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This week, the Chancellor Rachel Reeves announced a series of reforms (referred to as the 'Leeds Reforms') which seek to make the UK the number one destination for financial services businesses by 2035. In this special edition of the Financial Regulation Weekly Bulletin, we focus on the following key areas: plans to tailor the prudential framework for banks through updates to the UK capital requirements regime and meaningful reform of the ring-fencing regime; efforts to streamline the Senior Managers and Certification Regime; and plans to modernise the redress system as part of the most significant reform of the Financial Ombudsman Service since its inception.

LEEDS REFORMS HEADLINES //

Prudential Framework for Banks

Streamlining the Senior Managers and Certification Regime

Reform of the Financial Ombudsman Service

PRUDENTIAL FRAMEWORK FOR BANKS //

1 HM TREASURY

1.1 **HM Treasury commits to reform of the UK ring-fencing regime** - *15 July 2025* - HM Treasury has announced that the government is committed to "*meaningful*" reform of the UK's ring-fencing regime. In her Mansion House 2025 speech launching the Leeds Reforms, Rachel Reeves, Chancellor of the Exchequer, remarked that "*now is the time to go further in tackling inefficiency and boosting growth… while retaining the aspects of the regime that support financial stability and protect consumer deposits.*"

The government's Financial Services Growth and Competitiveness Strategy - which sets out its ten-year plan to make the UK the global location of choice for financial services – highlights that HM Treasury will undertake a short review of the regime, working with the Bank of England and reporting into the Economic Secretary to the Treasury. The review, which will report by early 2026, will look at how changes to both legislation and PRA rules can strike the right balance between growth and stability, including protecting consumer deposits. In particular, the review will assess options for:

- allowing ring-fenced banks to provide more products and services to UK businesses;
- addressing inefficiencies in how ring-fencing is applied to banking groups; and
- examining the case for allowing banks to share resources and services more flexibly across the ring-fence.

The government explains that it stands ready to legislate to take these reforms forward when Parliamentary time allows.

Mansion House 2025 speech

Financial Services Growth and Competitiveness Strategy

Press release

1.2 **HM Treasury publishes policy update on applying the FSMA model to UK CRR** - *15 July 2025* - HM Treasury has published a policy update on apply the Financial Services and Markets Act 2000 (FSMA) model to the UK Capital Requirements Regulation (575/2013/EU) (UK CRR). This approach involves revoking relevant parts of EU assimilated law on financial services so that the PRA and the Bank of England can replace requirements in legislation with requirements set out in regulator rules, supervisory statements, and statements of policy.

HM Treasury provides an update on its plans to commence the revocation of certain provisions of the UK CRR, as well as making the necessary restatements of the UK CRR in UK legislation where required, and covers three areas:

- **Basel 3.1**, where HM Treasury intends to facilitate PRA proposals to delay the market risk modelling elements of the Basel 3.1 package (detailed further in an item below);

- **Overseas Recognition Regimes**, where HM Treasury sets out its approach to replacing existing UK CRR equivalence regimes with the 'Overseas Prudential Requirements Regimes'. In particular, HM Treasury is considering adapting the current treatment of exposures to exchanges and investment firms under the Overseas Prudential Requirements Regimes, and whether covered bonds should be designated; and
- **Key definitions in the UK CRR,** which will be retained in legislation.

HM Treasury has also published two pieces of draft legislation alongside this policy update: draft versions of (i) the Capital Requirements Regulation (Amendment) Regulations 2025; and (ii) the Credit Institutions and Investment Firms (Miscellaneous Definitions) (Amendment) Regulations 2025. These will require institutions to apply specified PRA rules for the calculation of their market risk capital requirements until the end of the transitional period of 31 December 2027, and to restate relevant definitions, respectively.

Comments are welcomed by 5 September 2025. HM Treasury will publish a draft of the UK's Overseas Prudential Requirements Regimes later in 2025. It also intends to lay the transitional regulations and make the appropriate revocations of UK CRR in sufficient time to ensure Basel 3.1 is implemented on 1 January 2027, and to lay the legislation necessary to complete the restatement of the remaining assimilated law by the same date.

HM Treasury policy update: Applying the FSMA model to UK CRR

Draft Capital Requirements Regulation (Amendment) 2025

Draft Credit Institutions and Investment Firms (Miscellaneous Definitions) (Amendment) Regulations 2025

Webpage

2 BANK OF ENGLAND

2.1 Bank of England publishes policy statement on amendments to approach to setting MREL - *15 July 2025* - The Bank of England (the Bank) has published a policy statement on amendments to its statement of policy (SoP) on its approach to setting a minimum requirement for own funds and eligible liabilities (MREL), having consulted on the changes in October 2024. Under the revised policy:

- the framework will be simplified by the revocation of the UK Capital Requirements Regulation (575/2013) provisions relating to total loss absorbing capacity (TLAC), and the consolidation of some of these provisions in the MREL SoP;
- the approach to contractual triggers in internal non-Common Equity Tier 1 capital (CET1) own funds instruments will only apply to newly issued instruments, while the scope of the policy as it applies to both internal non-CET1 own funds instruments and eligible liabilities instruments (ELIs) will be confined to UK material subsidiaries (with one exception);
- the approach to indexing the indicative total assets thresholds (for setting a stabilisation power preferred resolution strategy) has been amended, resulting in a revised indicative

threshold range of £25 billion–£40 billion from January 2026. This will be updated for the impact of nominal economic growth every three years; and

- the accounting value of an ELI should be used as the basis for measuring the value that can be used to meet a firm's MREL. There will be additional flexibility for firms on the requirement to obtain an independent eligibility legal opinion where the 'material issuance terms' relevant to MREL eligibility of an issuance of ELIs are substantially the same as for a recent previous issuance.

The Bank has published the revised MREL SoP, which takes effect from 1 January 2026. The Bank has also published a statement on maintaining a fit for purpose resolution regime, which summarises the updates the Bank and the PRA are making or proposing to the resolution regime. Finally, the PRA has published a number of consultations on MREL reporting, which we detail below.

Bank of England policy statement: Amendments to the Bank's approach to setting MREL

Bank of England statement of policy: The Bank's approach to setting MREL

Press release

3 PRUDENTIAL REGULATION AUTHORITY

3.1 PRA publishes three consultation papers on MREL reporting and disclosure requirements and resolution assessment threshold - *15 July 2025* - The PRA has published three consultation papers on the minimum requirement for own funds and eligible liabilities (MREL) and the resolution assessment threshold. These consist of:

- a consultation paper (CP14/25) on proposals to raise the threshold at which firms come into scope of the Resolution Assessment Part of the PRA Rulebook on reporting and disclosure from £50 billion to £100 billion in retail deposits; and reduce the required frequency for small domestic deposit takers (SDDTs) and SDDT consolidation entities to review their recovery plans from at least annually to at least every two years;
- a consultation paper (CP15/25) on resolution planning and amendments to MREL reporting, which sets out proposals to make targeted changes to the reporting expected from relevant firms on their MREL; and
- a consultation paper (CP16/25) on amendments to Pillar 3 disclosures, which sets out proposals to enhance Pillar 3 disclosure by firms in three areas: the resources supporting resolvability, capital distribution constraints, and the overall basis on which their Pillar 3 disclosure is prepared.

The PRA indicates that the implementation date for the changes in CP14/25 will be H1 2026 and that the revised MREL reporting policy set out in CP15/25 will be effective on 1 January 2027. The proposed implementation date for the proposals in CP16/25 is 1 January 2027. Comments on all three consultation papers are welcomed by 31 October 2025.

PRA consultation paper: Amendments to resolution assessment threshold and recovery plans review frequency (CP14/25)

PRA consultation paper: Resolution planning: Amendments to MREL reporting (CP15/25)

PRA consultation paper: Disclosure: resolvability resources, capital distribution constraints and the basis for firm Pillar 3 disclosure (CP16/25)

Press release

3.2 **PRA publishes consultation paper on implementation of Basel 3.1 and adjustments to FRTB** - *15 July 2025* - The PRA has published a consultation paper (CP17/25) on Basel 3.1 and adjustments to the market risk framework, known as the fundamental review of the trading book (FRTB). It sets out the PRA's proposed adjustments to the near-final market risk rules the PRA published in its December 2023 supervisory statement on Basel 3.1 (PS17/23) and September 2024 policy statement (PS9/24) to:

- delay the FRTB internal model approach by one year to 1 January 2028. Firms would be able to continue to use existing market risk models in the interim period, or switch to the new standardised approaches, as they prefer;
- implement operational simplifications to the treatment of collective investment undertakings in the trading book boundary and the advanced standardised approach (ASA);
- introduce a permissions regime for the capitalisation of residual risks in the ASA; and
- update reporting and disclosure obligations.

The PRA explains that these proposals would implement most aspects of the FRTB as planned on 1 January 2027, in turn facilitating the implementation of all other elements of the Basel 3.1 package on the same date, whilst allowing time for greater clarity to emerge about implementation plans in other jurisdictions on the part of the FRTB most relevant for cross-border activities.

Feedback on the proposals is welcomed by 5 September 2025. The PRA proposes that the implementation date for the changes resulting from CP17/25 would be 1 January 2027, when the rest of the Basel 3.1 framework comes into effect.

PRA consultation paper: Basel 3.1: Adjustments to the market risk framework (CP17/25)

Press release

Selected Headlines
Prudential Framework for Banks
Streamlining the SM&CR
Reform of the FOS

STREAMLINING THE SENIOR MANAGERS AND CERTIFICATION REGIME //

4 FINANCIAL CONDUCT AUTHORITY, PRUDENTIAL REGULATION AUTHORITY AND HM TREASURY

4.1 HM Treasury, PRA and FCA publish consultation papers on reforms to SM&CR - *15 July 2025* - HM Treasury, the PRA and the FCA have published consultation papers on reforming the Senior Managers and Certification Regime (SM&CR). This follows the regulators' joint discussion paper (FCA DP23/3 and PRA DP1/23) on reviewing the operational aspects of the SM&CR and HM Treasury's call for evidence on the legislative aspects of the regime (both published in March 2023).

It is proposed that reform of the SM&CR will take place over two phases. In the first phase, the PRA and FCA propose to streamline the SM&CR within the context of the current legislative framework under the Financial Services and Markets Act 2000 (FSMA). The PRA and FCA's proposals are broadly coordinated and include modifications to improve the efficiency of the 12-week rule, to increase the validity period of criminal record checks for senior management function (SMF) applications, and to clarify the scope of the SMF7 Group Entity Senior Manager function (which includes a PRA proposal to extend the scope of the SMF7 definition for dual-regulated firms to bring owners and controllers into scope in certain circumstances).

HM Treasury is separately consulting on legislative changes to the SM&CR regime which, if adopted, would provide the PRA and the FCA with greater flexibility to improve the operation of the SM&CR as part of a second phase of reform. The proposed changes include: (i) removing the certification regime from FSMA entirely, leaving space for the regulators to use their rule-making powers to develop a more flexible and proportionate regime; and (ii) increasing flexibility for the regulators to reduce the number of SMFs which require pre-approval. HM Treasury explains that these changes would make a significant contribution to the overall ambition of the government and regulators to reduce the regulatory burdens of the SM&CR by 50%.

Comments on all three consultation papers are welcomed by 7 October 2025. The FCA and the PRA intend to publish a policy statement containing final rules in mid-2026.

FCA consultation paper (CP25/21)

PRA consultation paper (CP18/25)

HM Treasury consultation paper

Press release

REFORM OF THE FINANCIAL OMBUDSMAN SERVICE //

5 HM TREASURY

5.1 HM Treasury publishes consultation paper on review of the FOS - *15 July 2025* - HM Treasury has published a consultation paper on the review of the Financial Ombudsman Service (FOS). The paper sets out the findings and proposed reforms following a review of the FOS, which was led by Emily Reynolds MP (Economic Secretary), and announced in the government's March 2025 Regulation Action Plan.

The paper explains that the review was launched in response to longstanding concerns raised by industry stakeholders which suggested that the UK's dispute resolution framework for financial services was creating uncertainty to the detriment of investment and innovation. Feedback gathered from the review highlighted that, in a small but impactful minority of FOS cases, some stakeholders were concerned that the role of the FOS had expanded beyond its original remit. Stakeholders also noted the potential for strain on the redress system when the FOS is required to handle cases which are related to a mass redress event (MRE).

The paper observes that the review has exposed a drawback with the framework within which the FOS operates, namely that there is not always coherence between the regulatory approach set by the FCA and the approach used by the FOS to settle complaints. The potential for tension can result in the FOS acting as a "*quasi-regulator*." The government recognises that this can leave firms operating within an uncertain regulatory environment. It therefore proposes to reform the legislative framework within which the FOS operates, to prevent it acting as a quasi-regulator and to provide greater regulatory coherence, with consistent standards of consumer protection set by the FCA and applied by the FOS.

The government will use changes to legislation (when Parliamentary time allows) to deliver reforms that will:

- adapt the 'fair and reasonable' test to ensure that the FOS finds that a firm's conduct is fair and reasonable where it has complied with relevant FCA rules, in accordance with the FCA's intent for those rules;
- introduce a formal referral mechanism requiring the FOS to request a view from the FCA where there is ambiguity in how the FCA rules apply, and to refer potential wider implications issues or MREs to the FCA;
- ensure parties to a complaint have the ability to request that the FOS refers an issue of rule interpretation to the FCA;
- provide the FCA with more flexibility to manage an MRE, including the ability to pause the complaints handling process without prior consultation; and

- introduce an absolute time limit for bringing complaints to the FOS of ten years from the event giving rising to the complaint, subject to exceptions.

Comments on the proposals are welcomed by 8 October 2025. Alongside this consultation, the FCA and the FOS have also published a consultation paper (CP25/22) on modernising the redress system, which we have detailed below. Finally, the FCA has published a new memorandum of understanding it has entered into with the FOS. It provides a framework for and describes how they will co-operate and consult with each other in the exercise of their roles and respective functions.

HM Treasury consultation paper: Review of the FOS

Webpage

Memorandum of understanding

6 FINANCIAL CONDUCT AUTHORITY AND FINANCIAL OMBUDSMAN SERVICE

6.1 FCA and FOS publish joint consultation paper on modernising the redress system - *15 July 2025* - The FCA and the Financial Ombudsman Service (FOS) have published a joint consultation paper (CP25/22) on modernising the redress system, following their November 2024 joint call for input (CFI) on this topic. The FCA recognises that the current redress regime can create uncertainty for consumers, firms and investors. The FCA and the FOS explain that they want greater predictability, certainty and transparency within the redress system, with appropriate responsibility for firms to identify and address issues early.

Of particular significance, the FCA and the FOS propose to assess potential mass redress events (MREs) against a framework of six criteria, all commonly identified in past MREs (for example, 'affects a high number of consumers' and 'is likely to lead to a high redress bill'). A consistent framework for assessing MREs is expected to help the FCA and the FOS identify potential MREs early and implement an appropriate approach.

In addition, CP25/22 proposes amendments to SUP 15 to clarify when firms should report the identification of issues causing foreseeable harm or systemic issues to the FCA. SUP 15 details when and how firms are required to notify the FCA of events which have, or may have, serious regulatory impacts. While the FCA and the FOS agree that it is important to avoid creating additional reporting burdens where possible, they emphasise that early reporting of potentially systemic or recurring issues is vital to improve their ability to identify and better manage emerging MREs.

CP25/22 also asks for views on the following:

- good practice examples for identifying and monitoring redress issues, and clarifying the FCA's expectations for firms carrying out proactive redress exercises;
- a new registration stage for complaints and changes to the delegated authority of determinations at the FOS in order to improve the quality, consistency and efficiency of case handling and achieve quicker outcomes for consumers;

- stronger collaboration between the FCA and the FOS, through a new lead complaint process and a referral mechanism to improve consistency in interpretating regulatory requirements; and
- other amendments to the Dispute Resolution: Complaints Sourcebook (DISP) and Compensation Sourcebook (COMP) to improve the operational efficiency of the FOS and the Financial Services Compensation Scheme.

Comments on the proposed FCA Handbook rules and guidance (found in Appendix 1 to CP25/22), and the other proposals, are welcomed by 8 October 2025. The FCA and the FOS will aim to publish a policy statement in H1 2026 confirming the changes and implementation periods.

In parallel, HM Treasury has published a consultation paper on the review of the FOS, which should be read alongside CP25/22. See the item above for further detail.

FCA and FOS consultation paper: Modernising the redress system (CP25/22)

Press release

This Bulletin is prepared by the Financial Regulation Group of Slaughter and May in London. The Group comprises a team of lawyers with expertise and experience across all sectors in which financial institutions operate.

We advise on regulatory issues affecting firms across the financial services sector, including banks, investment firms, insurers and reinsurers, brokers, asset managers and funds, non-bank lenders, payment service providers, e-money issuers, exchanges and clearing systems. We also advise non-regulated businesses involved in financial regulatory matters. In addition, our leading financial regulatory investigations practice is regularly instructed by financial institutions requiring specialist knowledge of financial services regulation together with experience in high profile and complex investigations and contentious regulatory matters.

Most of the projects that we advise on have an extensive international or cross-border element. We work in seamless integrated teams with leading independent law firms which offer many of the most highly regarded financial institutions lawyers in Europe, the US and Asia, as well as strong and constructive relationships with local regulators.

Our Financial Regulation Group also produces occasional briefing papers and other client publications. The five most recent issues of this Bulletin and our most recent briefing papers and client publications appear on the Slaughter and May website **here**.

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