



# Regulatory Barometer

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April 2026





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# Foreword

Barometer aggregate score ↓ 7.2

## Welcome to the latest edition of the KPMG Regulatory Barometer – measuring the impact of regulatory policy and supervisory activity for financial services firms in the UK and EU.

We consider that regulatory pressure has peaked for now and is trending downward. Of the seven indicators reported in October 2025, five have decreased and only one has increased.

There are still pockets of intense supervisory activity and a significant volume of regulatory publications – consultations, calls for input etc. – but these tend to be fine-tuning or simplifying existing rules, or introducing targeted policy for specific areas of the market such as crypto-asset or ESG ratings providers. New requirements are simply not on the scale seen over the last 15+ years, such as Basel 3.1, MiFID II or Solvency II.

There is also increasing recognition from regulators that the time is right to review existing frameworks to ensure that they remain fit for purpose and that any previous “gold-plating” is not adversely impacting growth in the financial sector or the wider economy.

However, there is material external turbulence, which may have repercussions for the regulatory landscape. Regulators and supervisors are monitoring geopolitical developments closely, particularly the Iran conflict, with particular concern for escalating cyber, supply chain, operational/financial resilience and financial crime risks. Market dynamics are also shifting, as evidenced by the rapid growth of private markets. Firms need to remain alert in these areas even if the current pressure is not coming directly from regulatory policy.

“The Barometer aggregate score has fallen to 7.2. This reflects the absence of any new significant packages of rules and a shift towards a more reflective and proportionate style of regulation. As growth and competitiveness agendas deliver more structural change, the score may fall further. However, there are also new risks on the horizon.”

With continuing pressure to simplify rulebooks and reduce burdens on firms, regulators are seeking a balance between measures to promote growth and innovation, enhance proportionality and streamline regulatory engagement, whilst keeping a watchful eye on emerging and existing risks that may cause consumer harm or have systemic impacts.

The global effects of technology and digital innovation have never been greater. AI is poised to transform the financial services landscape, given its potential to redefine business processes, but may also introduce new risks, including amplified financial crime risks. Its impacts on key regulatory themes and on regulators themselves are considered in more detail later in the Barometer.

We hope you find the Barometer insightful. As always, please reach out to the [Regulatory Insight Centre](#) if you would like to share feedback or discuss any of the content in more detail.



**Rob Smith**  
Partner and Risk and  
Regulatory Lead  
KPMG in the UK



# Balancing resilience, growth and innovation

## 2026 is set to be another year of change and shifting regulatory dynamics for the financial services sector.

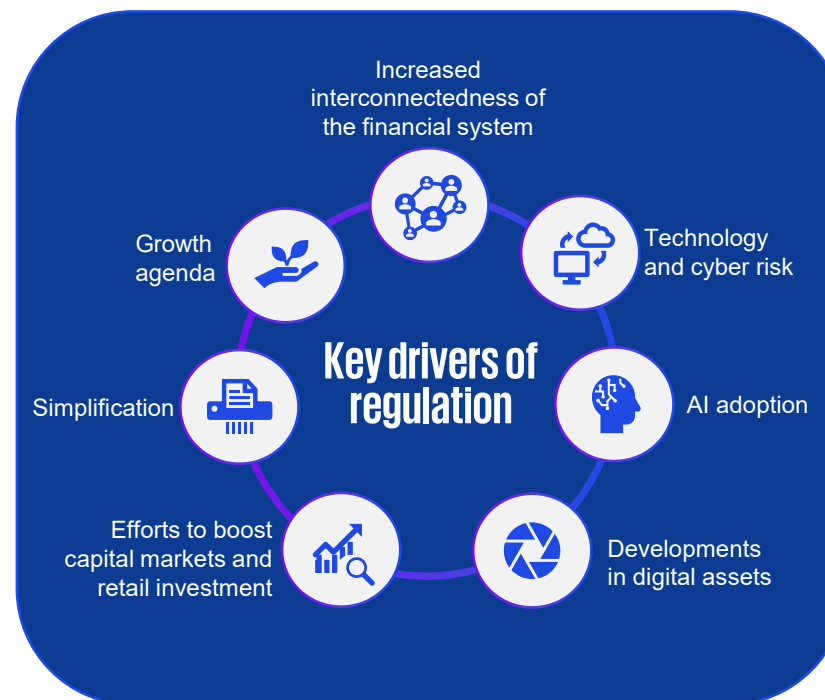
External forces, including geopolitical conflict, geoeconomic tensions, changing demographics and technological innovation are reshaping the world. The Iran conflict is crystallising impacts on prices, supply chains and security across the globe. So, while there may be less new regulatory policy putting pressure on firms, the gap is being filled by events taking place on the global stage.

### Prioritising resilience

Resilience concerns are front of mind for regulators and supervisors as they seek to ensure that individual firms and the wider financial system can absorb financial and operational shocks.

In addition to the current situation involving Iran, which is having tangible impacts on financial and operational resilience, the financial system is more interconnected and technology-dependent than ever.

Key existing and emerging risks are therefore being prioritised, in the financial system and beyond, with expanding emphasis on broader market and societal resilience.



**Major new regulatory policy initiatives may have slowed but global events require firms to demonstrate resilience**

## The growth and competitiveness agenda

Meanwhile, government pressure for FS regulators to support growth and competitiveness continues, and the simplification agenda is gaining momentum.

Early “wins”, such as removing obsolete or duplicative reporting templates, have mainly delivered incremental benefits. Other streamlining initiatives such as faster authorisations and approvals will improve efficiency and speed to market. Targeted measures for small firms, including updating thresholds to remove cliff edges and introducing more proportionate approaches should help to deliver on competitiveness mandates. And there are more structural changes on the horizon which may assist in mobilising capital to drive economic growth.

Governments are also taking steps to encourage foreign investment, for example, through the concierge service of the UK Office for Investment: Financial Services, in partnership with the FCA and PRA.

There may be some pain for firms along the way, with potential for short-term cost in terms of system change and implementation effort. It is also worth noting that, while simplification may reduce administrative and regulatory burden at a local level, there are already signs of increased regulatory fragmentation as different jurisdictions approach their streamlining exercises in different ways.



## Innovation

Responsible innovation is critical to building a more competitive financial services sector.

Regulators are supporting technology innovation via sandboxes and flexible frameworks but are seeking clear evidence of good or fair customer outcomes, strong model governance, and management of concentration risks, particularly around AI. Looking further ahead, there are efforts in both the UK and EU to encourage the use of novel technology in market and payments infrastructure to bring efficiencies through the use of tokenisation or distributed ledger technology.

Product innovation is accelerating too, driven by public and private demand for investment, and market-wide innovation and structural shifts – particularly the growth of private credit and alternative sources of capital and models of risk transfer – are increasingly on the regulatory radar.

## Innovation is both an enabler of competitiveness and a catalyst for heightened supervisory scrutiny

## Holding firm on primary objectives

The rapidly changing external environment calls for increasingly dynamic and agile responses from regulators and regulated firms.

Although the regulatory environment may be starting to appear friendlier for firms in some areas, UK and EU authorities have shown that they will not hesitate to take action against firms that cannot or will not meet their expectations – and that they will continue to target key areas of risk or consumer harm.

### In this edition of the Barometer:

#### Some of the previous regulatory themes have been reframed to align better with regulatory priorities:

- Financial Crime is now a standalone theme, reflecting increasing supervisory attention;
- Consumer Resilience becomes Fairness and Protection; and
- Capital Markets and Accessing Markets have been merged into a single Market Oversight and Integrity theme.



# Dashboard

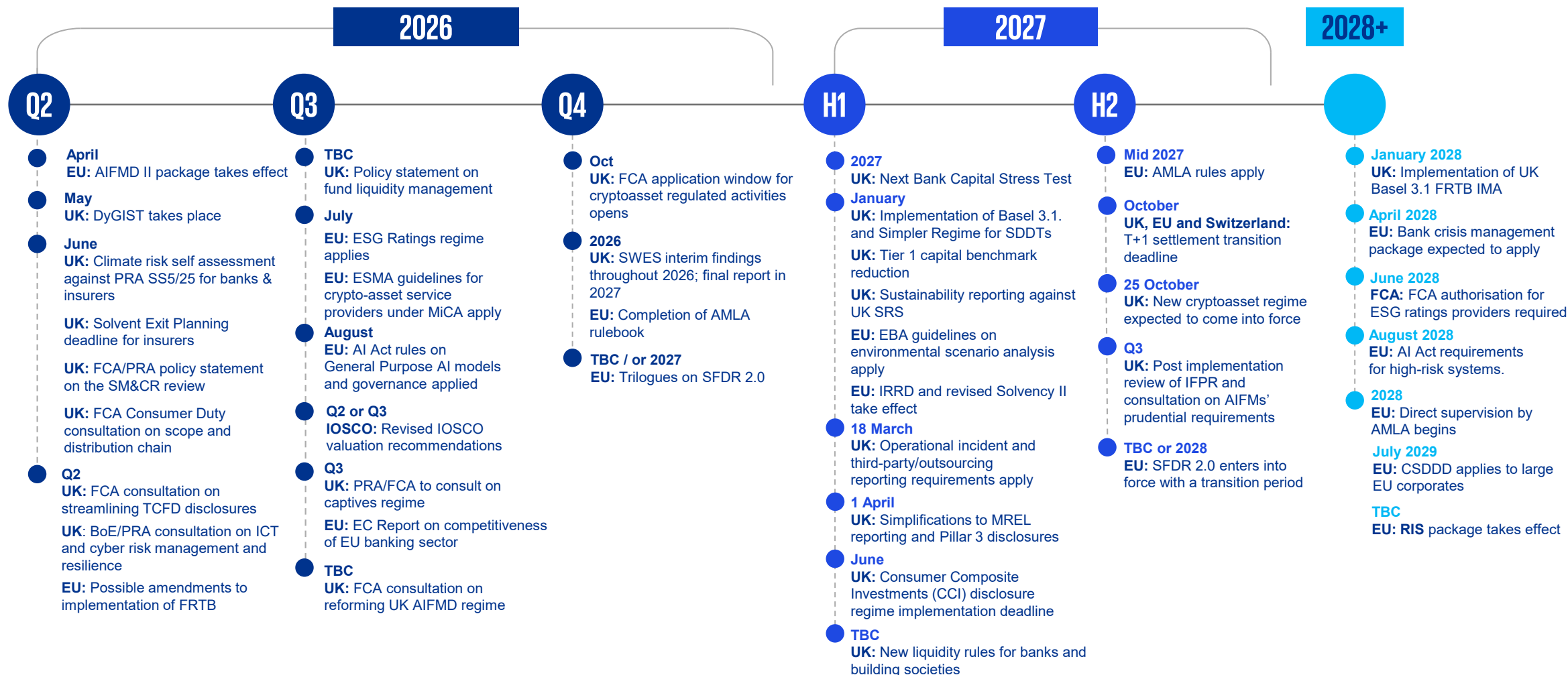


<b>April 2026: Aggregate Score: 7.2</b> <b>October 2025: 7.3</b>									
<b>Dashboard</b>	<b>Financial Resilience</b>	<b>Operational Resilience</b>	<b>Technology &amp; Digital Innovation</b>	<b>Sustainability</b>	<b>Fairness and Protection</b>	<b>Financial Crime</b>	<b>Market Oversight and Integrity</b>	<b>Governance and Controls</b>	
	<p>The score reflects ongoing geopolitical uncertainty and emerging risks, all with the potential to undermine financial stability, and ongoing implementation of key files. However, there has been a slight fall since October 2025, which recognises simplification initiatives already in place and planned.</p>	<p>The operational resilience regulatory landscape has not changed materially since October 2025 therefore the score remains at 8.2. However, firms will be assessing the impacts of geopolitical events, particularly the Iran conflict, on the resilience of their important or critical business services, whether directly or across their extended supply chain.</p>	<p>The score has increased again. With growing use/adoption of innovative technology comes growing supervisory focus. Firms will need to start taking action to comply with regulatory frameworks for digital assets as they are finalised.</p>	<p>The score has dropped slightly. Although some prudential expectations have increased and there will be new rules for ESG ratings providers, substantial scaling back of EU reporting obligations is having an impact and supervisory intensity differs in the UK and EU.</p>	<p>The small decrease in the score has been driven by Consumer Duty moving to the embedding stage and simplification initiatives coming to the fore. However, supervisory intensity of the Duty will remain high, and the regulatory perimeter is expanding into new areas. UK/EU divergence is also increasing.</p>	<p>The first standalone score for Financial Crime reflects current regulatory priorities, changes in regulatory obligations and their associated implementation challenges. As the EU's AMLA begins its work, and if financial crime risks crystallise further, additional regulatory action may push the score higher.</p>	<p>The impact score has fallen since the last edition of the Barometer. The main drivers for this are progress with the agenda to simplify existing requirements and to boost retail participation, although this has slightly been offset by increasing regulatory scrutiny in specific areas – for example, T+1 and private markets.</p>	<p>The drop in score reflects that for the most part, all significant regulation is now in place, and there are only small changes on the horizon. Financial Crime is now a standalone theme in the Barometer. These factors are slightly offset by new rules on non-financial misconduct and increasing supervisory pressure on risk management functions.</p>	
	<b>March 2026 score</b>	<b>8.1 (8.4)</b>	<b>8.2 (8.2)</b>	<b>8.2 (8.1)</b>	<b>7.2 (8.0)</b>	<b>6.8 (7.0)</b>	<b>NEW 6.7 (-)</b>	<b>6.8 (7.1)</b>	<b>6.0 (6.3)</b>
	<b>Policy maturity</b>	Implementing and reviewing	Implementing and embedding	Developing and implementing	Implementing and reviewing	Embedding	Embedding	Developing and implementing	Implementing
	<b>Supervisory intensity</b>	High, decreasing	High, increasing	Moderate, increasing	Moderate	Moderate	Moderate	Moderate	Moderate
<b>Global alignment</b>	Moderate, diverging	Moderate/High	Moderate, diverging	Moderate	Minimal	Minimal	Moderate, diverging	Moderate	

October 2025 scores in brackets



# Future in focus – key regulatory milestones





# 01

# Financial resilience



## Summary

Governments expect prudential regulators to be ‘robust on resilience and ambitious on growth’<sup>1</sup>. Delivering both remains challenging as geopolitical turbulence escalates, financial markets grow more interconnected, to support innovation and streamline rulebooks continues. Regulators remain steadfast in their view that a robust regulatory environment is a competitive strength but are increasingly open to consideration of less burdensome and more proportionate approaches.

**Regulatory Impact Score:**  **8.1 (8.4)**

The score reflects ongoing geopolitical uncertainty and emerging risks, all with the potential to undermine financial stability, and ongoing implementation of key files. However, there has been a slight fall since October 2025, which recognises simplification initiatives already in place and planned, and significant focus on reducing supervisory burden. Further structural simplification of frameworks could reduce the score further.

**Maturity stage:** Implementing and reviewing

**Supervisory intensity:** High, decreasing

**Global alignment:** Moderate, diverging



<sup>1</sup> Braddick to take the helm at the UK’s banking watchdog | HMT



## Changing market conditions

Against a backdrop of ongoing volatility and a rapidly changing external environment, regulators expect firms to demonstrate financial resilience across their businesses. This includes being able to evidence credible preparedness across a spectrum of severe but plausible scenarios. Supervisors are placing greater emphasis on firms' responses to rapid changes in markets, with ongoing scrutiny of capital and liquidity/funding metrics and counterparty exposures.

## Structural changes

There is also increased focus on structural changes and potentially systemic risks stemming from greater interconnectedness across the financial system.

The traditional banking space is becoming more crowded as non-banks compete on agility and price under different regulatory regimes.

Concerns around the rapid growth of private assets, and in particular private credit, are driving the Bank of England's second System-Wide Stress Test (SWES), covering alternative asset managers, mainstream asset managers, banks and institutional investors. And the rapid expansion of private capital flows into life insurance has heightened supervisory scrutiny of complex ownership models,

investment in illiquid assets and funded reinsurance arrangements. Further supervisory and policy intervention in private markets is increasingly likely, especially as retail investor participation increases (see **Market Oversight and Integrity**).

Innovation across the financial sector is creating opportunities for growth and efficiency while reshaping risk profiles. This includes the growing use of captives and alternative risk transfer solutions, alongside efforts to revise and develop supporting regulatory frameworks.

## Simplification and proportionality

Regulators acknowledge that post-GFC prudential frameworks have become highly complex – with significant impacts on firms in terms of costs and operational burden – And that the time is right for targeted reviews of certain parts of the rulebook. Changes to supervisory approaches are also being considered.

Examples of growth and simplification initiatives in the UK include the PRA's simplified prudential regime for Small Domestic Deposit Takers (SDDTs), changes to the SM&CR and the removal of reporting templates as part of the Future Banking Data review. Authorisation and approval processes are being streamlined and accelerated, more is being done to support smaller firms



to scale up and a new captives regime is being developed. UK bank capital and liquidity frameworks, and the ring-fencing regime, are also under review.



The PRA has also confirmed that all firms' Periodic Summary Meetings will move to a 2-year cycle. This is intended to reduce regulatory burden, reflect the longer-term nature of supervisory workplans and 'allow firms and supervisors to focus resources more efficiently on identifying and remediating key risks'.

The ECB is also considering how it can simplify rules and reform supervision<sup>2</sup>. The Governing Council's High Level Task Force on Simplification published recommendations in December 2025 which included simplifying bank capital requirements, a simpler regime for smaller banks, simplifying stress testing, rationalising reporting requirements and reforming the SREP process to take a more risk-based, outcomes-focused approach which is more responsive to the risk profiles of individual banks.

The recommendations followed the EBA's October 2025 consultation on revised guidelines on the SREP and supervisory stress testing, refining supervisory methodology and expectations for capital adequacy assessment. The EBA recently announced changes to the IRB model approval process to ease the administrative burden on banks and supervisors "while maintaining appropriate supervisory oversight". It is also consulting on significant simplifications to EU supervisory reporting.

The European Commission's report on the competitiveness of the EU Banking sector is expected in Q3 2026 and will focus on fixing unintended consequences of the current framework.

EIOPA is looking to strengthen supervisory convergence through closer collaboration with Member States on emerging risks, internal models and by using peer reviews to promote consistent, high-quality supervision and a shared supervisory culture. It is also proposing to streamline and simplify reporting as part of the Solvency II review, in support of the European Commission's objective to reduce reporting burden by 25% across all sectors (35% for SMEs).

It is also seeking to harmonise supervisory approaches to the authorisation and supervision of PE-backed insurers, which has the potential to raise the bar for the approvals of future transactions.

**“Effective bank-specific supervision can reduce the need for complex regulation, however supervisors require appropriate powers, tools, resources, risk-sensitive procedures and international guidance to avoid unwarranted supervisory heterogeneity”<sup>3</sup>**

Regulators have stressed the importance of continued international cooperation and harmonisation of rules. However, regulatory fragmentation is increasing as a result of localised simplification agendas.

And supervisory activity is likely to remain intense in perceived high-risk areas as regulators continue to monitor responses to evolving structural and external challenges.



### AI and financial resilience

AI offers opportunities to improve efficiency, accuracy and computational power to support prudential risk management, including:

- Analysis of and compliance with evolving regulatory requirements
- Real time/more dynamic risk analysis
- Automation of risk controls and compliance processes
- Improvements to credit risk management and fraud detection

However, firms should be alert to the additional risks that AI can introduce and should follow regulatory guidance to ensure that it is being deployed responsibly.

<sup>2</sup> Simplifying Rules, Reforming Supervision Quarterly KPMG SSM Insights Newsletter – December edition

<sup>3</sup> Streamlining financial regulation while safeguarding stability, Pablo Hernández de Cos General Manager, Bank for International Settlement



## A closer look

### 1. Capital and liquidity

UK Basel 3.1 requirements will take effect from 1 January 2027, in line with implementation of the new simpler prudential regime for Small Domestic Deposit Takers. The internal model approach for market risk (FRTB) will come into effect on 1 January 2028. Implementation of CRR3 continues in the EU but with application of aspects of FRTB likely to be delayed for up to 3 years – a new delegated act is expected. The FRB, FDIC and OCC have jointly issued revised US proposals for consultation – the proposals diverge significantly from the UK and EU implementations of the Basel standards, which may add challenge and complexity for international firms.

Also from 1 January 2027, the Tier 1 capital benchmark for UK banks will be reduced from 14% to 13%. A more detailed review of the bank capital framework is ongoing. The PRA and ECB both expect risks to be managed across a comprehensive set of capital and liquidity metrics.

EIOPA is progressing technical implementation ahead of revised Solvency II 'go live' in early 2027, while in the UK the focus is turning towards supporting market innovation. This

includes considering options for alternative capital for life insurers and development of a new captives regime.

The FCA has simplified and consolidated existing rules on capital for investment firms. An upcoming FCA engagement paper will consider reforming the IFPR market risk framework.

The PRA is consulting until June on modernising the liquidity framework for banks and building societies to build confidence in the liquidity system, support growth and competitiveness objectives, and boost resilience.

Large UK life insurers are progressing system and data overhauls in advance of new liquidity reporting requirements coming in H2 2026.

### 2. Governance and risk management

Effective governance and risk management remain paramount. Senior management and boards are expected to ensure that risk management frameworks are robust, proportionate, keep pace with changes to business models and adapt to the changing external environment – across all three lines of defence. The PRA expects firms' senior management to be appropriately engaged in approving and maintaining transactions that lead to a reduction in capital requirements.

Scrutiny of banks' credit exposures will continue, especially in higher-risk and vulnerable sectors. The PRA and ECB also continue to prioritise risk data aggregation (including BCBS 239) and regulatory reporting, alongside remediation of model risk management shortcomings.

Funded reinsurance remains a regulatory concern, with a policy change likely, and EIOPA is consulting on strengthened approaches to the authorisation and supervision of PE backed insurers, reflecting growing concerns around suitability, accountability and conflicts of interest within increasingly complex ownership structures. Insurers' investment strategies are also on the supervisory radar, including new asset classes and geographies, structured products and private assets.

### 3. Stress testing

Stress testing continues to be an important part of the supervisory toolkit and is being extended to an ever-broader range of risks, including geopolitical, climate and cybersecurity risk. KPMG in the UK's December 2025 stress testing survey found that, although banks' stress testing capabilities are mature, they were built primarily for regulatory exercises focused on conventional economic stress events such as recessions, interest rate fluctuations and market downturns.



### 3. Stress testing (cont'd)

More dynamic approaches are needed to support risk management in the current environment.

In 2026, the ECB will conduct a reverse stress test on geopolitical scenarios, to complement the wider EBA stress test. Recommendations to simplify EU stress testing include potentially shifting to a more “top-down” approach as in the US.

The next UK Bank Capital Stress Test (BCST) will take place in 2027, following the move to a 2-year cycle. The 2025 exercise found that the UK banking system would be able to continue to support the economy even if economic conditions turn out materially worse than expected, enabling it to contribute to long-term sustainable economic growth. No bank was required to strengthen its capital position.

The publication of sector level and, for the first time, firm level results from the UK Life Insurance Stress Test (LIST) confirmed that life insurers remain well capitalised under severe but plausible scenarios, while also revealing greater sensitivity in some business models. The PRA has deferred

the next LIST to January 2028 to allow time to absorb lessons learned. Separately, the 2026 Dynamic General Insurance Stress Test (DyGIST) signal a shift towards more realistic crisis simulation, with firms asked to respond dynamically over a live three week stress window.

The BoE’s second System Wide Exploratory Scenario (SWES) centres on the resilience of the private markets ecosystem. The exercise brings together alternative asset managers, large banks that provide credit to private market funds and PE sponsored corporates, as well as institutional investors, to assess system-wide transmission channels and potentially systemic risks.

### 4. Recovery, resolution and exit planning

Solvent exit planning deadlines for banks have now passed and are approaching for insurers in 2026.

The BoE has streamlined bank resolution reporting templates and increased the threshold for firms subject to Resolution Assessment Framework (RAF) reporting and disclosure requirements from £50 billion to £100 billion in retail deposits.

SDDTs will now only be required to review their recovery plans every two years instead of annually. From 1 April 2027 there will be targeted simplifications to MREL reporting and a more proportionate approach to Pillar 3 disclosures.

In the EU, integration of resolution planning and prudential supervision for banks continues through links between stress testing and resolution preparedness, and enhanced data reporting and supervisory monitoring. The EBA is also considering ways to streamline the capital and TLAC/MREL framework. The newly adopted bank crisis management package is expected to apply, with some exceptions, from April 2028.

The EU Insurance Recovery and Resolution Directive is at technical development stage prior to January 2027 implementation, although there are still important questions being worked through, including firms within scope.

For asset managers, there is continued supervisory scrutiny of the credibility and operability of wind down plans.



## Experts' corner



**Jalpa Dodhia**  
Partner  
KPMG in the UK

### How are firms that are ahead of the curve approaching AI for MRM?



AI adoption is accelerating, but banks already operate within mature model, data and technology risk frameworks. AI governance should not add friction. Its purpose is to introduce risk-based, adaptive oversight that strengthens what already exists – enabling innovation while meeting regulatory expectations with confidence.

AI brings a broader and more complex risk profile, spanning model, data, legal, HR and technology considerations. Leading firms are responding by embedding AI governance within existing MRM frameworks. This is pragmatic: AI is fundamentally a model, sharing core characteristics with traditional models, but with amplified risks around explainability, data dependency, adaptability and third-party reliance.

In practice, accountability for AI governance increasingly sits with MRM, supported by formal triage and tiering of AI and GenAI use cases. Central to this approach are use-case-level AI inventories, which provide visibility over where and how AI is used across the organisation. These inventories are aligned to emerging regulation, including the EU AI Act, and underpin structured workflows to assess MRM scope, materiality and regulatory impact.

Governance is inherently cross-functional. AI councils typically bring together MRM, data, technology, operations and business leaders to ensure joined-up oversight. At the same time, firms recognise that traditional MRM controls were not designed for the pace and dynamism of AI. As a result, lifecycle controls are being adapted to address continuous model change, prompt and data governance, and heightened third-party and transparency risks.

Ultimately, effective AI adoption depends on trust, clarity of accountability and the ability to evidence control. Done well, AI governance is not a constraint, but a strategic enabler – making innovation scalable, trusted and compliant.



**Harvard Lee**  
Director  
KPMG in the UK

### Are insurers keeping pace?



At its core, MRM tackles two deceptively simple questions: what model risks are you running, and what are you doing about them? Despite renewed focus, prompted by the PRA's supervisory statement for banks (SS1/23), insurers still have work to do to meet rising expectations. The principles in SS1/23 are clear, the direction is unmistakable and its application is just as relevant for insurers as it is for banks or any organisation that depends heavily on models for decision making.

Insurers have traditionally focussed their MRM efforts on capital and financial reporting models. These matter, but they are only the tip of an increasingly complex model landscape. Pricing engines, forecasting tools, bespoke quote models and rapidly emerging AI technology shape decisions across the business. This creates a practical concern: blind spots where important models operate without consistent oversight and where errors can quickly become costly.

The insurers pulling ahead are those that have taken visibility of their model landscape seriously. They have mapped their model landscape, assessed risks, extended their MRM framework to AI and embedded structured, proportionate challenge on the models from independent risk teams. Models warranting most attention are those where judgement is significant, modelling is complex and behaviours are hard to interpret, and where getting errors could have significant impact on the organisation or its customers.

MRM functions should set the tone by guiding the organisation toward clearer visibility of the model landscape, closing oversight gaps, ensuring governance, challenge and validation keep pace with the growing complexity of modern modelling techniques. Those that act should remain in control as model complexity accelerates.





# 02

## Operational resilience



### Summary

Regulatory/supervisory focus on operational resilience is expanding beyond BAU framework implementation – though there is still work to do here – towards preparedness for potential events such as significant cyber incidents, third party and supply chain failures and climate impacts, and the implications such scenarios could have for broader market and societal resilience.

**Regulatory Impact Score:**  **8.2 (8.2)**

The operational resilience regulatory landscape has not changed materially since October 2025 therefore the score remains at 8.2. However, firms will be assessing the impacts of geopolitical events, particularly the Iran conflict, on the resilience of their important or critical business services, whether directly or across their extended supply chain.

**Maturity stage:** Implementing and embedding

**Supervisory intensity:** High, increasing

**Global alignment:** Moderate





## Regulation vs world events

Regulatory policy development has slowed, with no material new announcements for over 12 months.

However, regulators and supervisors are showing renewed interest in operational resilience given exposure to events crystallising as a result of the Iran conflict.

There are three main lenses through which the resilience of firms' important business services is most likely to be impacted:

- Rising costs, including fuel prices, may have significant impacts on third party suppliers, increasing the risk of insolvencies across firms' extended supply chain.
- Most firms are on heightened levels of alert to state-sponsored cyber attacks, both to themselves and to their third parties.
- The recent AWS outage and increased risk of service disruption caused by attacks on telecommunications and power infrastructure are raising questions about the resilience of cloud service providers. For example, the threat of undersea cables being cut is significantly higher than previously.

These external factors support the continuing need to reinforce operational resilience.

## Looking ahead

The initial "big bang" of new UK rules plus the EU's DORA is complete and it is now up to firms to continue the work to embed a culture of resilience – see Resilience by design. Attention has now turned to the detail of incident and third-party reporting, but this is yet to bite in terms of regulatory pressure.

Although the majority of requirements have been finalised, there are some further regulatory announcements to come in the UK, including a BoE/PRA consultation on ICT and cyber risk management and resilience in Q2 2026, the designation of critical third parties by HMT and final operational resilience rules for crypto-asset firms.

International standard setters such as the BCBS, IOSCO and IAIS continue to emphasise resilience as a core prudential pillar, integration with enterprise risk management and recovery planning, and cross-border cooperation on cyber incidents.

Operational resilience has not been impacted significantly by the simplification agenda, given most regulation is relatively recent and already streamlined. It is viewed as a competitive advantage and a prerequisite for financial resilience and the avoidance of harm to consumers. Firms should expect heightened scrutiny of the ways they protect important / critical services and maintain trust.



## AI and operational resilience

As in other areas, AI presents both opportunities and risks for operational resilience.

It can support operational efficiency, with automated IT operations reducing human error and system downtime. It could also enhance stress testing and operational scenario analysis.

AI-driven analytics could be used to help develop early warning systems to identify operational anomalies, cyber threats and emerging systemic risks.

Incident responses could be automated, with potential for AI tools to accelerate containment of cyber incidents and recovery operations.

However, on the flip side, AI systems may introduce new operational vulnerabilities due to lack of explainability, and poorly governed AI could amplify disruptions. AI systems themselves can be the target of cyber-attacks, and reliance on a small number of AI providers or cloud platforms could create systemic dependencies.



## A closer look

### 1. Resilience by design

Firms are expected to embed resilience in business service design, change management and digital transformation programmes, not just risk frameworks.

Regulators are emphasising continuous resilience, meaning firms must regularly review tolerances, update mapping and incorporate resilience into strategic planning.

The PRA, for example, expect firms to improve their operational resilience testing, and for operational resilience to be an integral part of decision making – Including routine consideration by senior management and boards of how strategic changes such as new products, IT upgrades and outsourcing affect resilience. However, it also notes that actions should be proportionate to the size and business model of the firm and targeted at important business services.

There is still room for improvement in embedding operational resilience – as evidenced by the FCA’s observations, 12 months after the UK regulatory compliance deadline, on where firms should be doing more<sup>4</sup>:

- More focus is still needed on understanding the resilience posture of non-technology assets supporting an IBS;
- Scenario tests may not be severe enough for some firms, potentially resulting in no vulnerabilities being identified

that would prevent them from recovering within impact tolerances;

- Limited details are being tracked or reported to boards on vulnerability remediation;
- There is limited testing of communications strategies and plans; and
- There is limited evidence of new governance being embedded into BAU, where IBS owners are engaged or where the IBS lens becomes the primary reporting lens.

### 2. Cyber and ICT resilience

Geopolitical risk (95%) and cyberattack (82%) remained the two most frequently cited “number one” risks for market participants according to the BoE H1 2026 Systemic Risk Survey<sup>4</sup>. They were also ranked as the most challenging risks to manage and the most likely to materialise.

The BoE survey results echo the findings of KPMG’s 2025 Global Banking and Capital Markets CEO Outlook<sup>5</sup>. 86% of CEOs were concerned about vulnerability to cyber-attacks. 86% (up from 81% in 2024) and flagged cyber-crime and cyber-insecurity as the factors most likely to negatively impact growth.

Cybersecurity was flagged as the top challenge facing banks (43%), with respondents highlighting the expansion of attack surfaces due to digital banking platforms, open banking APIs and AI, together with the potential for hackers and criminals to

**86%** of banking and capital markets CEOs say cybersecurity is the most likely factor to impact organisational growth in next three years.<sup>6</sup>

use AI to breach banks’ cyber defences to pursue payment fraud and install ransomware.

Across jurisdictions, supervisors are converging on cyber resilience as a rapidly growing area of system-wide vulnerability, not just an IT issue. This is resulting in increased use of scenario testing, threat-led penetration testing (TLPT) and enhancements to incident reporting frameworks.

In October 2025, the Bank of England, PRA and FCA shared effective practices for cyber response and recovery capabilities for firms and financial market infrastructures. Final rules on the reporting of operational incidents, including cyber incidents, will come into force on 18 March 2027.

The PRA expects firms to develop and demonstrate robust capabilities, including around cyber and geopolitical risk, to “prevent breaches, detect attacks quickly, respond effectively and recover critical services within impact tolerances”. Its 2026 supervisory priority letters encouraged firms to apply learnings from the 2024 cyber stress test and make full use of tools such as CBEST or STAR-FS to assess cyber resilience. As noted above, a BoE/PRA consultation on ICT and cyber risk management and resilience is expected before June. And the FCA expects firms to continue “improving their cyber and information protection strategies, with tested recovery plans”.

<sup>4</sup> Operational resilience: insights and observations one year on | FCA

<sup>5</sup> Systemic Risk Survey Results – 2026 H1 | Bank of England

<sup>6</sup> KPMG 2025 Global Banking and Capital Markets CEO Outlook



## 2. Cyber and ICT resilience (cont'd)

UK FS cyber resilience policy is evolving alongside a new Cyber and Security and Resilience Bill, introduced in November 2025, which aims to improve UK cyber defences and protect essential public services.

In the EU, DORA requires in-scope entities to ensure that they can withstand ICT disruptions including cyber incidents. The EBA, EIOPA and ESMA have continued to issue technical standards, reporting templates and guidance to operationalise requirements including incident reporting, TLPT and registers of ICT providers.

Supervisors are focusing on ICT risk management and cyber maturity, reflecting weak scores in the EU supervisory review process. In its 2026-2028 supervisory priorities, the ECB emphasizes the need for effective remediation of previously identified material weaknesses in cyber security. It will also continue with its programme on on-site inspections.

## 3. Third parties and outsourcing

The PRA notes in its 2026 priorities that firms are becoming more reliant on a small number of third parties (and their third parties) to deliver important business services. It therefore expects firms to prepare for service failure by maintaining and testing contingency, exit and stressed exit plans. Firms are

also encouraged to be aware of concentration risks and make sure that they understand the full chain of dependencies, including sub-outsourcing.

The ECB also notes the rapidly expanding reliance on third-party providers for critical services, driven in part by accelerating adoption of AI. ECB supervisors will therefore deepen their scrutiny of ICT risk management, cyber resilience, third party risk management arrangements and the implementation of digital-transformation strategies across banks of all sizes.

Importantly, firms should not rely solely on assurances from third parties regarding their resilience; where possible, they should conduct their own testing and validation to ensure that services can be maintained during disruption.

The FCA has called out the link between cyber risk and TPRM and the need for robust reporting. The BoE, PRA and FCA requirements for the reporting of material third party (MTP) arrangements by firms and FMI, including the maintenance of a register of outsourcing arrangements will take effect from 18 March 2027.

The ESAs have publicly designated CTPPs under DORA and started oversight engagement. The first wave of designations under the UK CTP regime is yet to be confirmed.

**Cyber-attacks are becoming more frequent and more sophisticated, and firms are increasingly reliant on third party providers. In 2025, over 40% of cyber incidents reported to us involved a third party and we have seen several recent high-profile incidents impacting the financial services sector including the Cloudflare and AWS outage. Clear and timely reporting will help us”<sup>7</sup>.**



<sup>7</sup> FCA Regulatory Priorities: Retail banking report



## Expert's corner



### Ashley Harris

Partner  
KPMG in the UK  
Operational Resilience  
Lead Financial Services

#### What are the key challenges facing firms as they continue to embed operational resilience into BAU?



There are several common areas where firms continue to find this challenging:

**Governance and accountability:** Boards should continue to show a proactive approach to operational resilience ownership including frequent, ongoing engagement in the strategic direction of the operational resilience capability and resilience-related investment decision-making.

**Embedding into BAU:** Resilience capabilities continue to be constrained by a programme-centric approach rather than focus on BAU integration. This includes limited ownership of the end-to-end resilience lifecycle by BAU appointed role holders.

**Minimum viable company:** Firms should plan for being able to survive a catastrophic disruption and demonstrate an ability to continue to deliver essential activities whilst recovering business as usual in a controlled, sequential manner.

**Understanding 3rd/4th party resilience:** There is still limited engagement between regulated firms and their 3rd/4th parties to assess the resilience posture of those important business services (IBSs) that are dependent upon external 3rd party support. In addition, joint scenario testing with 3rd/4th parties continues to be limited.

**Maturity of scenario testing approaches:** The focus of most firms' scenario testing activities is still on desktop simulations with conclusions based upon SME judgement rather than live testing of IBS workarounds or substitutes which leverage actual data to assess the ability to mitigate customer impact.

**Resilience by design:** Poorly implemented change can be one of the most significant root causes of operational disruption. Incorporating resilience design principles into the end-to-end transformation process and ensuring business stakeholder involvement in key decisions throughout the change management lifecycle is critical.

**Navigating global frameworks:** Multinational firms face unique implementation hurdles when aligning EU-specific requirements with global operational frameworks.

While DORA originates in Europe, its ripple effects are spreading worldwide due to potential impacts on non-EU firms – and although the application deadline has come and gone, global financial institutions continue to struggle with developing sustainable BAU operating models for DORA compliance.

For firms headquartered outside the EU, translating regulatory requirements into enduring operational practices presents unique challenges that extend far beyond initial implementation. To navigate these complexities, non-EU firms must focus on management body oversight, integrating ICT risk management and digital operational resilience strategy, developing robust BAU operating models and preparing for regulatory inspections. 



# 03

## Technology and digital innovation

### Summary

Technology has undeniably changed the way that financial services are delivered and is also facilitating the introduction of new products. Regulators are taking measures to support this innovation but are also monitoring the novel risks it brings and the threats it could pose to consumer protection and, on a wider scale, to financial stability. Over the last year, after extensive consultation, some regulatory frameworks have been finalised but there are still many ongoing consultations and negotiations.

**Regulatory Impact Score:**  **8.2 (8.1)**

The score has increased again. With growing use/adoption of innovative technology comes growing supervisory focus. Firms will need to start taking action to comply with regulatory frameworks for digital assets as they are finalised.

**Maturity stage:** Developing and implementing

**Supervisory intensity:** Moderate, increasing

**Global alignment:** Moderate, diverging





Previously, engaging with technology and digital innovation may have seemed like a choice for firms but this is no longer the case. Continuing cost pressures mean that FS firms are increasingly looking at AI to deliver efficiencies across their businesses.

**86%** of Banking and Capital Markets CEOs,  
**73%** of Insurance CEOs and  
**66%** of Asset Management CEOs  
 say AI is their top investment priority.<sup>8</sup>

As firms deploy AI they need to navigate divergent AI regulation across jurisdictions, ranging from prescriptive rules to principles-based approaches. Regulators continue to face pressure from governments to ensure that frameworks support local innovation and economic growth, and this is driving fragmentation.

As regulatory frameworks for stablecoins and cryptoassets are finalised, crypto-natives are having to build out their risk

and compliance processes to gain regulatory authorisation. The growing use, and regulatory acceptance, of stablecoins is leading traditional finance firms to develop their tokenised deposit offerings and central banks to progress their central bank digital currency (CBDC) plans.

There is also increasing activity from both firms and regulators around the tokenisation of traditional products such as equities, bonds and funds. Consideration is being given to how this could bring greater access, liquidity and efficiency to markets such as real estate and private assets.

Quantum computing dual-track plans – support to develop quantum computing alongside plans to transition to post-quantum cryptography – are emerging in many locations, including a G7 Roadmap for the financial sector.

Looking ahead, there will unsurprisingly be increasing supervisory focus on firms’ use of AI. However, regulators are working with firms through initiatives such as the BoE/FCA/Industry AI Consortium, to address issues that are emerging as the technology evolves – such as governance and oversight needed for agentic AI, and consistent understanding of terms such as explainability. Supervisors have also been

**“The financial landscape is evolving at speed, with technological developments bringing huge opportunities but also resulting in an ever-evolving threat landscape.”<sup>9</sup>**

clear that risk management frameworks will require upgrading and that red flags include uncontrolled proliferation of AI use cases.

For digital assets, there will start to be a shift from defining the rules to monitoring firms’ compliance. Supervisors will focus on customer outcomes and experience, and on market integrity.

With continuing political pressure to support growth, regulators will continue to offer more ways to support firms to innovate but, in the longer term, the cycle of misconduct and supervisory actions will inevitably come around. Firms using innovative technology should invest sufficient time and resource to avoid negative supervisory actions.

<sup>8</sup> KPMG 2025 CEO Outlook

<sup>9</sup> Speech by Sasha Mills, Executive Director, BoE – The sky’s the limit: shaping the UK’s digital financial future.



## A closer look

### 1. Artificial Intelligence

There continues to be significant regulatory focus on AI.

The Financial Stability Board published analysis highlighting vulnerabilities associated with the use of AI financial services, including third-party dependencies, concentration risk and governance challenges as firms scale AI use cases. In the UK, the FCA has launched a long-term review of the role of AI in retail financial services, examining the opportunities, risks and regulatory implications of increasing adoption. The FCA continues to offer support to firms offering innovative services through its AI Lab.

The EU AI act is progressing through phased implementation, introducing a risk-based regulatory framework for AI systems and prompting firms to begin assessing how governance frameworks and oversight need to evolve. However, the European Commission is already looking to simplify and streamline the EU AI act through the Digital Omnibus. The Omnibus also includes amendments to GDPR to reflect the growing use of AI.

### 2. Cryptoassets

In the digital assets space, regulators are bucking the trend of simplification and deregulation as they continue to propose and implement regulations aligned to the growing size and pace of the market. However, the maturity of these regulatory frameworks varies. In some jurisdictions, regulators are still at the stage of agreeing and finalising rules while in others they are beginning to focus on measuring and improving the success of initial implementation.

MiCA, which came into force in 2024, is now fully implemented across all EU member states and the industry is now navigating the post-implementation phase.

The regulatory framework for digital assets in the UK has become clearer now that the FCA has published most of its proposed rules. Final policy statements are expected later this year, prior to the regime coming into force in October 2027. Firms currently carrying out or wishing to carry out cryptoasset activities in the UK will need to begin implementing the applicable requirements as they prepare to apply for permissions later this year.

### 3. Tokenisation

Regimes such as the Digital Securities Sandbox in the UK and the DLT Pilot in the EU provide live environments in which digital securities can be traded and settled on-chain.

These initiatives indicate regulators' desire to enable the tokenisation of capital markets, however, uptake of the DLT Pilot Regime has been low. The Market Integration Package seeks to address this with a proposal to expand the pilot's scope and scale, and to make it more flexible and proportionate. The ECB has confirmed it will accept assets issued on DLT as acceptable collateral from April 2026. And the Appia initiative will explore further the development of an integrated tokenised financial ecosystem in Europe.

Tokenisation of other instruments is also progressing in the UK. The FCA outlined its plans for progressing fund tokenisation in its 2025 consultation and in February 2026 HMT appointed the provider for the Digital Gilt Instrument (DIGIT) pilot issuance. The BoE has also said that it is considering the use of tokenised collateral.



#### 4. CBDCs

Central banks' work on CBDCs continues as USD-pegged stablecoins gain traction.

In the EU, the ECB is targeting first issuance of the digital euro in 2029. This is dependent on MEPs and EU heads of government agreeing a legal framework for the establishment of the digital euro in 2026. This has so far been contentious, with some groups favouring both online and offline versions and others favouring an offline-only version. However, a recent vote in favour of both versions by MEPs saw the Parliament's view move closer to the Council's. The final vote in June will determine the ECB's timeline.

In the UK, the BoE's Digital Pound Lab provides a simulated environment for industry and the BoE to test the potential capabilities of a digital pound. In its March 2026 update on the digital pound's progress, the BoE reiterated its key desired outcome for the UK's future retail payments to operate seamlessly as part of a diverse, "multi-money ecosystem" comprised of different forms of sterling at equal value, including cash and, potentially, a digital pound. The BoE is still in the design phase and a decision on the future of the digital

pound and the assessment of the blueprint will be published later this year.

#### 5. Data sharing

Innovative financial services can be offered to consumers and corporates if data is shared between firms with clear consent, secure technology and broad participation. However, in the EU, a deal between lawmakers and governments on the Financial Data Access Bill (FIDA) is still pending and is reveals the underlying tension between the desire for innovative products and the unlevel playing field with BigTech.

In the UK, following the passing of the Data (Use and Access) Act 2025, the Department for Science, Innovation and Technology has now launched its Smart Data Strategy which includes a publishing of a roadmap for financial services in the next year. The FCA has launched a Smart Data Accelerator to allow firms to use synthetic data to test and experiment with open finance use cases.



# Regulators' use of AI



There is growing use of AI by regulators in supervision and policy making.

In the UK, the FCA has announced that it is integrating AI into regulatory workflows, enabling it to detect harm more effectively and speed up regulatory decision-making. It is also, following successful testing, rolling out GenAI across authorisations and supervision to review documents received from firms.

The PRA is exploring the application of machine learning and deep learning models to categorise and extract unstructured information, allowing reliable querying of management information, board packs and disclosures received from supervised firms. It is also piloting off-the-shelf GenAI tools to support staff with routine tasks.

And the FOS is using GenAI tools to analyse consultation responses.

In the EU, the regulators have been less specific on their use of AI. However, the ECB has said that it is exploring the use GenAI to support supervisors in routine tasks and EIOPA has set up a group for the same purpose. ESMA is also reviewing AI-powered tools for supervision, including anomaly detection and market abuse prevention. The EBA is exploring the use of AI in its monitoring and analysis of risks and vulnerabilities of the EU banking and financial sector.





## Experts' corner



**Hannah Dobson**  
Partner  
KPMG in the UK  
UK Head of Fintech

### What key challenges are fintech clients experiencing in relation to unfolding crypto- and digital assets regulation in the UK?



One of the largest challenges for fintech firms is that they rely heavily on technology rather than large compliance teams and this is becoming less feasible as they become increasingly regulated. The volume and breadth of the proposed rules for the cryptoassets regulatory regime could mean that these firms will need to recruit regulatory staff. Firms are consequently weighing up the pros and cons of becoming authorised in the UK versus jurisdictions with simpler regimes.

### Where and how are firms moving fastest on AI adoption?

Many firms are now building their own AI tools for specific tasks, such as contract checking and regulatory compliance, rather than purchasing off the shelf regtech solutions, as it is often more cost effective. Larger banks are acquiring reg tech firms, and major players are consolidating the market by purchasing other providers, aiming to offer end to end compliance solutions.



**Lucie Alexander-Orr**  
Director  
KPMG in the UK  
Risk and Regulatory  
Advisory

### What key challenges are fintech clients experiencing in relation to unfolding crypto and digital assets regulation in the UK?



The key challenge is the need for proportionate risk management and the difficulty of demonstrating its value without it being seen as a cost burden. Risk done right is a business enabler that adds value, rather than being a barrier or cost drain. It is difficult to measure the benefits of effective risk management, such as preventing losses or misconduct. Unlike traditional finance firms, these organisations that have not yet experienced significant fines and so may not fully appreciate the cost saving potential of good risk practices.

### How do you see the wider impact of AI on risk management in Financial Services?

There is a marked shift from manual, spreadsheet based risk and control self assessments to AI supported processes, enabling more efficient identification, assessment and management of risks and controls across organisations. The effective use of AI and automation can reduce the need for large teams dedicated to risk management, thereby lowering operational costs while maintaining robust risk oversight. However, achieving objective risk management requires high quality data, as AI and automation can only deliver value if the data used for risk and control processes is accurate and reliable.





# 04 Sustainability

## Summary

There continues to be a tension between streamlining and simplification of regulatory policy in some areas and the introduction of enhanced requirements in others. Pressures to support growth and competitiveness persist but these now sit alongside a broader appreciation of sustainability as a key driver of financial, operational and commercial resilience.

**Regulatory Impact Score:**  **7.2 (8.0)**

The score has dropped slightly. Although some prudential expectations have increased and there will be new rules for ESG ratings providers, substantial scaling back of EU reporting obligations is having an impact and supervisory intensity differs in the UK and EU.

**Maturity stage:** Implementing and reviewing

**Supervisory intensity:** Moderate

**Global alignment:** Moderate





## From compliance to BAU

Banks that responded to the 2025 KPMG CEO Outlook survey highlighted a shift ‘from compliance to business-as-usual’, as they increasingly integrate sustainability into risk, credit and finance functions.

Insurers have also made progress, with 72% of insurance CEOs saying that sustainability has been embedded into their corporate strategy and business models. With direct underwriting exposure to extreme weather event claims, the insurance industry is eager to both meet expectations for responsible business practice and reduce the cost of climate event claims.

Meanwhile, regulators and firms are responding to investor demand for decision-useful and transparent sustainability reports. Regulators/standard-setters are reviewing the scope and content of disclosures, resulting in streamlining, particularly in the EU.

## Sustainability and resilience

Resilience is becoming an increasingly dominant lens through which to view sustainability. The effective embedding of sustainable approaches across businesses can create new revenue streams, reduce susceptibility to geopolitical, economic and climate change shocks, and reduce costs and compliance risks.

Supply chain resilience, energy security, long-term operational

## “The emphasis is shifting away from compliance outcomes towards building and preserving value.”<sup>10</sup>

stability and managing direct exposures are taking priority, as firms focus on how sustainability initiatives can help preserve and build commercial value. Read more in our Expert’s Corner.

## Supervisory priorities and intensity

EU and UK regulators have restated their commitments to sustainability initiatives. However, there has been some mixed messaging from UK supervisors. Neither the PRA nor the FCA mentioned climate risk in their 2026 priority letters, despite recent consultations on prudential and disclosure requirements.

In contrast, in its 2026 to 2028 priorities, the ECB specifically calls out the need for full alignment with its expectations for climate- and nature-related (C&N) risks. ESG and Sustainable Finance also feature in the 2026 Work Programme issued by the Joint Committee of the ESAs and in their individual programmes.

Supervisory intensity in the EU is currently greater than in the UK, with the ECB issuing fines for non-compliance with



its C&N expectations and the ESAs ramping up expectations on stress testing and scenario analysis. This may change once the PRA’s June milestone for SS5/25 passes.

The EU has scaled back its ambitious and complex expectations for sustainability reporting and disclosures just as the UK begins to introduce new ISSB-aligned standards.

Finally, with growth and competitiveness measures – largely via simplification initiatives – being applied differently in different jurisdictions, firms operating on a cross-border basis will continue to face potential new divergences in requirements.

<sup>10</sup> KPMG 2025 Global CEO Outlook – Banking and Capital Markets | KPMG UK



## Sustainability and AI

There are opportunities to harness AI to optimise many elements of firm’s approaches to embedding sustainability across their businesses, for example to:

- Enhance climate risk modelling and scenario planning
- Improve sustainability-related data quality and reporting
- Reduce emissions and improving energy efficiency
- Support responsible innovation aligned with climate goals
- Identify opportunities for resource efficiency
- Monitor environmental impact across operations and supply chains

**77% of insurance and 85% of bank CEOs surveyed see a role for AI in enhancing climate risk modelling and scenario planning.**

**75% of CEOs viewed AI as a driver of responsible innovation, enabling climate-aligned products and ESG-linked portfolios.**

**72% of CEOs said that AI helps identify resource efficiency opportunities.<sup>11</sup>**

## A closer look

### 1. Risk management

Regulators’ expectations on climate and environment-related risk management have stepped up.

The PRA’s December supervisory statement (SS5/25) replaced SS3/19 with immediate effect and set out more sophisticated expectations around board engagement, scenario analysis and risk inventories. Banks and insurers are required to conduct gap analyses and develop credible remediation plans by 3 June 2026.

The ECB continues to apply periodic penalty payments where banks are found to have fallen short of its climate and environmental risk requirements and is enhancing its expectations on nature-related risk. The EBA has also published final guidelines on environmental scenario analysis, which will apply to banks from 1 January 2027.

Meanwhile, the ESAs have published joint guidelines on how NCAs should integrate ESG risks into their supervisory stress tests – The guidelines apply on a comply or explain basis. And EIOPA is consulting on whether insurers’ adaptation measures need their own dedicated prudential treatment in the NatCat standard formula.

### 2. Reporting and disclosures

The EU Omnibus sustainability reporting initiative has been agreed. The final package significantly reduces the number of companies required to report under the CSRD, with the scope now limited to EU companies with more than 1,000 employees and a net turnover of more than €450m. The scope for non-EU companies is also amended to apply to parent groups with more than €450m net turnover generated in the EU, and to their subsidiaries and branches generating turnover higher than €200m in the EU. Member States have until March 2027 to transpose the revised Directive into national law.

The ESRS underpinning the CSRD have also been simplified, with the European Commission intending to make the revised standards mandatory for the 2027 reporting period. To note, the revised ESRS are not universally popular – the ECB has flagged shortcomings in the overall availability, quality and comparability of disclosures under the new standards, and ESMA has warned of the potential for increased greenwashing.

The UK government has endorsed the ISSB’s sustainability standards, IFRS S1 and S2, and issued the UK SRS with limited modifications. The FCA has consulted on applying the new UK standards through its listing rules, to replace and uplift TCFD-aligned disclosures.

<sup>11</sup> KPMG 2025 Global CEO Outlook – Banking and Capital Markets | KPMG UK and KPMG 2025 Insurance CEO Outlook | KPMG UK



## 2. Reporting and disclosures (cont'd)

The new requirements would apply from accounting periods commencing 1 January 2027 onwards.

Further consultations are expected on uplifting other FCA and Companies Act disclosure requirements from TCFD to UK SRS.

For financial market participants, the European Commission has proposed revisions to the SFDR (SFDR 2.0), aimed at creating a more proportionate, transparent regime. These will likely only come into force in 2027 or 2028 due to the time required for trilogue negotiations and agreement. However, while the Commission's proposed overhaul is a better framework in theory, the existing regime has shaped fund ranges, sustainable investing frameworks and supporting data and tooling infrastructure – meaning those firms that leaned furthest into the original SFDR now face the greatest effort to adapt.

## 3. Greenwashing and corporate responsibility

The CSDDD was amended as part of the Omnibus initiative and will now apply – From July 2029 – only to large EU corporations with more than 5,000 employees and a net annual turnover of over €1.5 billion, and to non-EU companies above the same turnover threshold in the EU.

The application of the EU Taxonomy Regulation has been simplified via a Commission Delegated Act which entered into force on 26 January 2026 and applies retrospectively from 1 January for the 2025 financial year. However, in-scope companies can opt to defer for one year providing they apply the previous rules in full for 2025.

ESMA has conducted a review on the impact of its guidelines on the use of ESG or sustainability-related terms in fund names. It concluded that the guidelines have enhanced investor protection by reducing greenwashing risks. Funds with less ambitious ESG strategies have removed ESG terms from their names, and funds retaining ESG terminology appear to be greening their portfolio relatively faster than other funds.

## 4. Markets and sustainability

Measures are advancing to improve transparency and integrity in capital markets. In the UK, HMT has laid down draft legislation to bring ESG ratings providers within the FCA's regulatory remit. The FCA has consulted on its proposed approach, with a final policy statement expected in H2 2026.

Firms wishing to provide certain types of ESG ratings in the UK will need FCA authorisation from 29 June 2028. ESMA has published technical standards for regulating ESG ratings providers in the EU, with the new regime applying from July 2026.

Given geopolitical tensions, regulators are keen to dispel myths about defence investment being incompatible with sustainability. The FCA has clarified that authorisation applications for investment funds that focus on the defence sector may benefit from prioritisation, given its stance that defence and resilience are core to market integrity.



## Expert's corner



**Richard Andrews**  
Partner  
KPMG in the UK  
UK ESG Lead

### How is the sustainability landscape changing?



In an increasingly volatile world, the greatest risks to firms are no longer isolated or hypothetical. Climate change, nature loss, geopolitical instability and technological disruption are converging to create systemic shocks that can cascade rapidly across different firms and sectors.

The need for resilience is changing the conversation around sustainability and is playing out in regulatory initiatives and interventions.

Firms that have greater awareness of the types and impacts of sustainability-related shock drivers (e.g. heatwaves, flooding, storms etc.) on their business are better able to understand how and where risks might materialise in their value chains.

In recent years, firms have seen a rapid increase in requirements for sustainability reporting and disclosures across different jurisdictions. Sustainability has consequently often been viewed as a compliance exercise where the primary aim has been to gather large amounts of data for external stakeholders.

That approach is changing as firms, investors and authorities question its validity. The EU Sustainability Omnibus and other government/regulatory initiatives on growth and competitiveness have accelerated progress towards more streamlined, proportionate and decision-useful reporting of sustainability data.

However, firms should not interpret any roll-back in disclosure requirements as a reason to deprioritise sustainability. Instead, they would be wise to reframe their sustainability approach from compliance to resilience.

Sustainability disclosures still have a vital role to play in signalling key messages about companies' exposures, priorities and strengths to external stakeholders – whether through the FCA's listing rules, the revised CSRD or SFDR2.0.

In addition to disclosure requirements, there is clear focus from prudential regulators on embedding sustainability into financial and operational resilience – see the PRA's enhanced expectations in SS5/25 and the ESA's drive to integrate ESG risks into scenario analysis.

Operational and commercial resilience are vital. Firms need to consider the operational impacts on their people, technology and data, and premises and property, and the commercial impact on target markets, products and services offered, supply chain, and customer needs and behaviours. Having identified these risks, they then need to think about what management actions they might implement.

At the end of the day, sustainability is about protecting your financial, commercial and operational resilience.

**When resilience is embedded into strategy, operations and decision making, firms can protect their value; resilience becomes a strategic capability, not a crisis response.**



**As sustainability expectations continue to evolve, businesses are looking at ways to better connect environmental and social priorities to financial performance, risk management and long term resilience.**



# 05

## Fairness and protection

### Summary

Regulators are progressing conduct related simplification initiatives, but this is being accompanied by more intensive and data led supervision focus on how firms evidence good customer outcomes in practice. Supervisory emphasis has shifted from implementation readiness to testing, challenge and proof, particularly around outcomes monitoring, customer understanding and distribution chain oversight.

**Regulatory Impact Score:**  **6.8 (7.0)**

The small decrease in the score has been driven by Consumer Duty moving to the embedding stage and simplification initiatives coming to the fore. However, supervisory intensity of the Duty will remain high, and the regulatory perimeter is expanding into new areas. UK/EU divergence is also increasing, with the finalisation of the EU's Retail Investment Strategy (RIS).

**Maturity stage:** Embedding

**Supervisory intensity:** High

**Global alignment:** Minimal





The perimeter continues to evolve as new regimes emerge in areas such as deferred payment credit and crypto assets. While these developments create opportunities for firms, they also introduce new conduct considerations and risks.

Firms exploring new asset classes, products, digital channels or strategic transactions will need to ensure that conduct risks are appropriately identified and managed. This is also the case for fast-growing firms as M&A activity in some sectors, such as financial advice, is picking up pace.

With the first stage of Consumer Duty implementation done, the real focus now is on embedding. This is reflected in the prevalence of the Consumer Duty across the FCA's 2026 regulatory priorities reports.

Firms will need to deliver and evidence high standards of consumer outcomes, customer understanding and support, following on from the emphasis for the past couple of years on price and product.

At the same time, the policy drive to increase retail participation in capital markets continues to gather momentum (see **Market oversight and integrity**).

As retail participation increases, fraud and scams remain a central consumer protection priority, with increasingly sophisticated scams often facilitated through social media and digital channels, thus driving renewed emphasis on consumer awareness and financial literacy initiatives in both the UK and the EU.

Regulators will continue to refine conduct frameworks to support growth and competitiveness, while maintaining a strong focus on consumer protection. The FCA is expected to intensify supervision of the Consumer Duty where it has concerns, particularly around firms' approaches outcomes monitoring, customer journey design and the evidencing of customer understanding.

In the EU, reforms under the RIS remain directionally aligned with UK policy objectives. Firms will need to monitor the publication of the final rules, with implementation expected to reshape retail conduct requirements across distribution, disclosures and investor protection in the medium term.



### Fairness and protection and AI

We expect the growing use of AI in customer journeys and interactions to attract increasing supervisory attention.

Regulators are likely to focus on how firms ensure that AI-driven communications, recommendations and decision-making processes support good consumer outcomes and do not introduce bias or unfair treatment.

Firms will need to demonstrate appropriate governance, transparency and testing where AI is used in consumer facing activities.





## A closer look

### 1. Conduct frameworks and oversight

Consumer Duty embedding continues to progress, but the FCA's focus is moving rapidly from implementation to testing and evidencing outcomes in practice. It has signposted a series of cross-cutting reviews, with outcomes monitoring expected to present the greatest operational challenge.

Supervision is becoming more targeted and data-driven, with increasing focus on whether firms can evidence customer outcomes across products, journeys and distribution chains. The Consumer Duty should therefore be viewed as an ongoing process of incremental embedding rather than a completed regulatory milestone.

The wider conduct framework continues to evolve. As the FCA simplifies the rules in some areas, in others the regulatory perimeter is expanding, including new regimes for deferred payment credit and cryptoassets.

In the EU, political agreement on the Retail Investment Strategy brings almost three years of negotiations to a close and ushers in new rules. One aspect of the package seeks to modernise and simplify rules on investor protection to ensure they are consistent across sectors.

### 2. Consumer support and understanding

Consumer understanding remains a key supervisory focus. The FCA expects firms to demonstrate that customers understand key information at the right points in the customer journey, supported by communications, testing and monitoring that deliver good outcomes in practice.

Supervisory attention is increasingly focused on how firms evidence customer understanding in practice, including through customer journey design, behavioural testing and MI to identify and address areas of misunderstanding. In its recent review, the FCA noted that communication design, testing, monitoring and governance come together as a coherent end-to-end process.

### 3. Product governance and fair value

While many firms have established product governance and value frameworks, regulators continue to assess whether these are embedded effectively in practice to identify poor outcomes and drive improvement.

Greater scrutiny is being placed on how firms oversee products across the full product lifecycle, including

pricing, distribution strategies and cost to serve. Firms are also expected to demonstrate how they identify and support vulnerable customers. Oversight and feedback across the distribution chain remains a significant challenge, although an upcoming FCA consultation may provide more clarity in this space.

### 4. Complaints and redress

Complaints and redress continue to be a key area of regulatory scrutiny, particularly where issues give rise to large-scale redress events. Recent developments in motor finance have highlighted the potential scale and complexity of redress issues, reinforcing the importance of effective complaints handling and oversight.

Looking ahead, HMT, the FCA and the FOS are proposing reforms to modernise the UK redress framework, aimed at improving complaint quality, strengthening evidential standards and enabling more efficient handling of mass redress events. The FCA and FOS have recently published CP26/9, which closes in May 2026, and further policy development and potential legislative changes are expected thereafter.



## Experts' corner



**Matt Brewis**  
Partner  
KPMG in the UK


### Where is regulatory pressure increasing or persisting, despite talk of simplification?



As much as there is a simplification push from the Government and the industry, to some extent this is being countered by consumer organisations saying more needs to be done to protect consumers. And of course, the FCA still needs to carry out its primary objectives.

So while it's fair to say the policy outlook is more favourable in the medium term at least, nothing has really changed in terms of supervision for firms and the FCA's expectations.

Where the FCA identifies outliers, then it will take prompt action to understand what is driving this. This is increasingly possible as the FCA shifts to become a more data-driven supervisor.

It's also likely that the level of FCA interventions could differ from sector to sector. While retail insurance for example may see plenty of supervisory interventions (as signposted by the FCA's recent regulatory priorities report), at the other end of the spectrum wholesale firms may experience a less intrusive response, with more focus on simplification. 

### What should firms be doing during the current period of relative regulatory stability?



It's fair to say that the FCA is unlikely to embark on further large-scale, market-wide policy reforms in the medium term. However, it remains essential that firms continue to maintain strong risk and compliance fundamentals.

There will potentially be softening around the edges, or efforts to fix persistent challenges for firms, but the fundamental focus on the importance of Consumer Duty embedding is not changing. That reduces the need for massive transformation programmes. And while there will still be changes, they are likely to be more incremental – for example, reducing the amount of regulatory reporting.

Firms should take simplification and this brief respite to look at their risk and compliance setup. Now is the time to fix implementation issues created by a decade of sequential regulatory change.

A raft of new requirements including the Consumer Duty, SM&CR, and new product governance rules were implemented in rapid succession, one on top of another, and that often introduced complexity and bureaucracy. This a period where firms can remove unnecessary processes and right-size governance arrangements for their business, while still looking after customers.

The mood music has also become much more positive when it comes to retail investing (covered by my colleagues in **Market oversight and integrity**). 



# 06

## Financial crime

### Summary

Financial crime is a persistent and growing threat to the Financial Services sector, and combatting it is a key priority for both EU and UK regulators given its potential for financial, operational and reputational harm. Its significance can be viewed through two lenses – safeguarding consumers and fostering growth and competitiveness.

**Regulatory Impact Score: 6.7 (N/A)**

The first standalone score for Financial Crime reflects current regulatory priorities, changes in regulatory obligations and their associated implementation challenges. As the EU’s AMLA begins its work, and if financial crime risks crystallise further, additional regulatory action may push the score higher.

**Maturity stage:** Implementing and refining

**Supervisory intensity:** High, increasing

**Global alignment:** Moderate





Technological advances and the increasing digitalisation of financial services are challenging the effectiveness of existing financial crime controls and requiring regulators and firms to rethink their approaches. At the same time, geopolitical instability is impacting sanctions regimes and introducing new vulnerabilities to the financial system.

This is leading to significant changes in both the UK and the EU, including changes to AML requirements and UK amendments to corporate criminal liability.

The fair treatment of the victims of fraud and scams, and growth and competitiveness agendas are also influencing regulatory activity.

**“If we want a confident, competitive economy, tackling financial crime isn’t optional – it’s a prerequisite for growth.”<sup>12</sup>**

Measures to mitigate potential risks of money laundering, market abuse and terrorist finance risks posed by crypto-assets are a core component of regulatory frameworks for digital assets in the UK and EU, ensuring a level playing field with traditional finance.

UK and EU regulators are broadly aligned in the level of priority they assign to financial crime, their specific areas of concern and their drive to harmonise rules to increase the consistency of oversight and reduce burden on firms. In both jurisdictions there are indications of increased supervisory intensity.

In the last 12 months, the FCA has issued several large fines to established firms for financial crime failures. Recurring themes include AML systems and controls not keeping scale with a growing business.

**“Financial crime threats evolve rapidly and firms must monitor their fraud, money laundering and other risks, and continuously refine their defences. They should help consumers understand fraud risks and support victims fairly. We’ll use data analytics and other tools to identify outliers and make proportionate, targeted interventions.”<sup>13</sup>**

Firms can continue to expect regulatory scrutiny of their financial crime systems and controls and risk management.

In 2026, the FCA is reviewing the effectiveness of financial crime systems and controls across a sample of large retail, wholesale and life insurers. Financial crime is highlighted in six out of nine of its sector priorities reports. The results of its survey of financial crime controls at asset managers and alternative asset managers will be published in Q3 2026.



### Financial crime and AI

AI-enabled fraud and financial crime is increasing, with Experian reporting that over 35% of UK businesses have been targeted<sup>13</sup>.

On the flip side, firms are increasingly using AI to combat fraud and financial crime, with 67% of banking CEOs saying they expect it to be transformational in fraud and financial crime risk management.<sup>14</sup>

The ways that AI can amplify fraud and financial crime risks, for example through the use of deepfakes, synthetic identities and detection model manipulation, and how AI-driven fraud could evolve as consumers increasingly delegate decisions to AI are key considerations of the FCA’s review into the impact of AI on retail financial services (‘The Mills Review’), launched in January 2026.

<sup>12</sup> Speech by Steve Smart, FCA September 2025 “Showing financial crime the red card”

<sup>13</sup> Experian UK Fraud and Financial Crime Report 2025

<sup>14</sup> FCA Retail Banking Priorities Report March 2026



## A closer look

### 1. AML

Approaches to regulating AML are undergoing a significant shake-up in both the EU and UK.

2025 saw a major milestone in the EU's efforts to tackle financial crime with the alignment of legal requirements into a Single European Rulebook. Over the next four years, almost 40 standards and guidelines will be issued, paving the way for AML regulation in the EU to be governed by a central body: the Anti-Money Laundering Authority (AMLA), based in Frankfurt.

This harmonisation is intended to ensure consistent application of EU rules, enhance cooperation and close loopholes that criminals have historically exploited. Although direct supervision will not commence until 2028, firms will need to start digesting the changes that are being proposed as standards and guidelines are issued.

In the UK, reforms to the money laundering regulations are also being made to strengthen defences, enhance regulatory proportionality, close loopholes and respond to emerging risks. Firms will need to start preparing for these updates which are likely to come into force in 2026.

The UK government is simplifying the AML supervisory regime with consolidation of supervision of Legal Service

Providers, Accountancy Service Providers and Trust and Company Service providers under the authority of the FCA. This will likely drive enhanced supervision and enforcement across the sector.

### 2. Sanctions

Continued geopolitical upheaval has heightened the importance of strong sanctions compliance systems that are calibrated to address the most up to date sanctions environment. 2025 saw the UK pass its largest sanctions package.

Regulators are seeking to ensure that sanctions frameworks are robust but do not create undue compliance burdens on firms. EBA guidelines, effective from December 2025, establish a common EU standard to address divergent expectations across NCAs. The UK government has published its 'Strategic approach to sanctions enforcement' to help industry's understanding of sanctions enforcement and encourage compliance. The government is also seeking industry views on how UK financial sanctions regulations on ownership and control are applied in practice, including how firms implement the regulations and where they face challenges.

### 3. Other developments

A robust fraud and financial crime risk management

framework remains critical.

The Economic Crime and Corporate Transparency Act 2023 (ECCTA) includes a new Failure to Prevent Fraud offence which introduces strict liability for not preventing fraud which benefits the organisations and is perpetrated by associated persons. It requires organisations to implement "reasonable procedures" as their defence against prosecution.

A key element of ECCTA was the introduction of mandatory Identity Verification for all company directors and persons with significant control. These came into force in November 2025. Firms should be working to ensure compliance with the necessary requirements and implementation deadlines.

Payment fraud is still a key focus. The UK PSR's mandatory reimbursement rules for victims of APP fraud have been in place for over a year. Monitoring data shows that firms have implemented and are complying with the rules and they have incentivised the prioritisation of fraud prevention.

The EBA's 2025 report on payment fraud found that manipulation of the payer accounted for more than half of the total value of fraudulent credit transfers. Regulators are seeking to address this issue with a regime similar to the UK's – progress has been made with agreement reached on the new Payment Services Regulation and Payment Services Directive 3.



## Experts' corner



**Maureen Finglass**  
Partner  
Co Head of KPMG  
AMLA Office



**Timo Purkott**  
Partner  
Co Head of KPMG  
AMLA Office

### What are the key challenges for clients in relation to financial crime across Europe?



Money laundering activities have become increasingly digital, cross border and complex, involving cryptocurrencies, automated flows and sophisticated layering techniques. In response, the creation of the new EU Anti Money Laundering Authority (AMLA) marks a fundamental shift toward data driven, standardised, EU wide supervision. AMLA's approach – particularly its focus on high-risk institutions and direct supervision from 2028 – signals a shift away from fragmented national regimes toward a more assertive Europe wide framework. //

### What new expectations will obliged entities face under AMLA's data driven supervisory model?



It is likely that obliged entities will face more granular data and reporting requirements, resembling the highly detailed data point models used in prudential supervision by the ECB. Financial institutions will need technically robust, high quality data fields across a wide range of operational areas, along with the IT interfaces to submit this data consistently.

Firms should expect intensive scrutiny of data availability, integrity and traceability – areas where many currently fall short. National authorities including BaFin in Germany have already begun sending extensive information requests, and firms report that gathering and validating these datasets often requires labour intensive manual work due to gaps in system capability. //

### How should firms begin preparing now for AMLA's supervisory approach?



Firms should consider aligning data architectures, analytics capabilities and IT systems with AMLA's future requirements as early as possible, rather than waiting for formal technical standards to be finalised. Criminal financial activity is increasingly digital and complex, so AMLA will expect institutions to have data landscapes capable of detecting risks across cross border payments, crypto activity and automated cash flows.

Although only around 40 high risk institutions will be directly supervised at first, all obliged entities will ultimately need to adapt to the same heightened expectations. //



# 07

## Governance and controls

### Summary

Governance is a fundamental regulatory priority that cuts across almost all the other themes covered by the Barometer. Regulators continue to enforce the need for good governance and use it as lens to understand the root cause of issues when things go wrong.

**Regulatory Impact Score:**  **6.0 (6.3)**

The drop in score reflects that for the most part, all significant regulation is now in place, and there are only small changes on the horizon – for example refinements to, and further roll-out of the UK SM&CR. In addition, Financial Crime is now a standalone theme in the Barometer. These factors are slightly offset by new rules on non-financial misconduct and increasing supervisory pressure on risk management functions.

**Maturity stage:** Implementing and reviewing

**Supervisory intensity:** High

**Global alignment:** Moderate, diverging





The headlines for governance centre around policy refinement rather than new announcements. Regulators continue to use governance as a key lens through which to get to the root cause of supervisory issues.

Corporate governance and accountability remain important for regulators and long-awaited reforms to the UK’s SM&CR regime are expected to be progressed this year.

Significant work has been required by in-scope UK firms to be ready for the FRC’s revisions to the UK Corporate Governance Code, in particular Provision 29, which requires firms to carry out monitoring and reviews of all material controls.

Other items on the policy refinement agenda include the fitness and integrity of management, diversity and remuneration arrangements.

The most notable area of new policy to report are the UK rules on non-financial misconduct, under which requirements for non-banks have been aligned with those for banks.

Risk management and controls have long been high on the regulator radar for banks but are now also coming under increasing scrutiny for private assets and principal trading firms.

Given the broader simplification agenda and the shift from rules-based to principles-based regulation, particularly in the UK, culture will continue to play an important role. Firms may need to ask themselves not just “can we?”, but also “should we?”.

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**“For firms, doing the right thing means holding yourselves to high standards. Recognising when something has gone wrong, taking responsibility for it, and taking the necessary steps to fix things.”<sup>15</sup>**

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Firms are increasingly looking to carry out culture reviews and audits to identify potential issues and take pre-emptive steps to prevent them from materialising.

Firms can expect supervisors to continue to test the robustness of their governance arrangements in practically every supervisory interaction, regardless of the specific theme or topic under review.



### Financial crime and AI

Having appropriate governance arrangements in place around the implementation and deployment of AI is critical to its responsible deployment and a key challenge for firms.

AI governance is an area of significant supervisory focus, as highlighted by UK regulators and the ESAs’ Joint Committee Work Programme for 2026.

A recent KPMG in the UK survey of wealth and asset managers found that most firms are only “moderately confident” that their governance arrangements are sufficient to manage AI-related risks (see below).

Confidence that AI governance is sufficient to manage AI-related risks



Source: KPMG in the UK - Wealth and asset management risk and ICARA benchmarking survey 2025

<sup>15</sup> Speech by Therese Chambers, FCA, “Do the right thing: Part II”



## A closer look

### 1. Corporate governance

SM&CR reform is advancing gradually, as the FCA, PRA and HMT digest feedback on their 2025 consultations to simplify aspects of the regime. Rule changes from the regulators and further proposals from HMT can be expected from mid-2026. As this simplification progresses, the SM&CR will be rolled out to additional sectors, including cryptoasset firms.

Meanwhile, the UK is revisiting the standards and expectations that apply to Appointed Representatives (ARs). HMT has proposed legislative changes that would bring ARs into the scope of the SM&CR and the jurisdiction of the FOS, and a new permission that principal firms would need to obtain before they could onboard ARs for the first time.

The fitness and integrity of firms' management remains a priority. The EBA and ESMA are revisiting their guidelines on the suitability of members of the management body to reflect new requirements introduced by the CRD VI for large institutions and include updates applying to entities covered by the CRD and to MiFID investment firms. ESMA has also issued its final supervisory expectations for management bodies of those entities it directly supervises e.g. credit rating agencies and third-country CCPs.

Diversity and inclusion-related policy changes are coming in the EU, with EIOPA introducing new guidelines that require

insurers to put in place policies that promote diversity within certain governance structures.

Finally, post-financial crisis restrictions on remuneration arrangements have been relaxed. The FCA and PRA have revised and consolidated their rules for banks, building societies and PRA designated investment firms to make the UK remuneration regime simpler and more proportionate, and to better align the interests of material risk takers and the long-term interests of firms and ultimately the UK economy.

### 2. Conduct

Beyond the other conduct-related topics covered in the Barometer – see **Fairness and protection** and **Market oversight and integrity** – the most noteworthy development is the FCA's introduction of specific new rules and guidance on non-financial misconduct. These rules align conduct rules for banks and non-banks. The FCA has also issued guidance that aims to help firms make consistent and fair decisions, and to act promptly when needed.

### 3. Risk management and controls

Supervisors continue to monitor firms' risk management arrangements. The PRA included specific call-outs in its 2026 supervisory priority letters and governance, effectiveness of the different lines of defence and risk management continue to be a theme throughout the FCA's many multi-firm reviews.

Many firms are exploring the use of AI in the context of risk

**“Firms’ senior managers and boards need to ensure that their organisations maintain robust risk management frameworks that are proportionate, keep pace with changes to their business model and adapt to the changing external environment.”<sup>16</sup>**

management and controls, seeking to identify potential benefits but also ensuring that potential risks are captured and addressed.

Supervisors remain highly focused on firm culture and its impact on risk management, conduct of business and customer outcomes. Scrutiny is likely to increase with moves to more outcomes or principles-based regulation. In addition, individual regulators continue to progress the culture, conduct and control agenda.



<sup>16</sup>PRA International Banks Supervision 2026 Priorities letter



## Experts' corner



**Narinder Singh**

Partner  
KPMG in the UK

**The rapidly changing external environment is driving an increase in regulators' expectations of firms' risk management. How are risk functions reacting to this?**



The more advanced risk functions are aligned with firms' strategic objectives rather than operating in parallel with them. Decision-making should be informed by forward-looking risk insights, not just retrospective controls or compliance metrics. This enables leaders to make more confident and better-informed trade-offs in an increasingly volatile environment. "

**Regulators also continue to emphasise the need to for a risk culture. What does this mean practically for organisations?**



There has been a tendency to see risk as the responsibility of a central function rather than a shared organisational discipline. Embedding risk culture starts with leadership behaviour. Leaders should signal consistently that understanding and managing risk is part of everyone's role, not just a compliance requirement. Alongside this, it is important to collaborate across risk domains and functions – the integration of systems, processes and data significantly enhances the effectiveness of risk-related decisions. Building a risk-aware culture is less about policies and more about how leaders use risk information to make real strategic and operational choices. "

**Regulators are encouraging firms to use AI to support innovation and bring efficiencies to the delivery of financial services. How can organisations balance the opportunities of AI with the risks it creates?**



AI is critical to improving firms' ability to filter large volumes of data, identify emerging trends and strengthen risk-informed decision-making. However, the value of AI depends heavily on the quality, integration and governance of underlying data. Organisations therefore need to invest in strong data governance, clear accountability and ethical oversight alongside the use of AI. "



# 08

## Market oversight and integrity

### Summary

With several reforms to public markets completed or approaching implementation, authorities are eyeing up bigger picture, wider-ranging reforms to break down barriers and boost investment. Meanwhile, regulatory attention on private markets remains high with activity in multiple areas.

**Regulatory Impact Score:**  **6.8 (7.1)**

The impact score has fallen since the last edition of the Barometer. The main drivers for this are progress with the agenda to simplify existing requirements and to boost retail participation, although this has slightly been offset by increasing regulatory scrutiny in specific areas – for example, T+1 and private markets.

**Maturity stage:** Implementing

**Supervisory intensity:** Moderate

**Global alignment:** Moderate





Across the UK and EU, the search for growth continues and is translating into markets-related policy.

One of the most notable developments in train is the EU's Market Integration Package (MIP) which aims to break down barriers within the EU single market and reduce fragmentation.

Several UK initiatives are also in progress. Many of these seek to increase retail participation in capital markets and close the so called 'advice gap'.

Although regulatory changes look set to bring greater transparency to public markets through consolidated tapes, some regulatory challenges remain on the horizon. One of the most significant is the European shift to T+1, which will take place by October 2027.

Meanwhile there are efforts to streamline trade and transaction reporting obligations and requirements for benchmark administrators. Conversely, aspects of fund managers' regulatory reporting requirements look set to increase.

In private markets, regulatory attention remains high as supervisory reviews and policy implementation progresses. However, there are opportunities too. Firms are looking to provide retail and sophisticated investors with opportunities to invest in private assets for the first time, taking advantage of new fund vehicles that were introduced by regulators.

As regulators look to reduce burden on firms, there may be

## Market activity agglomerates in locations where execution is reliable, infrastructure is resilient, talent at all levels is strong, and the rulebook is credible, pragmatic and responsive to change.<sup>17</sup>

less pro-active supervision of firms in wholesale markets. The FCA plans to give wholesale market participants more flexibility to take risk-based decisions. However, it will continue to carry out multi-firm reviews on particular areas of market conduct. The FCA's wholesale markets regulatory priorities report confirmed that conflicts of interest and market oversight will be a key priority.

In a similar fashion, ESMA recently published 'Principles for risk-based supervision' which are designed to support a supervisory framework that is consistent, proportionate and effective across the EU. However, there will continue to be a need for oversight given market volatility and there is likely to be focus on areas where there is intersection with retail markets and novel technologies.

Private markets are also likely to remain at the top of the supervisory agenda. The FCA's regulatory priorities report for asset managers indicated that supervisory attention on

valuation, conflicts and retailisation will continue, and the FCA will expand its focus areas to look at firms' risk management arrangements.



### Market oversight and integrity and AI

ESMA's recent survey on AI use in securities markets found that 96% of large firms are already using AI or are planning to do so. However, most use cases are concentrated on increasing operational efficiency in the back office with use cases in core investment activities still in development or experimental stages.

ESMA has also issued a supervisory briefing which helps to clarify the interaction between the regulatory framework around AI and algorithmic trading in the EU.

Early in 2025, the BoE highlighted that AI driven trading and investment strategies could increase the tendency for market participants to take correlated positions. However, the BoE's most recent financial stability report was more concerned about the impact of stretched equity valuations of AI firms and the risk to the markets of a sharp correction.

<sup>17</sup>Speech by Nikhil Rathi, FCA chief executive, "Renaissance at market speed: UK wholesale finance in 2026"



## A closer look

### 1. Retail participation in capital markets

At the end of 2025, the FCA published a raft of policy intended to boost retail investment and transform the UK from a nation of savers to one of investors.

Unlike some of the regulatory initiatives described in the Barometer, this is likely to lead to new opportunities for firms, as opposed to obligations.

Examples include the launch of the targeted support regime from April 2026, and various consultation and discussion papers that aim to remove unnecessary friction in the retail investment process and modernise rules.

These initiatives were followed up in March 2026 with a consultation on simplifying the rules for financial advice, which aim to close the advice gap further. This will be followed soon by an industry-led awareness campaign to raise the importance of investing for individuals' financial wellbeing.

In the EU, the Savings and Investments Union (SIU) package is being prioritised, with various strands that have broadly similar policy goals to the UK. As described above, the MIP aims to break down barriers within the EU single market and reduce fragmentation. In addition, ESMA completed a review

of requirements impacting retail investors' journeys and identified key actions that it will take streamline disclosure requirements and reduce complexity.

Industry, government and regulators are closely aligned on the importance of these themes, giving these initiatives significant momentum.

### 2. Market efficiency

Market participants should start to have easier and cheaper access to market data, possibly in 2026, with progress towards the launch of consolidated tapes.

ESMA has selected the first Consolidated Tape Provider (CTP) for shares and ETFs in the EU. It now needs to apply for authorisation allowing it to operate for a period of five years. At the start of 2026, ESMA launched the selection procedure for a CTP for OTC Derivatives, and the authorisation process for the provider selected as the CTP for bonds is ongoing.

The authorisation process is also ongoing for the UK bonds CTP provider, with a plan to be operational mid-2026. The FCA will launch its equity CTP policy statement in the first half of 2026.

Legislative processes are underway in both the UK and EU to

require T+1 settlement in October 2027. A consistent testing plan and methodology for the UK, EU and Switzerland is likely to be launched shortly. Throughout 2026, market participants are expected to continue to update, and ideally automate, systems and engage on the transition with counterparties and service providers.

Changes are incoming for asset managers and their approach to fund liquidity management. While the FCA has consulted on tightening up aspects of its requirements, the EU's AIFMD II package introduced new rules and guidance on the use of liquidity management tools from April 2026.





### 3. Market oversight

Firms are waiting for the outcomes of the FCA’s consultation and ESMA’s call for evidence on transaction reporting. Although both jurisdictions are aiming to reduce the regulatory burden on firms, the likelihood is that, with slightly different intended outcomes, there will in fact be an increase in burden for firms operating in both jurisdictions.

Streamlining measures are also likely for the EMIR and SFTR reporting regimes. However, regulatory reporting requirements are set to be expanded for EU fund managers under the AIFMD II package, whilst the UK considers its approach for UK fund managers.

HMT is consulting on replacing the UK Benchmarks Regulation with one that would only apply to systemic benchmarks. Similarly, the EU Benchmarks Regulation has been amended to apply only to critical and significant benchmarks. This is fuelling concerns that the regulatory burden may now shift to the users of unregulated benchmarks who may need to carry out greater due diligence.

The FCA’s proposed changes to the short-selling regime should bring streamlined reporting processes for firms while still retaining sufficient visibility and controls for regulatory purposes.

### 4. Private markets

Enthusiasm for private markets continues but some investors are re-evaluating certain credit exposures, particularly considering what advancements in AI could mean for certain companies and industries. Meanwhile, regulatory interest is spreading beyond securities regulators to central banks, with the Bank of England launching a system-wide stress test (see **Financial resilience**).

Changes are imminent for EU fund managers, including the introduction of product-level rules on loan originating funds for EU managers (albeit with a transition period). This has been the most challenging aspect of the EU’s AIFMD II package for firms to implement, with updates needed to policies, procedures and processes for granting and maintain loans and ensuring relevant funds meet prescribed limits. Further proposals on reforming the UK AIFMD regime are expected this year.

In several other areas though, regulators are considering where they can reduce friction or create new opportunities. The European Commission is consulting on ways to alleviate some of the challenges faced by private equity managers when exiting their investments – by better understanding possible barriers and issues. In parallel, the Commission is exploring

ways to remove obstacles to EU venture and growth capital funds achieving scale.

The retailisation of private assets continues to attract a lot of industry interest, especially for defined contribution schemes clients. Logistical and operational challenges are one barrier to scaling the inclusion of retail vehicles such as LTAFs and ELTIFs on retail platforms and in retail and sophisticated/ HNW portfolios.

There have also been developments relating to the trading of private companies’ shares. Two operators have now been approved to operate PICSES venues in the UK. Meanwhile, the European Commission is considering a platform for secondary trading of private company shares as well as extending it to raise new equity capital.

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**“Private credit emerged as a systemic vulnerability following US defaults highlighting opacity and systemic interlinkages... The rapid expansion of private credit adds leverage and liquidity vulnerabilities, where setbacks could cascade into wider financial distress.”<sup>18</sup>**

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<sup>18</sup> ESMA TRV Risk Monitor, No 1, 2026



## Experts' corner



**Jane Wilson**  
Director  
KPMG in the UK

### What are the key opportunities for firms in the context of authorities' efforts to boost retail investment?



Regulatory tailwinds in the UK and the EU are creating a window of opportunity for firms to engage retail consumers more effectively while maintaining trust and regulatory credibility. The FCA's various initiatives have the potential to remove friction from the retail investment journey and increase participation.

A key opportunity lies in the development of new propositions that sit between execution only and full advice. The introduction of the targeted support regime will enable firms to offer more personalised guidance without crossing into a personal recommendation and triggering the full advice boundary.

This creates scope for scalable, technology-enabled models that help consumers make better investment decisions at lower cost, while crucially also supporting firms' commercial growth.

There is also momentum behind simplifying the advice framework more broadly, with a consultation on reducing unnecessary complexity in the rules.

The firms that are successful in making the most of these developments are likely to be those that consider strategically, and at an early stage, where they could complement their existing product and service offerings. Although regimes like targeted support are not mandatory, some firms may be left behind if their peers move quickly to implementation.

Other steps that can support success include early investment in redesigning client journeys, disclosures and suitability processes, and, most importantly, ensuring that the Consumer Duty and good customer outcomes are at the centre of any new propositions.

These themes are not confined to the UK. The EU SIU agenda reflects similar policy goals, signalling longer term strategic opportunities for firms with cross border ambitions.

The direction of travel is clear: firms that respond proactively, innovate responsibly and bring these initiatives to life in practice are well placed to benefit from a sustained push to boost retail investment.



**Daniel Barry**  
Partner  
KPMG in the UK

### How are market developments reshaping governance, risk and control expectations in private markets?



Recent strains in parts of the private credit market have become a catalyst for much broader regulatory scrutiny of private markets. As private asset managers grow rapidly and push further into retail and semi-liquid products, market conditions are testing whether risk and governance frameworks built for institutional, closed-ended strategies are genuinely fit for today's business models.

One area attracting increased attention is underwriting discipline in a highly competitive market. Questions are emerging around whether credit standards are being compromised to maintain deployment, the build-up of exposures to specific sectors, and the effectiveness of challenge to the front office on asset quality, portfolio construction and downside scenarios.

Market commentary around the activation of liquidity management tools in several semi-liquid structures has also highlighted a disconnect between product features as designed and investor understanding in practice.

Valuation governance remains firmly in focus. The issue for supervisors is less the presence of valuation policies and more whether private assets are being valued accurately, independently and consistently when market conditions deteriorate, and whether governance bodies have the requisite expertise, confidence and authority to challenge optimistic assumptions.

As private markets mature, expectations around governance, risk and control are increasingly converging with those long applied to mainstream asset management. For boards, CROs and CCOs, this is an opportune moment to assess the maturity of existing risk and compliance capabilities and make targeted enhancements to ensure they are aligned with increasing scale, complexity and regulatory expectations.





# KPMG Regulatory Barometer Scoring Methodology

Key regulatory themes and sub-themes for Financial Services in the UK and EU are identified based on the following criteria:

- **Volume:** based on data extracted from the **KPMG Regulatory Horizon** capturing the number of relevant regulatory announcements published over the past 12 months.
- **Complexity:** based on factors such as complexity of future requirements versus existing ones, consistency of requirements of expectations across jurisdictions and interactions with other regulations or standards.
- **Implementation:** based on factors such as urgency of action required, potential implementation costs, resourcing challenges and business risk.

**Supervisory intensity** is considered as a factor in both complexity and implementation.

Regulatory Impact Scores (maximum 10) are assigned to each of the sub-themes by our team of regulatory subject matter experts based on the above criteria. These roll up to give a theme score. The theme scores are further aggregated to provide the overarching Barometer score.

In addition to the Regulatory Impact Score, the Barometer provides a view on the maturity stage of regulation for each of the key themes.

Maturity Indicators reflect a sliding scale:

- **Emerging** – Regulatory or market concern identified but no formal action yet.
- **Developing** – Action in response to regulatory/market concerns, to include consultation, drafting and/or some elements in implementation.
- **Implementing and/or reviewing** – Implementation of material regulations and/or review/refinement of in-force regulations.
- **Embedding** – Post-implementation activity to ensure consistent and effective application across all relevant business areas.
- **Mature/BAU** – All relevant regulation(s) adopted, in force and consistently implemented and embedded.

From April 2026, all scores, indicators and commentary will be refreshed on an annual basis.





# Barometer abbreviations

AI	Artificial intelligence
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Managers Directive
AML	Anti-money laundering
AMLA	Authority for Anti-Money Authority
API	Application Programming Interfaces
APP	Automated Push Payment
ARs	Appointed Representatives
BAU	Business As Usual
BCBS	Basel Committee on Banking Supervision
BCST	UK Bank Capital Stress Test
BoE	Bank of England
CBDC	Central Bank Digital Currencies
CCP	Central Counterparty
CBEST	CBEST cyber security assessment framework
CP	Consultation Paper
CRD	Capital Requirements Directive
CSRD	Corporate Sustainability Reporting Directive
CT	Consolidated Tape
CTP	Critical third party (EU/UK)
DIGIT	Digital Gilt Instrument
DORA	Digital Operational Resilience Act
DLT	Distributed ledger technology
DyGIST	Dynamic General Insurance Stress Test
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECCTA	Economic Crime and Corporate Transparency Act 2023
EIOPA	European Insurance and Occupational Pensions Authority
ELTIF	European Long-Term Investment Fund (EU)
EMIR	European Market Infrastructure Regulation
ESAs	European Supervisory Authorities
ESG	Environmental, Social, Governance
ESMA	European Securities and Markets Authority
ESRS	European Sustainability Reporting Standards
ETF	Exchange Traded Fund
FCA	Financial Conduct Authority
FDIC	Federal Deposit Insurance Corporation
FIDA	Framework for Financial Data Access
FMI	Financial Market Infrastructure
FOS	Financial Ombudsman Service
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
GDPR	General Data Protection Regulation
GEN AI	Generative Artificial Intelligence
GFC	Global Financial Crisis
HMT	HM Treasury
IAIS	International Association of Insurance Supervisors
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
IRRD	Insurance Recovery and Resolution Directive
ISSB	International Sustainability Standards Board
LIST	Life Insurance Stress Test
LTAF	Long-term asset fund
MIP	EU Market Integration Package
MiCA	Markets in Crypto-Assets Regulation
MREL	Minimum Requirement for Own Funds & Eligible Liabilities
MRM	Model Risk Management
MiFID II	Markets in Financial Instruments Directive
MTP	Material Third Party
NCA	National Competent Authority
OCC	Office of the Comptroller of the Currency
PISCES	Private Intermittent Securities and Capital Exchange System
PE	Private Equity
PRA	Prudential Regulatory Authority
PSR	Payment Systems Regulator
RAF	Resolution Assessment Framework
RIS	Retail Investment Strategy
SDR	Sustainability Disclosure Requirements
SFDR	Sustainable Finance Disclosure Regulation
SFTR	Securities Financing Transactions Regulation
SIU	Savings and Investments Union
SM&CR	Senior Managers and Certification Regime
STAR FS	Simulated Targeted Attack & Response for Financial Services
SWES	System-Wide Exploratory Scenario
TCFD	Taskforce on Climate-related Financial Disclosures
TLAC	Total loss Absorbing Capacity
TLPT	Threat Led Penetration Testing
TPRM	Third Party Risk Management
UK SRS	UK Sustainability Reporting Standards



# Resources



## Regulatory Insight Centre

KPMG's EMA Regulatory Insight Centre provides pragmatic and insightful intelligence on regulatory developments. It supports and enables clients to anticipate and manage the impact of regulatory change across the UK and EU. Subscribe to insights [here](#).



## KPMG Regulatory Horizon

Powered by KPMG technology, the KPMG Regulatory Horizon provides news and insights to inform regulatory analysis and change management processes. It is based on live feeds from over 170 regulatory sources, curated by subject matter experts. Contact us [here](#) for more information.



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