



LONDON FINANCIAL INSTITUTIONS REGULATORY AND ENFORCEMENT

A quick look ahead at what to expect in 2026



2026 is set to be another year of focus on growth and competitiveness, with regulators in both the UK and EU looking to drive these objectives forward through rule simplification and rationalisation. We'll see further Consumer Duty reviews and rule simplification programmes in the UK alongside similar plans in the EU, as regulators look to reduce compliance burdens on firms and free up resources for growth agendas.

However, as these programmes take shape, we are also likely to see further rule divergence arising, bringing with it potential compliance challenges. Parallel reform agendas, such as those in payments and crypto, may see more divergence emerge as different policy objectives become clearer.

Here's a quick look at what financial institutions and fintechs can expect to see on the regulatory agenda in 2026.

Conduct and risk

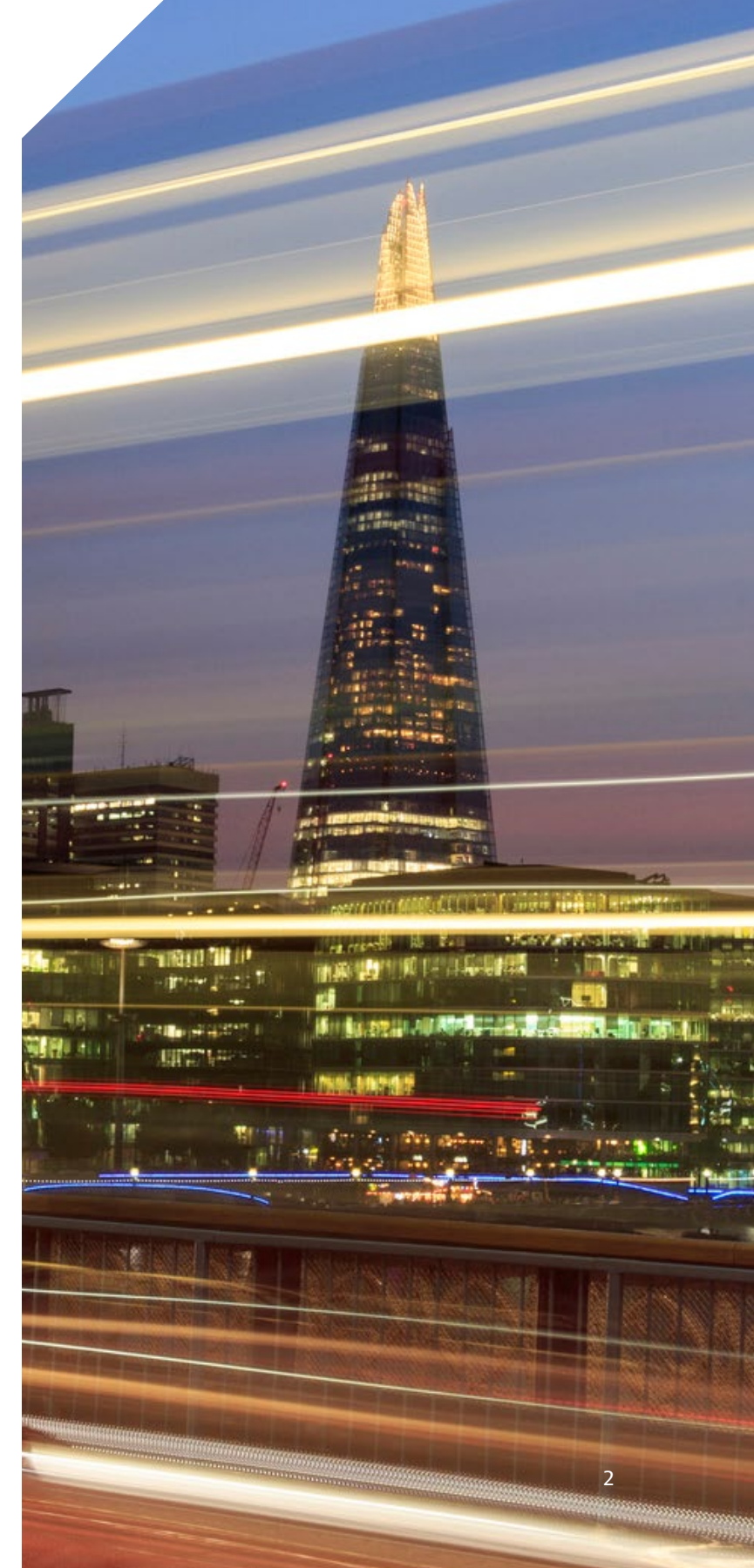
The regulators have started to reconsider whether their robust regulatory responses to the financial crises 17 years ago remain fit for purpose, and 2026 will see a continuation of this work alongside reforms to spur economic growth. The FCA focus in particular is on responsible risk-taking and the need for industry, as well as investors and consumers, to get comfortable with taking managed risks to support the growth agenda. For example, we'll see movement in 2026 on the targeted support regime to bridge the advice gap for consumers, the development of the PISCES market which acts as a semi-private market with fewer public market safeguards and an expectation that investors will do their own diligence, and a push to move forward with a relaxation of mortgage affordability rules. Alongside these reforms, we'll see the outcomes from the Senior Managers and Certification Regime (SMCR) review and further plans for simplification, alongside an update on the FCA's work to review the solo remuneration rules.

In operational and cyber resilience, it will be interesting to see what the fallout will be in 2026 from the high-profile data centre failures of late 2025, and whether the UK and EU seek to shore up firms or robustly regulate further under the EU Digital Operational Resilience Act (DORA) and UK Critical Third Parties (CTP) regimes (particularly given that the DORA designation list includes a number of data centres).

Consumer

As noted, the FCA's focus on responsible risk-taking means that the regulator's attention is now on encouraging consumers to get comfortable with taking managed risks alongside responsibility for their financial education and decision-making. The FCA has embarked on an ongoing programme of rule simplification in favour of relying more heavily on the principles-based Consumer Duty framework, and we've seen some pullback from robust consumer protections previously in place, for example lifting the ban on retail access to crypto exchange-traded notes (cETNs). However, the FCA has also indicated growing concern about harms arising from improper elective professional categorisation, with a consultation on reforming existing rules set to close in February 2026.

To support managed risk-taking, we should also see the introduction of new regulatory regimes to close gaps and facilitate further consumer activity. In the first half of 2026 the new targeted support regime will go live – this involves the creation of a new regulated activity below the personalised advice boundary, which will enable the provision of suggestions designed for groups of consumers with common characteristics to help decision-making. We also expect the FCA to issue its final buy-now-pay-later (BNPL) rules in early 2026, with the long-awaited regime to come into effect in July, closing a consumer credit regulation gap.





ESG

2025 brought a global pullback from robust ESG regulation, and we expect 2026 to be no different. Regulators globally have shown their commitment to reducing sustainability reporting burdens and introducing more proportionate rules for firms. In the EU, version 2.0 of the Sustainable Finance Disclosure Regulation (SFDR) is progressing, which will simplify disclosures and reduce administrative burden alongside the introduction of new product categories designed to reduce complexity and increase clarity for consumers. A review is also underway of the EU Taxonomy delegated acts which specify the technical screening criteria for activities contributing to the six EU climate and environmental objectives. The UK, for its part, decided against expanding the Sustainability Disclosure Requirements (SDR) regime earlier in 2025.

More generally, the global focus has been on transition and adaptation rather than bright green finance, although there is still a reluctance to impose robust requirements even in those mildly green or brown areas. Transition plans remain in focus, but there may be a watering down of the ambitious intentions of recent years. The proposed EU Omnibus Directive is expected to eliminate the requirement for companies in scope of the Corporate Sustainability Due Diligence Directive (CSDDD) to prepare transition plans, while the FCA will set out its approach to transition plan disclosures for listed companies in early 2026.

However, regulators are not pulling back in all areas of ESG regulation, with both the EU and UK introducing regulatory regimes for ESG ratings providers. The EU regime is set to apply from 2 July 2026. Following a bit further behind, the UK's regime will take effect from June 2028, with the authorisations gateway set to open in June 2027 after publication of the FCA's final rules late in 2026.



Financial crime, misconduct and enforcement

The EU anti-money laundering (AML) regime reforms will be the major driver of AML compliance change for firms in 2026, with robust new obligations coming into force incrementally in 2026 and 2027 alongside the ramping up of activities undertaken by the new EU AML regulator, the Anti-Money Laundering Authority (AMLA). In the UK, forthcoming AML related reforms are much less dramatic but will still be important (for example, clarifications around the due diligence requirements relating to pooled accounts). Legislation finalising the changes to the UK AML regime is expected to be laid and come into force in early 2026. The FCA is also set to become the UK's unified AML regulator, and it will be interesting to see how the FCA copes with the additional burden on its relatively streamlined resources.

Since the appointments of Therese Chambers and Steve Smart as joint enforcement directors, the FCA has made considerable progress in reducing the enforcement backlog and increasing the pace of investigations, alongside policy changes aimed at meaningful deterrence. Although the FCA pulled back in 2025 from its intention to implement a "public interest" test for publicising the subject of an enforcement investigation, the regulator recently tested in court – and prevailed – on the more robust "exceptional circumstances" test. It remains to be seen whether 2026 will bring the FCA's intended new "lessons learned" style publications featuring anonymised investigation learnings.

We expect the FCA's enforcement outcomes in 2026 to continue to skew heavily toward those focusing on financial crime and market integrity alongside action the crypto sector. Non-financial misconduct also remains a big issue for the FCA, with new rules and guidance coming into force in September 2026; however, we are unlikely to see any enforcement outcomes as a result until late 2027 at the earliest.



Innovation and digitalisation

In 2025 we saw a significant number of developments in crypto regulation, and 2026 should bring further still. We should see the last of the FCA's consultations on the new crypto regulatory framework, with the authorisations gateway expected to open in September 2026 after final rules are published in preparation for the regime's commencement in October 2027, bringing the UK into alignment with the EU by regulating this fast-growing sector. Traditional asset tokenisation is also rapidly gathering steam, with the FCA set to issue final rules on fund tokenisation in the first half of 2026. The EU, for its part, had looked set to progress MiCAR 2.0 efforts (with DeFi, staking and lending, and tokens without an identifiable issuer all the subjects of potential legislative movement) but attention appears to now be focused on broadening the role of tokenisation as part of the Market Integration & Supervision package of proposed reforms.

Next moves are less clear when it comes to AI, with regulators keen to rely on existing frameworks for regulatory guardrails on the integration of AI into the sector. While the FCA has published its general approach to AI deployment, dedicated rulemaking is unlikely be forthcoming and the focus is now on robust sandbox and testing arrangements. In the EU, the European Supervisory Authorities (ESAs) have been mapping FS sector legislative competencies to AI Act requirements, with the EU Parliament calling on the Commission to issue sectoral guidance alongside the introduction of sandbox testing environments by the ESAs.



Markets, funds and investments

We'll see a considerable amount of activity in this space in 2026. Divergence from EU regulation will continue apace, as new tailored UK regimes are finalised or start to bed in. Further streamlining of the UK EMIR regime (particularly in relation to intragroup exemptions, reporting requirements and the regulatory framework for CCPs) alongside legislation to effect the repeal and replacement of assimilated law is expected in 2026. The FCA will continue its efforts to tailor the post-Brexit MiFID regime to the UK markets through further work via the Wholesale Markets Review. The transition from PRIIPs to the Consumer Composite Investments regime will start in April. And we expect to see long-awaited consultations and draft legislation on the repeal and replacement of AIFMD early in the year.

The FCA will continue to take a leading role in markets innovation, with development of the new PISCES market progressing. We'll also see further work across the markets as industry prepares for the commencement of the T+1 settlement cycle in October 2027.

We also expect to see more work done to assess the impact of private credit markets on stability, as the BoE conducts private credit market stress tests (with the EU understood to be planning similar exercises for non-bank financial institutions (NBFIs) in 2026). Regulatory scrutiny on this fast-growing sector is increasing across the globe, with the FSB set to undertake further work on sector vulnerabilities.



Payments

2026 may finally be the year we see movement on the reform of payments regulation. After less-than-straightforward negotiations, the EU Parliament and the Council at long last came to agreement on the Third Payment Services Directive (PSD3) reform package in November 2025 – while the technical teams still have considerable work to do (particularly in relation to e-money tokens), we expect to see the package finalised in 2026.

The UK is still awaiting a policy position on reforms to payments regulation, including whether to merge the payments and e-money regimes à la PSD3 – this work is now being taken forward as part of the Payments Forward Plan, a National Payments Vision deliverable for early 2026 which will set out a sequenced plan of initiatives across the payments ecosystem including initiatives in both retail and wholesale payments, and the role of digital assets. The Bank of England recently stated that its "vision for the future of the UK's payments landscape is one of a 'multi-money' mixed ecosystem" including traditional money, stablecoins, tokenised deposits and so on, and we would expect to see more on this as the National Payments Vision is delivered.

Whatever 2026 may bring, whether expected or not, we look forward to working with you on what's to come.



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