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Edinburgh Reforms – quick guide

Review of each reform
and timing of next steps

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Number	Reform	Current Status
1	<p>Reforming the ring-fencing regime for banks – the proposed reforms aim to improve the functionality of the ring-fencing regime while maintaining appropriate financial stability safeguards. The reforms are expected to be in line with the recommendations of the Skeoch review aimed at reducing the rigidity of the ring-fencing regime and addressing the unintended consequences identified by the Skeoch panel.</p>	<ul style="list-style-type: none">• Call for evidence in Q1 2023 to review the practicalities of aligning the ring-fencing and resolution regimes.• Consultation in mid-2023 on a series of near-term reforms as set out in the government's response (9 December 2022) to the Skeoch review (March 2022).

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2	<p>Introduction of a new secondary objective for the FCA and PRA - clear, targeted recommendations on a new secondary objective of growth and competitiveness in the medium to long term via The Financial Services and Markets Bill (FSM Bill).</p>	<ul style="list-style-type: none"> • HM Treasury letter to PRA (8 December 2022) contains recommendations as to how the regulators should 'have regard' to the government's economic policy (set out in the Annex to the letter) whilst building on the important themes of competition, growth, competitiveness, innovation, trade and better outcomes for consumers. Via the FSM Bill, Section 2H of FSMA 2000 will introduce a secondary objective for the PRA to facilitate, subject to aligning with relevant international standards, the international competitiveness of the UK economy (including in particular the financial services sector) and its growth in the medium to long term. • HM Treasury letter to FCA (8 December 2022) contains 'have regards' for the FCA around the government's economic policy and contains the FSM Bill amendments to FSMA 2000 to provide for a secondary objective for the FCA to facilitate, subject to aligning with relevant international standards, the international competitiveness of the UK economy (including in particular the financial services sector) and its growth in the medium to long term which will be set out in section 1B and 1EB of FSMA. • The FSM Bill is currently at House of Lords 2nd reading stage with the 3rd reading scheduled for 10 January 2023 (latest version with amendments is from 8 December 2022).

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3	<p>Overhauling the UK's regulation of prospectuses - The reform of prospectus requirements, specifically reducing the need for a prospectus in the UK when an already listed company issues further shares. The aim of this is to enable listed companies to grow faster and raise additional capital more easily, making public markets more attractive. In addition, the government is proposing a new 'have regard' for the replacement regime intended to highlight the importance of facilitating offers of securities to the public being made to a wide range of investors. This example 'have regard' can be found in the illustrative SI published with the policy document here.</p>	<ul style="list-style-type: none"> • UK government intention to continue to implement recommendations from Lord Hill's UK Listing Review, helping to widen participation in the ownership of public companies, simplify the capital raising process for companies on UK markets and make the UK a more attractive destination for Initial Public Offerings. • 'Building a smarter financial services framework for the UK' policy document was published alongside three illustrative statutory instruments (SIs) to give stakeholders a more detailed understanding of the approach the government is taking in relation to the certain reforms including the Prospectus Regulation. • The reform of the Prospectus Regulation (the existing version of which will be repealed and replaced in time) involves the government using the FRF powers to entirely replace the existing EU-derived framework and use a simpler more agile and more effective regime designed for the UK for admissions to trading and public offers. • The new 'Public Offer and Admissions to Trading' regime relies on the FSM Bill DAR. Further information about this process is set out in this HM Treasury Policy Note and this draft SI. • Reform of the Prospectus regime in the UK is already underway as part of Tranche 1.

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4	<p>Reforming the Securitisation Regulation - The government is also committed to working with the FCA and Prudential Regulation Authority (PRA) to bring forward relevant reforms identified in HM Treasury's 2021 review of the Securitisation Regulation. The repeal and restatement of some elements of the Securitisation Regulation with a view to the replacement of most firm-facing requirements by rules made by the FCA and PRA, demonstrating how regulatory responsibility could look in regimes which involve more than one regulator under the enhanced FSMA model</p>	<ul style="list-style-type: none"> • ‘Building a smarter financial services framework for the UK’ policy document was published alongside an illustrative SI in relation to the reform of the Securitisation Regulation. • Further information about how the Securitisation Regulation will be repealed by the FSM Bill is set out in this HM Treasury Policy Note and this draft SI. • This work is already underway as part of Tranche 1 and the Securitisation Review.

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5	FCA to have wider rulemaking powers in relation to payments regulation	<ul style="list-style-type: none"> • ‘Building a smarter financial services framework for the UK’ policy document was published alongside an illustrative SI in relation to an FCA Rulemaking Power for Payments using the powers from the FSM Bill. • The illustrative SI focuses on the rulemaking powers of the FCA as the regulator responsible for applying and enforcing all REUL for payments. • Through the FSM Bill the government will repeal REUL including for payment services and e-money and replace it with a regulatory framework tailored to the UK. This requires the FCA to have the ability to replace the necessary rules to ensure the future regulation of payment services and e-money. • A similar SI will be progressed for the Payment Systems Regulator (PSR) to ensure it has sufficient powers of detection (the PSR’s equivalent for rulemaking) in relation to its retained EU payments law. • According to the ‘Building a smarter financial services framework for the UK’ policy document all of the SIs will be subject to Parliamentary scrutiny and the example SIs give an indication of how FRF SIs can be structured as well as illustrating how the various FRF powers may well be eventually used.

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6	<p>Repealing retained EU law (REUL)</p> <p>Policy document ‘Building a smarter financial services framework for the UK’ (9 December 2022) - an implementation plan to deliver a comprehensive FSMA model of regulation for measures previously contained in REUL.</p>	<ul style="list-style-type: none"> • The FSM Bill repeals financial services REUL, as set out in Schedule 1 to the FSM Bill and introduces a range of new tools to enable the transition to the comprehensive FSMA model. Tools include the new Designated Activities Regime (DAR) which will be a new part of FSMA designed to provide a framework for regulating activities/products related to financial markets but not currently in scope of FSMA. • Policy document ‘Building a smarter financial services framework for the UK’ proposes an implementation plan for using these tools to deliver a comprehensive FSMA model of regulation and represents a conclusion to the Future Regulatory Framework (FRF) Review. It sets out the prioritisation and approach the government will take in repealing REUL in Tranche 1 (currently underway) and the next set of files making up Tranche 2. The government expects to make “significant progress” on Tranches 1 and 2 by the end of 2023. • The Retained EU Law (Revocation and Reform) Bill currently before Parliament will strip REUL of any special legal status and any EU interpretative features at the end of 2023. This will mean that REUL will no longer take precedence over UK law. This aspect of the Bill applies across the whole statute book, including to financial services. It repeals remaining REUL at the end of 2023. • This automatic repeal does not apply to financial services REUL which will be repealed by the FSM Bill which contains a bespoke set of powers for financial services to establish a comprehensive FSMA model. • The FCA has published ‘Future Regulatory Framework (FRF) Review’ (9 December 2022) which sets out at that the FSM Bill includes the legislation to deliver the outcomes of the FRF Review. The FCA is preparing for FRF implementation once the Bill has Royal Assent including implementation of its changes to the FCA’s objectives, duties and accountability arrangements and of the future transfer of responsibility for firm-facing provisions in retained EU law to us. This document maps the FRF Review measures in the FSM Bill, the current approach to delivering the measures and the proposed next steps for implementation.

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7	<p>Repealing the PRIIPs regime and consulting on a new direction for retail disclosure in the UK – plans to revoke the PRIIPs Regulation and seek views on a proposed alternative framework for retail disclosure in place of the KID which restricts retail choice. The FCA would be responsible for setting detailed disclosure rules.</p>	<ul style="list-style-type: none"> • Consultation published on 9 December 2022 and closes on 3 March 2022 • The PRIIPs Regulation will be repealed by the FSM Bill and is in Tranche 2 of the repeal prioritisation. • FCA Future Disclosure Framework DP22/6 Discussion Paper (13 December 2022) – once PRIIPs and UCITS are repealed they will be replaced by disclosure requirements which will sit in the FCA Handbook. DP22/6 invites feedback on how the FCA can design and deliver a disclosure regime for the UK market – it closes on 7 March 2023
8	<p>Repeal EU legislation on the ELTIF – Government plans to repeal the regulations for the European Long Term Investment Fund (ELTIF) without replacement. No ELTIFs have been established in the UK. Newly established Long Term Asset Fund regime provides a better fund structure suited to the needs of the UK market.</p>	<ul style="list-style-type: none"> • Announced on 9 December without further detail. • Will be repealed using FSM Bill powers.
9	<p>Short Selling Regulation Call for Evidence – Government aims to put in place a regulatory regime tailored to the UK to support market integrity and bolster the competitiveness of UK financial markets.</p>	<ul style="list-style-type: none"> • Call for Evidence on the Short Selling Regulation seeks views on how the government should reform the regulation of the practice of short selling, as part of the government’s programme to repeal and replace REUL in financial services. • This is part of Tranche 2 of the repeal prioritisation and the government wants to make significant progress on both Tranches 1 and 2 by the end of 2023. • The Call for Evidence closes for comment on 4 March 2023

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10	<p>Consulting on Payment Accounts Regulations 2015 – the consultation examines proposals to remove unnecessary customer information requirements related to bank accounts imposed by the EU in the Payment Accounts Regulations.</p>	<ul style="list-style-type: none"> • Consultation launched on 9 December 2022 seeking views on the Payment Accounts Regulations and whether the requirements intended to improve the comparability of fees are too prescriptive or less necessary in a UK context. This reform is part of Tranche 2 in terms of prioritisation. • The consultation closes on 17 February 2023. • Further information set out in this Engage article.
11	<p>Removing rules for the capital deduction of certain non-performing exposures (NPEs) held by banks – PRA would then be able to apply a judgement-led approach to address the adequacy of firms’ provisioning for NPEs, help to simplify the UK rulebook and avoid the unnecessary gold plating of prudential standards (“Brexit opportunity”).</p>	<ul style="list-style-type: none"> • HM Treasury said on 9 December 2023 that the government “intends to consult” on removing these rules.

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12	<p>Bringing forward secondary legislation to implement the Wholesale Market Review reforms – the government is taking forward reforms to the Markets in Financial Instruments Directive (MiFID) framework</p>	<ul style="list-style-type: none"> • Measures in the FSM Bill deliver key elements of this. To further support the agenda the government will: <ul style="list-style-type: none"> ○ Remove EU MiFID II reporting requirements through the Markets in Financial Instruments (Investor Reporting) (Amendment) Regulations 2022 published on 9 December 2022 and coming into effect on 7 June 2023. ○ Publish secondary legislation in Q1 2023 to remove burdens for firms trading commodities derivatives as an ancillary activity for example where manufacturers seek to fix the future price of their purchases of specific raw materials. ○ Put in place a Consolidated Tape for market data by 2024 to bring together market data from multiple platforms into one continuous feed to improve market efficiency, lower costs for firms and investors and make UK markets more attractive and competitive. ○ An independent review of Investment Research “will be launched” to take a look at its contribution to UK capital markets competitiveness, this is expected to include a review of MiFID II unbundling rules. ○ The UK will establish a new industry-led Accelerated Settlement Taskforce to explore the potential of faster settlement of financial trades in the UK. This industry taskforce will examine the case for trades to be settled more quickly in the UK, such as moving to a ‘T+1’ standard settlement period. It will publish its initial findings by December 2023, with a full report and recommendations made by December 2024.

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13	Commencing a review into the Senior Managers & Certification Regime (SM&CR) in Q1 2023	<ul style="list-style-type: none"> The government will launch a Call for Evidence in Q1 2023 to look at the legislative framework of the SM&CR. The government's Call for Evidence will be an information gathering exercise to garner views on the regime's effectiveness, scope and proportionality, and to seek views on potential improvements and reforms. The FCA and PRA will also review the regulatory framework in Q1 2023.
14	Local Government Pension Scheme asset pooling	<ul style="list-style-type: none"> Government to commence a consultation in early 2023 on new guidance on Local Government Pension Scheme asset pooling. The government will also consult on requiring LGPS funds to ensure they are considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy
15	Improving tax rules for REITs	<ul style="list-style-type: none"> With effect from April 2023, new rules will remove the requirement for a REIT to own at least three properties, where they hold a single commercial property worth at least £20 million; and amend the rule that applies to properties disposed of within three years of significant development activity, to ensure that this rule operates in line with its original intention.
16	VAT treatment of fund management- proposals for legislative reform intended to codify existing policy to give legal clarity and certainty.	<ul style="list-style-type: none"> Consultation launched on 9 December 2022 seeks input on whether the proposed changes achieve the objective. Consultation closes 3 February 2023.

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17	<p>Changes to the Building Societies Act 1986 - giving building societies in the UK greater flexibility to raise wholesale funds, enabling them to grow and compete on a more level playing field with retail banks, while retaining their mutual model. As part of this, the government will also modernise relevant corporate governance requirements in line with the Companies Act 2006.</p>	<ul style="list-style-type: none"> Following the publication of the Call for Evidence response on 9 December 2022, the government will also legislate, “<i>when parliamentary time allows</i>”, to amend the Building Societies Act 1986.
18	<p>Publishing an updated Green Finance Strategy - UK wants to ensure the financial system plays a major role in the delivery of the UK’s net-zero target, acting to secure the UK as the best place in the world for responsible and sustainable investment.</p>	<ul style="list-style-type: none"> In early 2023 the government will publish an updated Green Finance Strategy.
19	<p>ESG ratings providers to be brought into the regulatory perimeter</p>	<ul style="list-style-type: none"> Consultation in Q1 2023 to bring ESG ratings providers into the regulatory perimeter. HM Treasury will also join the industry-led ESG Data and Ratings Code of Conduct Working Group recently convened by the FCA as an observer.

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20	<p>Consulting on a UK retail CBDC alongside the Bank of England - a sovereign digital pound – and consult on a potential design. The Bank of England will also release a Technology Working Paper setting out cutting-edge technology considerations informing the potential build of a digital pound.</p>	<ul style="list-style-type: none"> • Consultation on this in the “coming weeks”. • Bank of England Technology Working Paper yet to be released.
21	<p>Expanding the Investment Manager Exemption to include cryptoassets - publishing its formal response to the consultation on expanding the Investment Manager Exemption to include cryptoassets, which will facilitate their inclusion in the portfolios of overseas funds managed in the UK.</p>	<ul style="list-style-type: none"> • Consultation response published on 9 December 2022. • The government intends for the change to be made through HMRC regulations this year.
22	<p>Legislating in the FSM Bill to establish a safe regulatory environment for stablecoins which may be used for payments and ensure that the government has the necessary powers to bring a broader range of investment-related cryptoasset activities into UK regulation.</p>	<ul style="list-style-type: none"> • Bank of England consultation on regulation of systematic stablecoins due in the New Year. • FSM Bill contains proposals to amend FSMA to include cryptoassets in the financial promotions regime. • FSM Bill DAR amended to include cryptoassets as a financial product providing a regulatory regime for cryptoassets. • HM Treasury consultation on the regulation of cryptoassets due expected to include proposals on custody, ICOs, SM&CR and bundling of services.

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23	<p>Bringing forward a new class of wholesale market venue which will operate on an intermittent trading basis. This would be a global first, highly innovative and boost the UK as a destination for all companies to get the investment they need to create jobs and grow. It would act as a bridge between public and private markets.</p>	<ul style="list-style-type: none"> • No timing on this. Government will work with regulators and market participants.
24	<p>Setting up a Financial Market Infrastructure Sandbox - This will enable firms to test and adopt new technology and innovations, such as distributed ledger technology, in providing the infrastructure services that underpin markets.</p>	<ul style="list-style-type: none"> • In 2023. • Legislation to implement this is contained in FSM Bill.

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25	<p>Consumer Credit Act Reform - On 16 June 2022, the government announced its intention to reform the CCA. The consultation published on 9 December 2022 is the first stage of the reform and asks stakeholders for input on the strategic direction of reform. It also asks questions about how the consumer credit regulatory environment could be changed to ensure optimal performance of regulation surrounding customer communications, consumer protections and sanctions for firms that do not adhere to regulatory standards. Further questions cover how this reform should approach the accessibility of credit and financial inclusion.</p>	<ul style="list-style-type: none"> • Consultation published 9 December 2022 closes on 17 March 2023. • Further information on this set out in this Engage article.

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26	<p>Defined Contribution pension schemes - Government intends to increase the pace of consolidation in Defined Contribution pension schemes so that no pension savers are left in poorly governed and underperforming schemes, and it will exempt performance-based fees from the regulatory charge cap proposals.</p>	<ul style="list-style-type: none"> • <i>In the new year</i> the DWP will lead the way by consulting on a new Value for Money framework, alongside the FCA and Pensions Regulation which will set required metrics and standards in key areas such as investment performance, cost and charges and quality of service that all schemes must meet. • <u>Existing consultation</u> to remove well-designed performance fees from the pensions regulatory charge cap. • Regulations to be laid “early in the New Year”



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