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HM Treasury and UK Regulators Announce Wave of Reforms

Executive Summary

- **What is new:** HM Treasury and the UK regulators announced a package of financial services reforms on 15 July 2025, including cross-cutting reforms in the regulatory environment, significant changes to the SMCR regime, a modernisation of the Financial Ombudsman Service and further amendments to the UK regulatory capital regime.
- **Why it matters:** These developments aim to improve efficiency, flexibility and clarity in the UK's financial regulatory framework, in line with the UK's commitment to the financial services growth and competitiveness strategy.
- **What to do next:** Firms should review the consultation papers and consider responding by the relevant deadlines as set out at the end of this note.

On 15 July 2025, amid a busy week of policy announcements before the UK Parliament's summer recess, the Chancellor Rachel Reeves and HM Treasury announced a package of financial services reforms (the Leeds Reforms). She followed these with her annual Mansion House speech to the financial services sector that evening, reiterating her commitment to reforming the sector through the financial services growth and competitiveness strategy. Simultaneously, the Bank of England (BoE), the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) also issued a raft of policy statements, consultations and proposals on a number of related regulatory issues.

In this note, we consider some of the key topics from the 15 July announcements: cross-cutting reforms in the regulatory environment, changes to the senior managers and certification regime (SMCR), the new approach to the Financial Ombudsman Service (FOS) and developments relating to the UK regulatory capital regime.

Cross-Cutting Reforms

As part of the financial services growth and competitiveness strategy, HM Treasury (HMT) published [its consultation on cross-cutting reforms in the regulatory environment](#). Broadly, HMT proposes to:

- **Review key performance indicators:** HMT is proposing new statutory deadlines for new firm authorisations (reduced to four months from six), variations of permissions (to 10 months from 12) and senior manager approvals (to two months from three). However, no "deemed approvals" (as exist in the change in control regimes) have been suggested for senior manager approvals that are still with the regulators beyond this date.
- **Streamlined authorisation conditions:** Support will be given to a new streamlined authorisation regime for innovative start-ups to allow these firms to conduct limited regulated activities with streamlined approval conditions.

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- **Regulatory principles and other “have regards”:** HMT has identified that some of the legislative provisions that the PRA and FCA must have regard to when carrying out their regulatory functions can operate to prevent the regulators from acting strategically and being agile in approach. As such, it is proposed that the government will legislate to change the way that “have regards” work by removing the requirement to consider these when they make day-to-day decisions, and instead require the regulators to have regard to the regulatory principles and remit letter when producing their new long-term strategies.

- **Regulator reporting requirements:** HMT is asking for views on which published documents from the PRA and FCA are most helpful and important, with a view to rationalising the current approach to regulator reporting.

Related to the review of key performance indicators, the [PRA](#) and [FCA](#) have committed in letters to the Chancellor to new stretch targets for processing certain regulatory applications ahead of their statutory deadlines. Although there are not new stretch targets for all regulatory applications, the FCA and PRA have agreed:

- To both target faster approval times for senior manager regime approvals (to complete 50% of cases within 35 days for the FCA and within 45 days for the PRA).
- For the PRA:
 - For new firm authorisations, to target approval times of three months for complete applications from insurance firms that qualify for the wholesale insurance accelerated authorisation pathway.
 - Six weeks for complete applications from insurance special purpose vehicles.
 - Ten working days for complete applications from insurance special purpose vehicles that qualify for an accelerated pathway (as set out in CP 15/24).
- For the FCA, to target completing variation of permission applications within three months for complete applications (and six months for incomplete applications) for “adjacent” business models. The FCA is also adjusting its reporting for payments and e-money firms to align with the relevant statutory targets for FSMA firms.

In addition, as a response to industry feedback on the FCA’s consumer duty, the Chancellor also announced in her Mansion House speech that she had instructed the FCA to provide more certainty on the scope and application impact of the consumer duty rules on wholesale market activity, in order to reduce the impact on wholesale firms.

SMCR Reforms

Also announced on 15 July, industry participants will welcome both the [HMT consultation paper](#) on legislative

reform of the senior managers and certification regime and the [FCA](#) and [PRA](#) consultation papers on improving operational rules within the regime. The two regulator consultation papers develop Phase 1 of the reforms to the regime, whilst the HMT consultation paper commences Phase 2 of the reforms. The overarching aim of these proposals is to increase the flexibility and proportionality of the regime to improve the SMCR framework, without compromising on the effect of maintaining high standards in the financial services sector.

As part of Phase 1, the FCA and PRA have proposed:

FCA Reforms	PRA Reforms
<ul style="list-style-type: none"> - Changes to the rules around the 12-week rule (allowing someone to cover for a senior manager function (SMF) without being approved), in particular to make the rule mean 12 weeks to submit an application for an SMF rather than 12 weeks to get approval, and to provide further guidance on when the rule can be used. - Providing guidance on the applicability of key SMF roles and allocation of prescribed responsibilities (PRs) between SMFs. - Streamlining the submission of updated statements of responsibilities by allowing periodic submissions no later than every six months after the last submission. - Increasing the validity period of criminal record checks for SMF applications to six months from three months. - Certain simplifications to the certification regime (noting that these changes may not be relevant for long given HMT’s intention to remove this regime — see below). 	<ul style="list-style-type: none"> - Broadening the scope of the SMF 7 (group entity senior manager) function for dual-regulated firms to include controllers and their representatives who have significant influence over executive decision-making or day-to-day management (which may capture group appointed nonexecutive members of firms’ boards). - Exempting resolution administrators from the requirements of the SMCR (similarly to the current exemption for insolvency practitioners). - Creating an SMCR policy index to make the PRA’s existing guidance more navigable.

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For Phase 2, key reforms proposed by HMT are:

- **Removal of the certification regime:** The government intends to legislate to remove the certification regime, recognising that the regime as it currently stands drives up cost with limited benefit. Instead, the FCA and PRA will be able to use their rule-making powers to develop a more flexible and proportionate regime (which will be set out in future).
- **Changes to reduce the number of pre-approvals that must be sought:** HMT is proposing two key changes to the legislative regime to reduce the number of positions for which pre-approval must be sought:
 - Firstly, to provide regulators with greater flexibility in how they define Senior Management functions.
 - Secondly, to create the possibility for regulators to focus pre-approval on some senior manager roles, while for others firms could conduct checks themselves and notify regulators of new appointments.

Financial Ombudsman Service Changes

A further focus of reform is on the operation of the FOS. Also published on 15 July were an [HMT consultation](#) on review of the FOS and a [joint FCA/FOS consultation paper](#) on modernising the redress system.

The HMT consultation proposes a number of reforms to the regime, including:

- **An adapted “fair and reasonable” test:** The FOS will be required to find 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. This will benefit firms, and adapts the current FSMA requirement for the FOS to determine complaints by reference to what is (in the FOS’s subjective opinion) fair and reasonable “*in all circumstances*” of the case.
- **Framework to formalise how ambiguities should be addressed:** The FOS will be required to seek a view from the FCA on any uncertainties in the FCA rulebook, and the FCA will be obligated to respond.
- **Mass redress events:** Introducing a more flexible mass redress event framework and clarifying the role of the FOS and FCA.
- **Time limits:** Creating a statutory time limit of 10 years from the conduct being complained of to bring a complaint to the FOS.

The joint FCA/FOS consultation paper is consistent with the proposed reforms of the FOS set out in the HMT consultation. Key proposals include:

- **Firm reporting:** New criteria for when a firm needs to report on potentially systemic or recurring issues, requiring the reporting of any issue which: (a) affects a high number of consumers (>40% of the firm’s consumers from the affected product line or service); (b) has a high potential redress bill, should complaints be upheld by the firm, the FOS or the courts (>£10 million or 50% of the firm’s annual revenue from the affected product or service line); (c) has led to a significant spike in consumer complaints; (d) leads to concerns that redress that could be due if the complaints were upheld, either via the firm, the FOS or the courts, may adversely affect the firm’s capital adequacy or solvency; or (e) affects multiple consumers and has a significant impact on each individual consumer (>£10,000 loss per consumer on average).
- **Criteria for mass redress events:** New criteria for considering whether an issue is a mass redress event — where an issue: (a) affects a high number of consumers; (b) has a significant impact on individual consumers, including those in vulnerable circumstances; (c) is likely to lead to a high redress bill; (d) results in a significant number of firms being unable to meet their redress liabilities; (e) leads to a high number of Financial Ombudsman complaints; and (f) is driven by a systemic/repeatable failing that damages confidence in the financial system.
- **Lead complaints process:** The introduction of a “lead complaints” process to address novel and significant complaints issues and provide a guide to the resolution of similar follow-on complaints.
- **Registration stage:** The introduction of a registration stage in the FOS complaints-handling process between the existing referral and investigation stage, to evaluate whether a complaint is appropriate to proceed to the investigation stage on the basis of: (a) a final response letter having been issued or the final response deadline for the firm having passed; (b) there being no fundamental objections to the complaint’s admissibility or jurisdiction; (c) there being no other ongoing regulatory action or litigation; and (d) the complaint meeting minimum evidential standards.

Alongside the consultations, the FCA published a new [memo-randum of understanding](#) between it and the FOS providing the framework for continued cooperation and consultation, and the FOS also issued a policy statement confirming a change to the interest rate applied to compensation awards. The interest rate has been revised to better reflect economic conditions and costs on consumers. The FOS will now introduce a new standard rate on some awards so that they track the Bank of England’s base rate plus 1%. This will be calculated as a weighted average from when the money was due (that is, when the complainant was unreasonably deprived of the money) until the date the redress payment is made.

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Regulatory Capital

In terms of prudential policy, all of HMT, the BoE and the PRA issued publications on regulatory capital, with the proposals intending to be read together. Broadly, these mark the next steps in the implementation of Basel 3.1 into UK law, and the intended approach to prudential regulation going forwards with the revocation of certain provisions in the UK CRR.

HMT Policy Paper

HMT's updated policy paper sets out its approach to further empowering the UK regulatory authorities by moving requirements from legislation to rulebooks; the HMT paper looks at applying the Financial Services and Markets Act 2000 (FSMA) model of regulation to the UK Capital Requirements Regulation (575/2013) (UK CRR). It covers HMT's approach to the implementation of Basel 3.1 standards into UK law, overseas recognition regimes and key concepts in the UK CRR that will be retained in UK law.

PRA Consultation Paper

The PRA published a consultation paper on Basel 3.1 and adjustments to the market risk framework, under the umbrella of the Fundamental Review of the Trading Book (FRTB). The consultation paper proposes amendments to the draft rules published in the PRA's policy statements published in December 2023 and September 2024 (PS 17/23 and PS 9/24).

In essence, the main proposals are to:

- **Delay the introduction of the FRTB:** The PRA has delayed the introduction of the FRTB model until 1 January 2028 — a year later than it initially was expected to enter into force.
- **Simplify the treatment of collective investment undertakings:** Implement operational simplifications to the treatment of collective investment undertakings in the trading book boundary and the Advanced Standardised Approach (ASA) to implement a de minimis threshold so the market risk treatment is more proportionate.
- **Add a permission regime for capitalising residual risk:** Introduce a permissions regime for the ASA residual risk add-on, so that firms can apply for a permission to capitalise residual risk via an internal approach for a particular product.

Consequential disclosure and reporting requirement updates are also proposed.

BoE Policy Statement

The BoE published a policy statement on its approach to setting a minimum requirement for own funds and eligible liabilities. This is in the context of the planned simplification of the framework once the provisions relating to total loss-absorbing capacity (TLAC) are revoked with effect from 1 January 2026. The policy statement follows the BoE's October 2024 consultation.

Key changes from the proposals in the October 2024 consultation are:

- **Contractual triggers:** Whilst substantively maintaining the principle that the treatment of internal eligible liability instruments (ELIs) and non-CET1 own funds instruments should be aligned in relation to contractual triggers (*i.e.*, contractual provisions allowing for the write-down and conversion of instruments when a resolution entity in the group is subject to resolution proceedings), the requirements will not apply to instruments issued before 1 January 2026, and contractual triggers will not need to be included in instruments issued by non-UK material subsidiaries and other non-UK entities.
- **Threshold for scope of stabilisation powers:** The indicative threshold for firms coming in scope of a stabilisation powers preferred resolution strategy has been amended to a range of £25 billion to £40 billion, with the range updated for the impact of nominal economic growth every three years.
- **Valuing ELIs:** In relation to proposals relating to lessons from policy implementation, the BoE has finalised its policy so that 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.

Conclusion and Future Developments

There is a lot of new content to digest from the 15 July announcements, so stakeholders will not be short of summer reading.

Although improving efficiency in the authorisation processes, reform of the SMCR, clarifications to the operation of the FOS and a simplified prudential framework should be welcomed by industry participants, firms may be disappointed that there are no proposed changes to the change in control regime given this can also be a key way of driving growth and investment in the UK financial services sector. Groups containing dual-regulated firms should also factor in the changes to the SMCR regime when considering group structure and the role of group representatives in relation to authorised firms.

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We have set out below the response deadlines for each of the consultation papers discussed in this update — firms should consider whether they wish to respond, and may wish to focus their attention on the areas most impactful on their business given the volume of papers to review.

The changes are expected to enter into force from mid-2026 onwards, although other than for the Basel 3.1 reforms there are no formal planned implementation dates. The intended implementation of the changes relating to the implementation of Basel 3.1 is 1 January 2027 in line with the previously announced deadline.

Paper	Response Deadline
PRA CP 17/25 on Basel 3.1 and adjustments to the market risk framework	5 September 2025
HMT consultation on cross-cutting reforms in the regulatory environment	9 September 2025
HMT policy update on applying the FSMA model of regulation to the UK CRR	12 September 2025 (for comments on the Basel 3.1 draft legislation) 30 September 2025 (for comments on the proposals for overseas recognition regimes and key UK CRR definitions)
HMT consultation on reforming the SMCR	7 October 2025
FCA CP 25/21 on review of the SMCR	7 October 2025
PRA CP 18/25 on review of the SMCR	7 October 2025
HMT consultation on review of the FOS	8 October 2025
FCA/FOS CP 25/22 on modernising the redress system	8 October 2025