SLAUGHTER AND MAY/

5 JUNE 2025

ISSUE 1305

FINANCIAL REGULATION WEEKLY BULLETIN

Major UK and European regulatory developments of interest to banks insurers and reinsurers, asset managers and other market participants

QUICK LINKS

Selected Headlines

General

Banking and Finance

Asset Management

Insurance

Enforcement

If you have any comments or questions, please contact: Selmin Hakki.

Slaughter and May also produces a periodical Insurance Newsletter. If you would like to go on the distribution list, please contact: Beth Dobson.

SELECTED HEADLINES //

General

Simplifying and improving efficiency of EU financial regulation - EBA publishes speech 1.1

Interest on compensation awards - FOS consults 4.1

Banking and Finance

Implementing a possible motor finance consumer redress scheme - FCA publishes key considerations 6.1

Asset Management

T+2 fund settlement - FCA welcomes IA, PIMFA and AIMA recommendation 7.1

Insurance

Pension Schemes Bill - introduced to the House of Commons 8.1

Simplifying insurance rules - FCA to publish a policy statement in Q4 2025 9.1

Enforcement

Enforcement Guide and investigation transparency - FCA publishes policy statement 10.2

GENERAL //

1 EUROPEAN BANKING AUTHORITY

1.1 **Simplifying and improving efficiency of EU financial regulation - EBA publishes speech** - *3 June 2025* - The European Banking Authority (EBA) has published a speech delivered by José Manuel Campa, EBA Chair, on improving the efficiency of the EU financial services regulatory framework. In the speech, Campa recognises that there has been "*an unprecedented and heated debate on how to make the regulatory environment simpler and more effective*" and notes that this has now "*become one of the top priorities of the European Commission*".

Among other things, Campa argues that there is merit in looking at whether existing Level 2 and Level 3 materials (including Regulatory Technical Standards, Implementing Technical standards and Guidelines) are still fit for purpose and whether they can be streamlined. Efforts to improve the reporting framework and reduce its burden on firms are already underway. Campa also notes that the EBA is reviewing all its supervisory convergence tools with a view to using them to their full potential. Although possibly beyond its mandate, the EBA is keen to share its views on how prudential regulation interacts with other pieces of regulation within the EU financial services regulatory framework.

Speech

Webpage

2 FINANCIAL CONDUCT AUTHORITY

2.1 **LLM pilots on consumer guidance - FCA publishes research note** - *30 May 2025* - The FCA has published a research note that explores the potential usefulness and limitations of large language models (LLMs) in consumer-facing contexts in financial services, having conducted two pilot projects. The first project examined the simplification of complex financial concepts by providing lower reading age definitions with appropriate examples. The second project involved providing guidance using LLM-generated content in a chatbot with predetermined questions and answers in a cash savings context (compared to using a website-based Q&A page).

The note concludes that LLMs seem to simplify concepts accurately but that comprehensively testing their outputs requires expert human and automated evaluation. In addition, the effectiveness of LLMs is context-dependent, with outcomes influenced by how the model is embedded within the customer journey.

The FCA will be conducting pilots of AI models with firms and welcomes potential pilots on questions similar to those covered in the note. One clear avenue for further testing involves better understanding of how LLMs can be designed and integrated into consumer journeys.

FCA research note: Money talks: Lessons from two LLM pilots on consumer guidance

Webpage

3 FINANCIAL CONDUCT AUTHORITY AND INFORMATION COMMISSIONER'S OFFICE

3.1 **Supporting AI, innovation and growth in financial services - FCA and ICO publish blog on key points from industry roundtable** - *3 June 2025* - The FCA has published a blog written with the Information Commissioner's Office (ICO) on how they are working together to help firms use artificial intelligence (AI) responsibly. The blog refers to a roundtable with industry leaders hosted on 9 May 2025 on supporting AI, innovation and growth in financial services. The key message emerging from the roundtable is that "*regulation is not the main blocker to innovation*"*;* rather, it is "*uncertainty and lack of familiarity*".

The blog notes that the FCA will continue to work with other regulators in the Digital Regulation Cooperation Forum to explain its expectations. However, many decisions are dependent on firms' own risk appetites and choices. To support good practice, the regulators will develop a statutory code of practice for firms that are developing or deploying AI and automated decision-making. The FCA will also help firms to develop, test and evaluate AI as part of its AI Lab. It also plans to host a roundtable with smaller firms later in 2025 to better understand challenges around AI adoption.

FCA and ICO blog: Tech, trust and teamwork: How the FCA and ICO are helping innovation take off

4 FINANCIAL OMBUDSMAN SERVICE

4.1 **Interest on compensation awards - FOS consults** - *4 June 2025* - The Financial Ombudsman Service (FOS) has published a consultation paper on the interest rate applied by it to compensation awards. This follows feedback on the joint FOS and FCA November 2024 call for input on modernising the redress system, suggesting that the current discretionary rate is too high or that it could be better aligned with changing market conditions.

As it stands, the FOS applies a standard discretionary 8% interest rate on compensation awards, both to pre-determination interest (that is, interest awarded on money that the complainant was deprived of before the FOS's determination of their complaint) and post-determination interest (that is, interest awarded where the respondent fails to pay by the specified payment deadline after the determination of the complaint). The FOS' preferred approach would be to have a standard interest rate linked at 1% above the Bank of England base rate, where the base rate is calculated as an average rate over the period that the money was due until the date redress payment is made.

The FOS also seeks views on the circumstances in which it might it be appropriate for an ombudsman to ask a firm not to apply interest and on the frequency with which the FOS's approach to interest on awards should be reviewed. The consultation does not propose any changes to interest that forms part of a money award or any other awards an ombudsman may recommend when making a decision.

The deadline for responses is 2 July 2025. The FOS intends to publish a policy statement in September 2025, with a view to implementing any changes as soon as possible. A related press release notes that further proposals to better tackle mass redress events will be brought forward in the summer of 2025.

FOS consultation paper: Interest on compensation awards

Webpage

Press release

BANKING AND FINANCE //

5 HM TREASURY

5.1 **The Capital Buffers and Macro-prudential Measures Regulations 2025** - *5 June 2025* - The Capital Buffers and Macro-prudential Measures Regulations 2025 (SI 2025/653) (the Regulations) have been published, together with an explanatory memorandum. The Regulations restate relevant provisions of the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014 (SI 2014/894) on 31 July 2025 (the date on which the instrument will be revoked by the Financial Services and Markets Act 2023).

HM Treasury explains that this approach will remove the capital conservation buffer and the globally systemically important institutions buffer from legislation, with the responsibility for setting these buffers being transferred to the PRA. Other regulations will be restated, with some technical modifications, where they relate to capital buffers that are set by the Bank of England's Financial Policy Committee (FPC) (namely, the countercyclical capital buffer and the other systematically important institutions buffer). This is because the FPC does not have broad rulemaking powers like the PRA, and the regulations that underpin the use of its tools must be set out in legislation.

The Regulations were made on 4 June 2025 and will come into effect on 31 July 2025.

Statutory instrument

Explanatory memorandum

6 FINANCIAL CONDUCT AUTHORITY

6.1 **Implementing a possible motor finance consumer redress scheme - FCA publishes key considerations** - *5 June 2025* - The FCA has published a statement setting out key considerations in implementing a possible motor finance consumer redress scheme. This follows the FCA's March 2025 statement in which it announced that it will likely consult on such a scheme following the Supreme Court's judgement on the Court of Appeal decision in *Johnson v FirstRand Bank Ltd (London Branch) (t/a MotoNovo Finance)* [2024] EWCA Civ 1282 if it concludes that motor finance customers have lost out from widespread failings by firms, as reported previously in this Bulletin. The Supreme Court heard the appeal in early April 2025 and is expected to deliver its judgment in July 2025.

The statement sets out the principles that would guide the FCA in designing a redress scheme and the features that it would need to consider. The FCA intends to confirm within six weeks of the Supreme Court judgment whether it will introduce a redress scheme, with details of timings for the publication of a consultation paper. Final rules setting out when firms need to implement the scheme are expected to be published in 2026. The FCA will also announce soon after the judgment if it proposes any changes to its Handbook rules for motor finance firms.

FCA statement: Key considerations in implementing a possible motor finance consumer redress scheme

ASSET MANAGEMENT //

7 FINANCIAL CONDUCT AUTHORITY

7.1 **T+2 fund settlement - FCA welcomes IA, PIMFA and AIMA recommendation** - *30 May 2025* - The FCA has published a statement welcoming the recommendation (dated 29 May 2025) by the Investment Association (IA), the Personal Investment Management and Financial Advice Association (PIMFA) and the Alternative Investment Management Association (AIMA) encouraging firms to alter their fund settlement timings to T+2 on or before 11 October 2027. The recommendation aims to align fund settlements more closely with plans in the UK, EU and Switzerland to move securities trades to T+1 by the same date and comes one year after the move in the US to T+1 for securities trading.

The FCA statement recognises that the operational practicalities of fund settlement will not allow all authorised fund managers to offer T+1 settlement for units in funds. That said, the FCA notes that funds which currently operate on T+4 settlement should consider carefully how an extended gap between market settlement and fund unit settlement would affect investors. It goes on to warn that, in the future, fund managers and their agents will need strong justifications for cases where (exceptionally) more than two business days are required to settle trades in units of funds. Fund managers should determine what is required to move to a T+2 settlement cycle in October 2027 and plan early to deliver this transition.

FCA statement: FCA welcomes statement supporting faster settlement of trades in funds

IA, PIMFA and AIMA press release: Recommendation on T+2 fund settlement

INSURANCE //

8 HOUSE OF COMMONS

8.1 **Pension Schemes Bill - introduced to the House of Commons** - *5 June 2025* - The Pension Schemes Bill (the Bill) has been published and introduced to the House of Commons, alongside a delegated powers memorandum prepared by the Department for Work and Pensions, the Ministry of Housing, Communities and Local Government, and HM Treasury, following its first reading.

This follows the publication of the government's final report setting out the conclusions of the Pensions Investment Review (launched in July 2024), together with a response to the November 2024 consultation paper on proposals to reform the defined contribution (DC) workplace pensions market, as reported in last week's Bulletin. Click **here** to read more from our colleagues on this and other recent developments in the pensions market.

The Bill seeks to modernise the UK pension system and aims to capitalise on opportunities for growth by creating larger, more efficient pension funds capable of making substantial investments into the UK economy.

Members of Parliament will consider the Bill at the second reading, the date for which has not yet been announced.

Pension Schemes Bill

Delegated powers memorandum

Webpage

9 FINANCIAL CONDUCT AUTHORITY

9.1 **Simplifying insurance rules - FCA to publish a policy statement in Q4 2025** - *3 June 2025* - The FCA has updated the webpage on its consultation paper (CP25/12) on simplifying its insurance rules to note that it intends to publish a policy statement in Q4 2025. This follows the publication of CP25/12 on 14 May 2025 in which the FCA outlined proposals and other potential changes to simplify insurance rules. The changes would come into force immediately after publication of the policy statement.

See our recently published briefing on the proposals **here**.

Updated webpage

ENFORCEMENT //

10 FINANCIAL CONDUCT AUTHORITY

10.1 **Pension transfer advice failings - FCA issues final notices following Upper Tribunal decisions** - *30 May 2025* - The FCA has published final notices issued to two former directors of CFP Management Ltd relating to pension transfer advice failings after the Upper Tribunal (Tax and Chancery Chamber) upheld the FCA's May 2023 decision to ban the individuals and revoke their senior management approvals. The FCA explains that, between April 2015 and October 2017, the individuals designed, oversaw and personally operated a flawed pension advice process. The Upper Tribunal (in its November 2024 decision) agreed with the FCA that the advisory process the pair designed and operated posed a risk to customers and that both individuals had committed a serious breach of the FCA's rules and lacked the integrity necessary to work in the financial services industry.

The Tribunal has now also endorsed the FCA's recalculations of the fines imposed (following the Tribunal's guidance in March 2025 on how to calculate tax and interest on the money to be returned).

Final notice: David Brian Price

Final notice: Toni Fox

Press release

10.2 **Enforcement Guide and investigation transparency - FCA publishes policy statement** - *3 June 2025* - The FCA has published a policy statement (PS25/5) setting out the final revisions to its Enforcement Guide (EG), including its amended investigation publicity policy. It consulted on proposals for greater transparency of enforcement investigations in February (CP24/2) and November 2024 (CP24/2, Part 2), as previously reported in this Bulletin.

To distinguish the now archived previous version of the Enforcement Guide (EG) with the new, updated version, the FCA is abbreviating the new version as ENFG. As previously announced, the FCA has retained the "exceptional circumstances" test for announcing investigations into regulated and listed firms. The policy now provides for additional circumstances where the FCA may also make announcements which will enable the FCA, in limited circumstances, to (i) announce and name the subjects of investigations into suspected unauthorised activity or criminal offences related to unregulated activity; (ii) reactively confirm it is investigating in specific circumstances; and (iii) share information on an anonymised basis.

Most of the other changes consulted on in CP24/2 have been implemented. The FCA has also made some additional changes in the light of feedback received. Annex 2 to PS25/5 sets out the revised enforcement investigation publicity policy, marked up against the previous policy. A mapping table showing where information in EG has been moved to is set out in Annex 3. ENFG, including the policy on investigation publicity, came into force immediately on 3 June 2025. The changes will apply to investigations launched on or after this date.

FCA policy statement: Enforcement Guide and greater transparency of enforcement investigations (PS25/5)

Webpage

Press release

Selected Headlines
Banking and Finance
Insurance
General
Asset Management
Enforcement

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**.

If you would like to find out more about our Financial Regulation Group or require advice on a financial regulation matter, please contact one of the following or your usual Slaughter and May contact:

Jan Putnis	jan.putnis@slaughterandmay.com
Nick Bonsall	nick.bonsall@slaughterandmay.com
David Shone	david.shone@slaughterandmay.com
Kristina Locmele	kristina.locmele@slaughterandmay.com
Sabine Dittrich	sabine.dittrich@slaughterandmay.com

London	Brussels	Hong Kong	Beijing
T +44 (0)20 7600 1200	T +32 (0)2 737 94 00	T +852 2521 0551	T +86 10 5965 0600
F +44 (0)20 7090 5000	F +32 (0)2 737 94 01	F +852 2845 2125	F +86 10 5965 0650