees that lawyers can claim on conditional fee agreements and damages-based agreements. Finally, where law firms enter portfolio funding arrangements with litigation funders, greater regulatory oversight, potentially involving the FCA working alongside the Solicitors Regulation Authority, would seek to better protect the interests of litigants.

The ten-year anniversary of the CAT's opt-out collective proceedings regime has also led the UK government to review the operation of opt-out collective proceedings. Its primary aim is to determine whether the regime is delivering access to justice for consumers in a way that brings value without being unduly burdensome for business.

Among its key questions are whether funding agreements are fair and transparent, whether litigation costs influence competition among funders, and how the secondary market in litigation funding has developed in relation to transparency and confidentiality. The UK government acknowledges the overlap between its review and the CJC's report and says it will consider them in the round.

Outlook for litigation funding in 2026

The potential for outsized returns on investment has turned litigation into high risk, but (potentially) high return asset class. Limited regulation has facilitated explosive growth in the market and has allowed funders the flexibility to work around periodic challenges. So while the PACCAR judgment undoubtedly blunted the upside potential for funders backing class action claimants directly, funders have found new ways to deploy capital and maintain ambitious rates of return, notably through the growth of portfolio funding direct to claimant law firms. But the CJC's proposals for reform, and the forthcoming conclusions of the UK government on opt-out collective actions, are likely to present a much more organised and significant challenge. On 17 December 2025, the UK government signalled that it would accept the CJC's proposals to overturn PACCAR by statute and would "introduce proportionate regulation" of litigation funding agreements. If it follows the CJC's proposals, that new system of regulation will prioritise market stability and transparency as a means of protecting consumers and other structurally weaker claimants, which may also indirectly benefit corporate defendants. But the precise shape and timing of any reforms will be crucial, and it is not clear if or when the CJC's further recommendations, including several of key concern to defendants, such as in relation to portfolio funding will be taken forward. In the meantime, there remain grounds for funder (and claimant) optimism: English courts have shown themselves willing to continue to take jurisdiction over high-value international claims, and the recent claimant success in opt-out collective proceedings against Apple is tangible evidence that winning cases do exist.

That said, 2026 could be a year of consolidation in the funding market: assuming new consumer protection rules are introduced, it may lead to a structural decline in some high-volume claims, and increased transparency may lead to greater pricing pressure on funders. However, for the largest claims, the prospects of outsized returns are likely to outweigh the potential costs and increased regulatory burden. Potential defendants will be monitoring regulatory developments closely alongside expected substantive developments in the class action sphere, and could also look for opportunities to be involved in the change in the funding regulatory landscape.

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Class actions in England and Wales 2026

Current trends and outlook


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Class actions continue to play a prominent role in the legal landscape of England and Wales. New trends are emerging across competition, securities and ESG litigation, reshaping both opportunities and challenges for stakeholders. This article explores the current state of play and considers the outlook for class actions in 2026.

Competition class actions

The specialist collective proceedings regime allows class representatives to bring large-scale competition claims on an "opt-out" basis, meaning that claimants themselves are not required to sign up at the outset of a claim. A decade after its creation, the regime is beginning to yield its first settlements and substantive judgments. Initial assessments can therefore be made regarding the regime's effectiveness in delivering redress for class members, and returns for the funders and law firms invested in its success.

CERTIFICATION

While certification remains a low hurdle, in 2025 the Competition Appeal Tribunal (CAT) exhibited a more critical approach and refused to certify claims on a variety of grounds. These included concerns about a class representative's independence (Riefa), statutory preclusion of a novel claim concerning alleged environmental breaches by water companies (Roberts), issues with class definition, methodology and cost-benefit analysis (PRS), and limitation issues (Gutmann Handsets). These decisions delineate the outer boundaries of the types of claims that the CAT is prepared to certify. Following the Supreme Court's recent FX judgment endorsing the CAT's refusal to certify the proposed follow-on claims on an opt-out basis, opt-in v opt-out is likely to become a key certification battleground inviting early merits assessment by the CAT.

SUBSTANTIVE OUTCOMES

Settlement outcomes have so far been underwhelming for consumers. The CAT approved a collective settlement of just £200 million in Merricks – a small fraction of the original £14 billion claim value. Less than 1% was claimed in the first £25 million settlement distribution (in Boundary Fares), with the CAT indicating that anticipated take-up will be an area of future focus at certification.

The three judgments issued on the substantive merits of claims present a mixed picture. The CAT dismissed the claims in both Le Patourel and Boundary Fares – the former for failing to prove that BT's excessive pricing was unfair, and the latter for failing to prove that the train operators' sales and marketing practices were abusive. In that context, the CAT observed that "competition law is not a general law of consumer protection". However, the recent findings of abuse against Apple in the Kent judgment may go some way towards restoring confidence in the regime's ability to deliver large-scale compensation. Judgments are also pending in several further cases.

REVIEW

Although only a handful of cases have resulted in settlements or judgments so far, the regime is already under review, with the UK government questioning whether it effectively provides access to justice for consumers without overburdening businesses. The government's call for evidence suggests some scepticism, indicating that in the short term, reform efforts will likely prioritise improving the regime's efficiency, rather than expanding it to other sectors.

Securities litigation

There is no sign that the rapid growth in securities litigation is slowing down.

An unresolved issue is whether passive investors can bring claims for misleading statements in published information, even if they did not read or consider the information. Two recent English High Court claims (against Barclays and Standard Chartered) came to opposite conclusions, with the latter case acknowledging the possibility of passive investors establishing (with the benefit of expert evidence) "price/ market reliance", i.e. relying on the market to set the price of securities based on the truthfulness and accuracy of the published information accessible to other market participants.

In a welcome development, the Court of Appeal in Wirral v Indivior [2025] rejected investors' attempts to use the "representative claimant" procedure under the English Civil Procedure Rules to establish an "opt-out" mass claim mechanism by the backdoor. This decision is the last word because the Supreme Court has refused permission to appeal.

THE ABOLITION OF THE SHAREHOLDER RULE

The abolition of the shareholder rule by the Privy Council in 2025 means that companies can assert privilege against their shareholders, unless the usual exceptions apply. Shareholder claimants often seek broad and early disclosure in securities litigation, including a company's legal advice, and this judgment therefore provides welcome news for companies defending such claims. The judgment represents a significant shift in the law – as Lord Briggs and Lady Rose observed: "Like the emperor wearing no clothes in the folktale, it is time to recognise and declare that the [Shareholder] Rule is altogether unclothed".

ESG class actions

Some of the most significant ongoing ESG class actions in the English courts (including those against BHP, Dyson, Shell, BAT/Imperial and Brazil Iron) are mass tort claims for alleged environmental damage and/or issues with labour conditions in respect of harm which has been suffered overseas, alongside other ESG-related litigation such as the "Dieselgate" claims against car manufacturers relating to the alleged use of "defeat devices". Various unsuccessful jurisdiction challenges demonstrate the English courts' continued willingness to accept jurisdiction over claims with strong territorial connections to other jurisdictions (particularly in circumstances where the parent entity is domiciled in England). These are all "opt-in" claims which require claimants proactively to sign up.

Climate-based class actions may also be on the rise in the English courts. In December 2025, individuals from impacted Philippines communities issued a claim against Shell in the English High Court for damages in connection with Typhoon Odette, which struck the Philippines in December 2021. The claimants allege that Shell's actions materially contributed to anthropogenic climate change, which significantly intensified the typhoon's impact and likelihood.

It remains to be seen whether recent international judgments hailed as landmark for climate activists, such as Verein KlimaSeniorinnen and Luciano Lliuya, will impact climate litigation in England and Wales. With respect to greenwashing, increased UK regulatory focus from the Financial Conduct Authority and the Competition and Markets Authority, including following the coming into force of the consumer law enforcement regime under the Digital Markets, Competition and Consumers Act 2024 (DMCCA), could lead to investor and/or consumer green action. It will also be interesting to see whether anti-ESG sentiment, which has been on the rise in the US, has any influence.

A diverse and evolving spectrum of claims

Looking ahead, the class actions landscape remains dynamic and will continue to be informed by international developments, emerging regulatory trends, the availability of funding and shifting societal expectations. Stakeholders should anticipate ongoing complexity in the range of class actions coming before the courts.

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The activist agenda

Sustained momentum as activists remain bullish

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Shareholder activism remained firmly on the corporate agenda in 2025, with activists proving resilient despite market uncertainty. Reflecting wider market trends, it was a year of two halves as year-on-year activity levels were relatively subdued in the first half of 2025, whilst the second half of the year, and the final quarter in particular, witnessed an uptick in activity – with the result that 2025 finished ahead of 2024. North America and APAC accounted for 89% of activism campaigns in 2025; meanwhile, activity in Europe was more subdued. Within Europe, the UK continues to be the most active market for activism, accounting for 53% of European campaigns (Bloomberg, 2025).

The untold story, however, is the number of campaigns being waged in private – with these statistics representing just the tip of the iceberg.

We anticipate levels of global activism this year will continue to sustain the momentum seen in 2025, with the UK remaining the firm focus for activists within Europe.

The evolving activist playbook

SIZE AND PROFILE OF TARGETS

While the majority of activist activity is focused on smaller and medium cap companies, some US-based activists are setting their sights on large cap companies (>$25bn) – notably Elliott, which launched five of the ten largest campaigns in the first nine months of 2025. In the UK, this included its high-profile campaign at BP as well as its continued campaign at Anglo-American.

Industrials, technology and healthcare were the most active sectors, with real estate companies also being targeted at a rate significantly above four-year averages, a trend we expect to continue.

Unsurprisingly, AI is becoming increasingly prevalent in the activist toolkit; activists are utilising AI technologies to assist their reviews of potential targets and identify weak spots and opportunities. For companies, this adds further complexity to the challenge posed and raises the bar for preparedness.

FIRST-TIME AND OCCASIONAL ACTIVISTS

The profile of the activist shareholder continues to evolve and diversify. While the large players and household name activists remain influential, more diverse activist investors are joining them. New players are emerging as occasional and first-time activists are often taking the lead in campaigns – with over a quarter of the funds that launched campaigns in 2025 being "first-timers" (Barclays, 2025).

FOCUS OF CAMPAIGNS

Board and management changes remain the most prevalent campaign objective in the UK. In US boardrooms, settlement agreements with major activists such as Elliott, JANA and Starboard, are fuelling a rise in activist board seat wins. The trend of CEO (and other director) resignations following activist campaigns has also intensified, with record numbers of executives stepping down within 12 months of an activist campaign.

Whilst US-style boardroom attrition may increase in 2026, we typically do not see battles over executive spots play out in quite the same way on this side of the Atlantic. Nevertheless, the UK's legal and governance framework is relatively activist-friendly, including comparatively low statutory thresholds to requisition a shareholder resolution and the embedded practice of directors being subject to annual re-election.

M&A-related demands remain popular globally – and slightly elevated in the UK year-on-year. We expect these demands to continue dominating in 2026, including continued calls for spin-offs or break-ups of conglomerates, reflecting the wider trend of portfolio simplification amongst corporates. Activists are also likely to use "bumpitrage" tactics on M&A deals to push bidders to increase their offer price.

In the US, we have seen ESG activism evolving into pro- and anti-ESG movements – with an uptick in the latter since President Trump's re-election. We do not anticipate that this backlash will be as pronounced in the UK, but we have already seen some vocal ESG scepticism, including within Elliott's campaign against BP. Companies are likely to face conflicting calls to action – with climate activists pushing for climate change action on the one hand, and some more traditional activists resisting ESG initiatives on the other.

Recently, we have seen some UK-listed companies facing pressure to relocate their primary listings to the US or elsewhere, following some high-profile relocations. We expect that those demands may continue. However, the experience of some companies that have relocated (particularly with respect to the slow and uncertain process of achieving US indexation) gives targets ammunition to counter the arguments often cited by those pushing for such a move, which often hinge on the promise of higher valuations and access to greater liquidity.

How should companies respond to the threat?

THE CRITICAL IMPORTANCE OF PREPARATION

The long-standing maxim of "be your own activist" remains true. Activists are generally looking for a short- to medium-term return and will push for an actionable corporate event to deliver that. Boards should consider the actionable steps or attack themes – and, crucially, how the company would rebut challenges and what defensive strategies can be used. As part of this exercise, the board should regularly stress-test its strategy and determine if adjustments are necessary, aiming always for board and management consensus. Investor relations teams should also consistently monitor research on the company and the views of proxy advisers.

KNOW YOUR REGISTER

Day to day, companies should monitor both their website for unexpected activity and share register for unusual trading patterns or signs of stakebuilding and work with the registrar as necessary to investigate who the underlying investor is where this is not clear. It is also important to have a rehearsed response plan ready to deploy in the event of an activist approach, including the critical initial engagement with the activist which can set the tone for the rest of the campaign.

UNDERSTAND YOUR SHAREHOLDERS

Regular engagement with major shareholders is critical, ensuring that views are heard and that they continue to buy in to the agreed strategy and support management. Institutional shareholders are increasingly activist in their approach, so it is important to minimise the risk that they side with an activist or use a live public situation as a catalyst to voice broader discontent.

COMMUNICATION IS KEY

In 2025, several corporates successfully waged their own campaigns in the face of activist attacks, leveraging effective shareholder communication strategies. For example, Rio Tinto shareholders rejected Palliser Capital's proposal to shift Rio Tinto's primary listing from London to Australia, demonstrating that a clearly communicated board strategy can be decisive in the outcome. Similarly, in the face of Saba Capital Management's "Mind the Gap" campaign to elect its nominee directors to the boards of numerous investment trusts, the trusts mounted successful counter-campaigns to rally shareholder opposition and vote down the proposals.

PREPARE FOR SUSTAINED CAMPAIGNS

Nevertheless, even when a company wins a battle, it must remain alive to the prospect that the activist may not go away. Activists have continued their tactic of waging long, drawn out campaigns that are designed to wear down management in a war of attrition. Alongside longer campaign timelines, we have seen the growing prevalence of activist "swarms", where multiple activists target a company concurrently. These dynamics add nuance for companies, making it more challenging to remain on the front foot when defending attacks.

The year ahead

The activism landscape is dynamic; we expect the universe of activist players to continue expanding and, particularly as new activists enter the fore, the activist playbook to keep evolving. This creates an ever-broadening spectrum of possible activist situations that companies may face in the year ahead.

Companies will be better placed to navigate the challenges of this increasingly demanding environment if they remain vigilant and proactive in their strategies, anticipating (and preparing for) possible agitation whilst continuing to cultivate strong relationships with shareholders.

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Cyber lessons to take into 2026

Building resilience in an evolving threat landscape

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As we start 2026, the cyber threat landscape continues to evolve at pace. Organisations are grappling with increasingly challenging attacks, while legislators respond with new frameworks designed to strengthen resilience and accountability.

Looking back, what lessons can we take from last year's busy cyber year? And looking ahead – what can organisations do now to help manage an evolving cyber risk?

Lessons from recent high profile attacks

JLR, M&S, Co-op and Harrods grabbed the headlines but many more businesses suffered attacks in 2025. The sense of escalating threat was reinforced by statistics from the NCSC which reported a 50% increase in highly significant incidents since 2024. So what lessons can we take from these recent attacks as we move into a new year?

- **The threat actor landscape is diverse and complex:** Whether you are dealing with nation state backed actors with who are carrying out ransomware as a sideline, less predictable young hackers motivated by kudos as much as financial gain or attackers using "ransomware as a service", the threat actor landscape is multi-layered and evolving, creating new challenges for victims.
- **Serious incidents cost real money:** Last year's attacks disrupted production, sales and general BAU activities (with some organisations reverting to pen and paper). The financial impact of such disruption was stark – reports suggest £1.9bn for Jaguar Land Rover and £300m for M&S. Cyber preparedness and operational resilience plans must factor in these potential consequences.
- **Should you pull the plug?** Co-op managed to take its systems off-line before ransomware was deployed in its systems (although data was still exfiltrated). Whether this approach reduces the impact of the attack will be fact specific, but as advisors do you understand the legal implications of taking your own systems offline and do your cyber governance plans clearly set out who has authority to make the decision?
- **Supply chain risk works both ways:** We often think of suppliers as being a risk – the weak link threat actors target to gain access to a customer's data or systems. This remains a major risk, prompting the UK government to recently urge all major businesses to require cyber essentials certification in their supplier contracts. However, the JLR attack also showed how cyber caused business disruption can negatively impact suppliers. It is therefore important to ensure that your plans around operational resilience and cyber are viewed holistically.

Lesson from ICO Fines

2025 also saw a number of cyber related fines issued by the UK's data regulator, which again provide lessons for organisations.

- **Suppliers can be fined when acting as data processors:** 2025 saw the first processor fines issued by the ICO – one for Advanced Software and one for Capita.
- **Parent companies remain exposed:** Parent company liability for group cyber breaches is a topic we are increasingly speaking to clients about given the

management body liability under NIS2, Vedanta duty of care and recent ICO fines. Capita PLC was fined last year as well as the operating company that provided services to the many customers whose data was impacted by its breach. Organisations may therefore want to consider how their cyber governance operates. Who "owns cyber"? How much authority do local operating companies have around their security? Do you operate in jurisdictions with strict liability regimes that may pass cost up the group (as in the BHP case)? And which entity would lead in a regulatory investigation?

- **Getting the security basics right is key:** Whether it's poor patching, failure to apply multi-factor authentication fully, a lack of system segregation or not sharing pen testing learnings across an organisation, the ICO's monetary penalty notices set out the security expectations of the regulator and security benchmarks organisations should meet.

New laws for 2026 and beyond

Finally, when looking forward, there are new laws to consider, many of which are designed to increase cyber preparedness or tackle known cyber risks:

- **Cyber really is a board level issue:** Changes to the Corporate Governance Code (Provision 29) which came into effect at the start of this month reinforce the importance of boards understanding, and taking responsibility for, cyber governance in their organisation. This is an expectation echoed by investors, the NCSC (which has published its boardroom toolkit) and the UK government.
- **Supply chain management is key legally and operationally:** The UK's Cyber Security and Resilience Bill, which updates the current NIS regime for critical services, was published last November and will continue through the parliamentary process this year. The proposed changes include bringing critical technology suppliers, like data centres and managed service providers, in scope.
- **Ransomware remains the top risk:** The UK is pushing forward with new plans to try to stem the tide of ransomware, particularly where it targets critical national infrastructure. It plans to introduce a targeted ransomware payment ban, ransomware prevention scheme and notification scheme which will change the way UK organisations approach ransomware demands.
- **Increasingly complex web of regulation:** Lastly, organisations are having to grapple with an increasing number of cyber and digital legislation, meaning one incident can lead to multiple notification obligations and potential claims. In recognition of this, the EU's Digital Omnibus proposals seek to simplify reporting obligations by introducing one single entry point (i.e. one platform) for notifications under multiple regimes (GDPR, NIS2, Cyber Resilience Act, DORA etc.). The plans are also looking to change the GDPR's breach notification timeframe, extending it from 72 to 96 hours.

As we move into 2026, the message is simple: cyber remains one of the most significant corporate risks facing organisations. By learning from recent incidents, tightening basic security and governance controls and staying ahead of emerging technological and regulatory change, organisations can strengthen their resilience and be better prepared for this evolving cyber threat.

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