KPMG

FS Regulatory Barometer

Half year update



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Sustained pressure

Prioritising resilience, growth and innovation

Welcome to the half year refresh of the KPMG Financial Services Regulatory Barometer. In this update, we look back at the expectations we set out in April 2026 and how the regulatory and supervisory landscape is evolving in the UK and EU.

The overarching conditions we described in April 2026 persist:

- The financial system is becoming more, not less, interconnected.
- Geopolitical and economic tensions remain; and
- Governments continue to press regulators to support the growth and competitiveness agenda.

Resilience to support growth

The regulatory environment is becoming more focused, but not necessarily simpler. Across the UK and EU, there are clear efforts to concentrate on core mandates and material risks. In a volatile world, resilience is paramount.

Alongside transparency, valuation, liquidity and leverage, regulators are increasingly focused on interconnectedness across banks, insurers and non-bank financial institutions, and the potential for external events to amplify stress.

Reducing the regulatory burden

Despite continuing work to streamline, modernise and make regulatory frameworks more agile and proportionate, this takes time and creates change in the process. Firms must therefore still navigate a steady stream of supervisory updates, consultations, guidance and jurisdictional differences.

This is leading to:

- Potential reduction of rules, but no corresponding reduction in expectations. Firms may need to replace tick-box compliance with proactive monitoring of outcomes and do more to evidence this for supervisors.
- An uptick in regulatory fragmentation across jurisdictions as policymakers follow local agendas and priorities.

Technology driving change

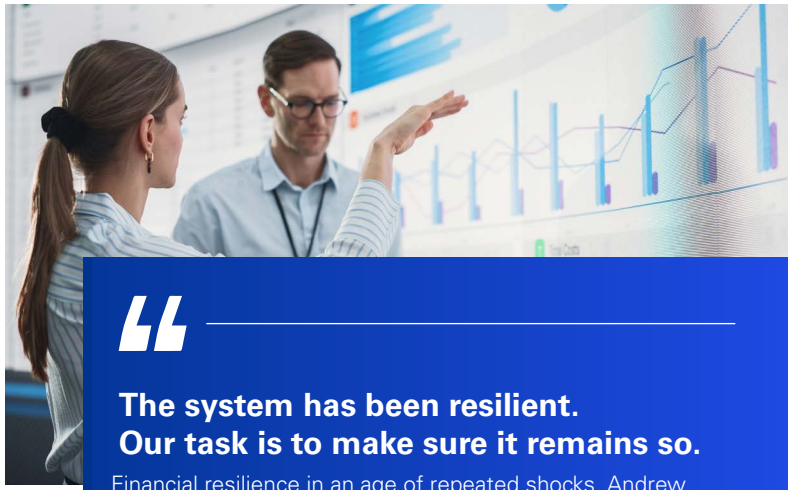
Technology is also a key driver of change. Whether the topic is AI, cybersecurity, digital assets, stablecoins, payments, model risk or data governance, technology needs to be woven into conversations about risk management, financial and operational resilience, consumer protection and governance.

Changes in supervision

The combination of the growth and competitiveness agenda and stretched supervisory resources is driving increasingly risk-based supervisory triage.

The result, more evident in the UK, can be a growing divide in firms' supervisory experience: some face intense scrutiny, while others, viewed as 'good regulatory citizens', may experience a lighter supervisory touch.

While sometimes welcome, less frequent contact can be a double-edged sword, leaving firms without a supervisor who is closely attuned to their business model, risks and challenges.



> **The system has been resilient. Our task is to make sure it remains so.**
>
> Financial resilience in an age of repeated shocks, Andrew Bailey, Governor of the Bank of England, 8 October 2026

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The evolving regulatory frontier

Finalisation of major policy initiatives

There are still some policy file juggernauts that, after years of consultation, negotiation and technical development, are finally moving toward agreement, implementation or delivery. These include UK and EU Solvency II, the RIS, SFDR 2.0, Basel 3.1, IRRD and MISP/SIU.

High profile themes, yet to result in a clear policy

Some more recent developments have attracted extensive regulatory attention without yet converting to final policy. For example,private markets sit at the centre of ambitions to support growth and widen retail access to investment opportunities, but further policy changes are on the horizon. Equally, while there are serious concerns around heightened AI and cyber risks, we are yet to see new regulatory requirements.

New policy to support market innovation

Much of the genuinely new regulatory policy is at the intersection of technology and finance, for example around digital assets such as stablecoins. There may be more to come in this space with open questions around how and if gen-AI chat-bots should be regulated when consumers use them for financial advice, whether the advantages of distributed ledger technology can be fully utilised in regulatory frameworks that rely on centrally governed legal entities, and liability and accountability frameworks around agentic payments. Newer products, including prediction markets, are also testing established regulatory boundaries.

Together, these three areas of activity result in an uneven regulatory frontier, combining entirely new regimes, unresolved policy questions and major established reforms that firms must now operationalise.



> **Pressure across the legislative, regulatory and implementation cycle has been building up progressively from 2026 and will become particularly dense in 2027-2028.**
>
> EU Draft Single Programming Document 2027-2029

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Key themes

01 Financial resilience

In April, we noted the continuing or approaching implementation of key files such as Basel 3.1 and EU Solvency II. Previously highlighted financial stability concerns persist, with growing regulatory anxiety about the build-up of new risks (private credit, interconnectivity across FS, exposure to sovereign debt and geopolitical risk) alongside cyclical and idiosyncratic resilience supervision. Supervisors expect careful monitoring of exposures and action to mitigate existing or potential vulnerabilities, including through effective model risk management and dynamic stress testing.

Prudential simplification measures have yet to meaningfully reduce regulatory or operational burdens on firms. However, reviews of bank capital and liquidity frameworks are in progress in the UK and EU with the aim of making them more risk-based and proportionate, and a new EU Banking Package is expected in Q1 2027. The PRA has also committed to reviewing internal model access and providing greater transparency for firms on its priorities.

Insurance regulators are consulting on a new UK captive regime while monitoring the impact of the soft market on reserving and pricing, and the implications of growing PE involvement.

The FSB has proposed eight high level principles to guide authorities in modernising regulatory and supervisory frameworks without lowering financial resilience. The final report is expected in H1 2027.

02 Operational resilience

Operational resilience continues to be one of the highest priorities for regulators and supervisors. External events, including the Iran conflict and amplified cyber vulnerabilities are still driving enhanced supervisory scrutiny, with heightened concerns about the growing risks of technology, specifically frontier AI, on firms' own operations and extended supply chains.

According to KPMG's 2026 CEO Outlook, 89% of UK CEOs are concerned about their organisation's vulnerability to cyber-attacks. 25% of UK and 24% Global CEOs also cited supply chain resilience as a key risk. This echoes the findings of the Bank of England's most recent Systemic Risk Survey in which 51% of respondents rated cyberattack as the second highest risk likely to materialise in the financial system.

Although there have been no material changes in the regulatory landscape since October 2025, this may be about to change in the UK with a new joint PRA/FCA supervisory statement on operational and cyber resilience expected before the end of 2026.

The impacts of AI on third party risk management are being monitored closely and, with the first waves of critical third parties now designated in the UK and the EU, there have been initial indications of how the expanded regulatory perimeter will operate in practice.

03 Technology & digital innovation

Digital assets frameworks are being finalised around the world. These are generally based on traditional regulatory frameworks and will be a considerably uplift to new entrants. Regulators are encouraging the tokenisation of traditional assets but want to ensure comparable legal certainty and resilience in the financial ecosystem, especially in areas such as collateral.

Most regulators continue to emphasise that existing regulatory frameworks apply to the use of AI in financial services. However, 61% of UK CEOs questioned in KPMG's 2026 CEO Outlook expect the pace of progress on AI regulations to pose a barrier to their organisation's success.

Regulators are beginning to publish guidance around their expectations and good and poor practice in the use and governance of AI. At the same time, questions are being raised about the regulatory perimeter

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as growing numbers of consumers turn to AI for financial advice. Agentic payments may also require the regulatory framework for payments to be amended.

04 Sustainability

Sustainability initiatives have moved beyond decarbonisation targets and corporate reporting and are now framed more broadly as critical components of individual firm and wider economic resilience. As a result, as noted in KPMG's 2026 CEO Outlook, rather than scaling back or deprioritising sustainability, many firms are embedding it more deeply into core business strategies.

While the development of new FS policy has slowed, and simplification measures have led to some 'right-sizing'of requirements, particularly in the EU, climate and nature-related risks remain firmly on the regulatory agenda, as policymakers seek to increase the resilience of the financial sector to sustainability-related shocks. Further change is coming as a result of SFDR 2 and UK adoption of the ISSB standards through UK SRS. Focus on nature reporting is likely to increase following the ISSB's launch at COP17 of its consultation on nature-related disclosures.

Supervision remains generally more intensive in the EU, and scrutiny of insurance impacts has ramped up. Firms and regulators are also considering how to capture the potential value created by AI while managing related sustainability impacts responsibly.

05 Fairness and protection

There is sustained supervisory pressure from the FCA on Consumer Duty compliance, with a growing emphasis on robust outcomes monitoring, and clear and effective action where poor outcomes are identified. Enforcement also underscores the consequences of non-compliance.

Policy pressure persists, with various changes on the horizon. These include revised MiFID cost disclosures, a new approach to client categorisation, the looming CCI implementation deadline and targeted changes to the Duty to reduce unnecessary costs, complexity and uncertainty. The first tranche of FOS reforms will also require adjustments.

The EU's Retail Investment Strategy is close to being finalised, with final rules expected in January 2027. Despite recent negotiations to simplify the proposals, some firms may find the package unnecessarily complex and at odds with efforts to increase retail investment. The package embraces similar themes to the Duty - customer understanding, fair value and outcomes, but takes a different approach, increasing the prospect of greater UK-EU divergence.

06 Financial crime

Fighting financial crime remains an FCA priority and was the reason for most enforcement action in 2025/26. Using network analysis to support its work, the FCA is exploring whether more proportionate, streamlined approaches to KYC, particularly on smaller transactions, could reduce the burden on firms while maintaining standards.

Concerns are growing that AI-driven synthetic media could expose firms to new fraud and deception. According to KPMG's 2026 CEO Outlook, 82%of UK CEOs are worried about the impact of cyber crime and cyber insecurity on their organisation's prosperity.

The EU's new AML regime, with AMLA at its centre, goes live in July 2027, with direct supervision of 40 institutions from 2028. AMLA is working closely with national supervisors and financial intelligence units to deliver on several aspects of the new framework: the single AML rulebook, common methodologies, supervisory handbook and harmonised formats for structured intelligence sharing across the EU. Cryptoassets implications for financial crime are also a priority.



07 Governance and controls

While policy-related change remains relatively slow, governance continues to be at the core of almost all supervisory interactions. Within this context, AI governance and accountability is becoming increasingly important (see Technology & digital innovation), alongside oversight of other escalating risks such as cyber (see Operational resilience).

Significant policy developments include consultations on phase two of reforming the SM&CR, intended to make the regime more proportionate and easier to operate. The most notable proposal is to remove the Certification Regime, to instead fall back on wider suitability and competence requirements.

New requirements have taken effect in other areas - for example, firms now need to comply with the FCA's non-financial misconduct rules which took effect in September 2026.

For listed firms, significant work has gone into preparations to be ready to report in 2027 under Provision 29 of the FRC's revised corporate governance code on material controls.

More broadly, remuneration-related changes are on the agenda for asset managers and investment firms, with the FCA proposing to combine and streamline UCITS, AIFMD and MiFID remuneration regimes.

08 Market oversight and integrity

Private markets firms continue to come under scrutiny as regulators refine frameworks such as the AIFMD and progress further supervisory reviews. The FCA's conflicts review identified several areas for improvement and found that some firms' conflicts management and oversight arrangements have not kept pace with the growth and increasing complexity of their business. Next, we expect the FCA to move on to a review of firms' risk management functions. Similarly, ESMA is planning a coordinated review of EU fund managers' risk arrangements. Novel exercises such as the BoE's private markets SWES are also progressing.

The journey towards greater public market transparency continues with the UK bond and EU equity tapes now live and further developments expected. Meanwhile, MiFIR transaction reporting reforms have been progressed with UK reforms finalised and the EU direction of travel becoming clearer. There is now it is less than one year until the European T+1 transition deadline in the EU, UK and Switzerland – for some firms there is plenty left to do.

Efforts to boost retail investment also continue, with the FCA having set out further plans to support investing in practice, with planned reviews of the financial promotion rules and risk information on mainstream investments.

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Pressure gauge

In KPMG's 2026 CEO Outlook, 27% of UK and 26% of Global CEOs flagged regulatory pressures as posing significant strain or threat to their organisation's growth over the next three years, placing 3rd and 4th respectively in the overall list of risks.

39% of CEOs said they had increased spending on regulatory compliance and reporting to mitigate pressing business risks over the next three years This was second only to investment related to cybersecurity and digital resilience.

The Barometer pressure gauge seeks to illustrate the source of these pressures from a financial services perspective.

Pressure source

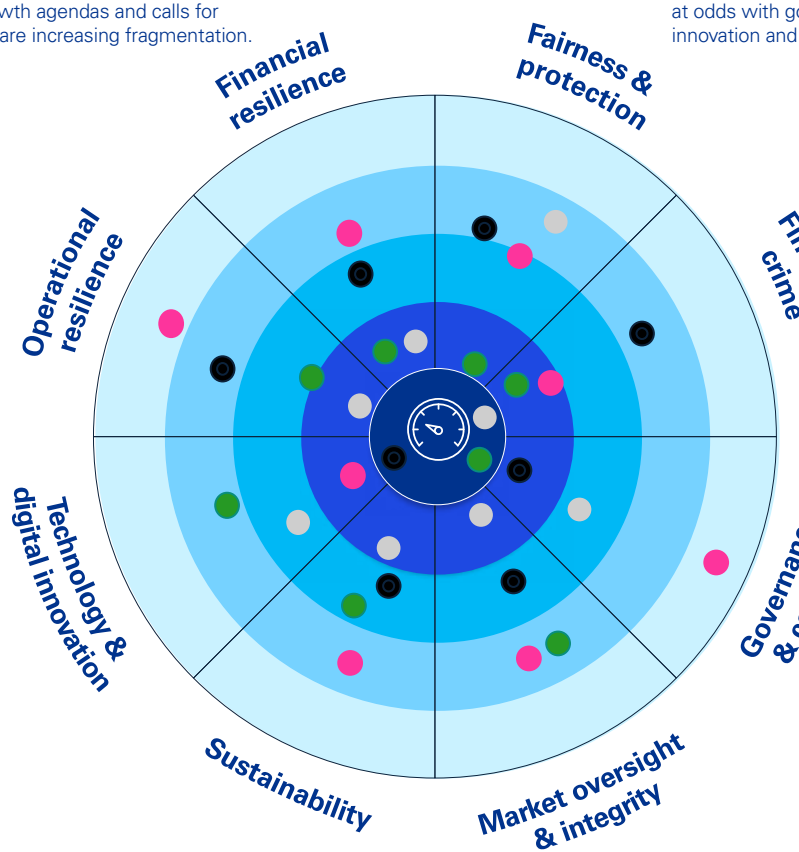
Policy	Volume and impact of changing requirements
Supervision	Supervisory intensity
External environment	Threat from external environment
Fragmentation	Extent of divergence between UK EU

Pressure scale



Implementation of key files, alongside reviews and some new policy. External environment driving stability concerns. Domestic growth agendas and calls for simplification are increasing fragmentation.

Moderate policy change, due to UK simplification and finalisation of major EU initiatives driving increasing divergence. High supervisory intensity, potentially at odds with government goals of encouraging innovation and boosting retail investment.



No material changes to policy yet, but intense scrutiny due to external environment and moderate alignment across jurisdictions.

Sustained supervisory pressure amid heightened external threats. Fragmentation easing as a harmonised EU regime takes shape.

Digital asset regulatory frameworks being finalised and AI regulatory expectations becoming clearer, but some jurisdictional divergence on the detail. Supervisory focus likely to increase.

Usual intensive supervision of governance arrangements heightened by volatile external environment, but no new sizeable policy packages. Fragmentation remains high.

Streamlining and reviews of existing requirements, particularly in the EU. Resilience concerns driving supervisory focus. Calls for interoperability continue, but fragmentation still a challenge.

Policy mature but ongoing refinements, some increasing UK/EU divergence. Supervisory intensity shifting from banks to FMI and private markets due to changes in external environment, including market structure.

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Key regulatory milestones

2026

Q4

- **UK:** FCA application window for cryptoasset regulated activities opens
- **UK:** Dynamic General Insurance Stress Test (DyGIST) results
- **UK:** FCA final policy on ESG ratings regulation
- **EU:** Completion of AMLA rulebook
- **EU:** Trilogues on SFDR 2.0
- **EU:** Potential political agreement on the MISP

2027

Q1

- **UK:** Implementation of Basel 3.1. and Simpler Regime for SDDT
- **UK:** FCA UK SRS reporting for listed companies
- **UK:** SWES interim progress update
- **EU:** Start of time-limited amendments for implementation of FRTB framework
- **EU:** EBA guidelines on environmental scenario analysis apply
- **EU:** ESA guidelines on ESG stress testing apply
- **EU:** IRRD and revised Solvency II take effect
- **UK:** Operational incident and third-party/outsourcing reporting requirements apply
- **EU:** New Banking Package
- **UK:** Launch of 2027 BoE Bank Capital Stress Test

Q2

- **UK:** Simplifications to MREL reporting and Pillar 3 disclosures
- **UK:** Disclosure regime implementation deadline
- **UK:** PRA PS on modernising the liquidity framework for banks and building societies
- **UK:** Final rules on Consumer Duty scope/application
- **UK:** Final rules on Consumer Duty scope/application
- **UK:** PRA Funded Reinsurance Policy Statement

Q3

- **EU**: AMLA rules apply
- **UK:** Post implementation review of IFPR and consultation on AIFMs' prudential requirements

Q4

- **UK, EU and Switzerland:** T+1 settlement transition deadline
- **UK:** New cryptoasset regime into force
- **EU:** ESMA's common supervisory action on fund risk management concludes

2028+

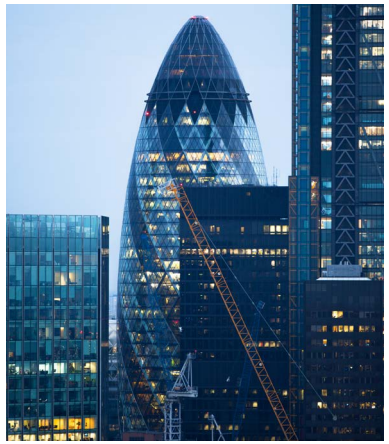
- **UK:** Implementation of UK Basel 3.1 FRTB IMA.
- **EU:** Bank crisis management package expected to apply
- **UK:** Revised MiFIR transaction reporting rules take effect
- **UK:** FCA authorisation for ESG ratings providers required
- **EU:** AI Act requirements for high-risk systems
- **EU:** Direct supervision by AMLA begins
- **UK:** CSDDD applies to large EU corporates
- **EU:** RIS package takes effect

This is not an exhaustive list of expected regulatory updates but reflects best estimates for some of the most significant items.

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Other 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.**



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AI Regulatory Radar

Highlighting key AI-related developments across the UK, EU and the wider global landscape, and bringing together the latest insights and perspectives from across the KPMG global network to support compliant, responsible AI adoption.



KPMG Global Network

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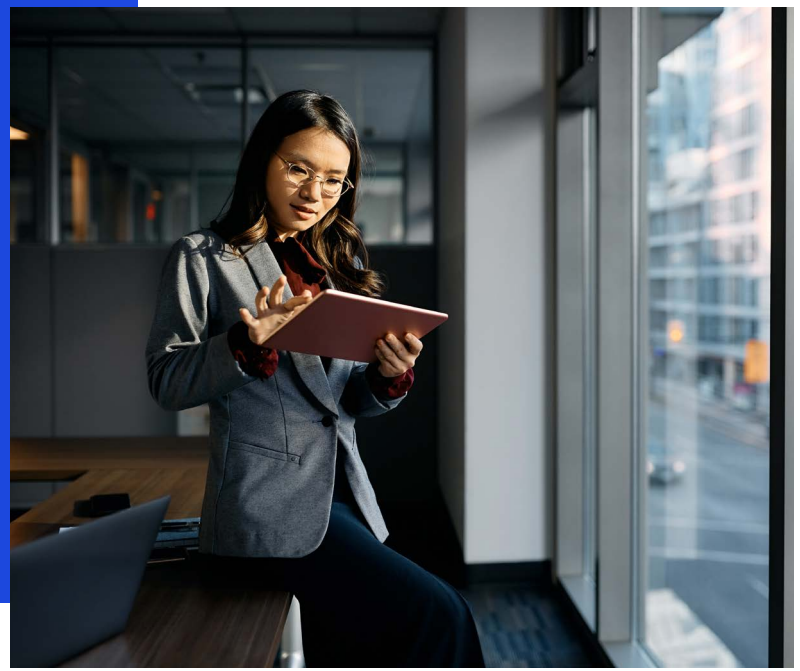
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Glossary

AI	Artificial intelligence
AIFM	Alternative investment fund managers
AIFMD	Alternative investment fund managers directive
AML	Anti-money laundering
AMLA	Anti-Money Laundering Authority
BoE	Bank of England
CCI	Consumer composite investment
CSDDD	Corporate sustainability due diligence directive
EBA	European banking authority
ESMA	European securities and markets authority
DYGIST	Dynamic general insurance stress test
FCA	Financial conduct authority
FOS	Financial ombudsman service
FRC	Financial reporting council
FRTB	Fundamental review of the trading book
FRTB IMA	Fundamental review of the trading book internal model approach
FSB	Financial stability board
IFPR	Investment firms prudential regime
IRRD	Insurance recovery and resolution directive
IOSCO	International organization of securities commissions
ISSB	International sustainability standards board
KYC	Know your customer
MREL	Minimum requirement for own funds & eligible liabilities
MiFID II	Markets in financial instruments directive
MiFIR	Markets in financial instruments regulation
MISP	Market integration and supervision package
PE	Private equity
PRA	Prudential regulatory authority
RIS	Retail investment strategy
SDR	Sustainability disclosure requirements
SFDR	Sustainable finance disclosure regulation
SDDT	Small domestic deposit takers
SIU	Savings and investment union
SM&CR	Senior Managers and certification regime
SWES	System-wide exploratory scenario
UCITS	Undertakings for collective investment in transferable securities



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